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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2007

OR

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

For the transition period from _____ to _____

Commission file number 0-22823

QAD Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

77-0105228

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

100 Innovation Place, Santa Barbara, California 93108

(Address of principal executive offices)

(805) 566-6000

(Registrant's telephone number, including area code)

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

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

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

The number of shares outstanding of the issuer's common stock as of November 30, 2007 was 31,226,719.

**QAD INC.
INDEX**

	<u>Page</u>
<u>PART I — FINANCIAL INFORMATION</u>	
<u>ITEM 1 Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of October 31, 2007 and January 31, 2007</u>	1
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended October 31, 2007 and 2006</u>	2
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended October 31, 2007 and 2006</u>	3
<u>Notes to Condensed Consolidated Financial Statements</u>	4
<u>ITEM 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>ITEM 3 Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>ITEM 4 Controls and Procedures</u>	25
<u>PART II — OTHER INFORMATION</u>	
<u>ITEM 1 Legal Proceedings</u>	26
<u>ITEM 1A Risk Factors</u>	26
<u>ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
<u>ITEM 3 Defaults Upon Senior Securities</u>	26
<u>ITEM 4 Submission of Matters to a Vote of Security Holders</u>	26
<u>ITEM 5 Other Information</u>	26
<u>ITEM 6 Exhibits</u>	26
<u>SIGNATURES</u>	27
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	

PART I

ITEM 1 — FINANCIAL STATEMENTS

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

	October 31, 2007	January 31, 2007
Assets		
Current assets:		
Cash and equivalents	\$ 44,035	\$ 54,192
Restricted cash	2,612	2,612
Accounts receivable, net	51,089	68,806
Other current assets	17,196	16,352
Total current assets	114,932	141,962
Property and equipment, net	42,819	42,396
Capitalized software costs, net	9,214	9,631
Goodwill	21,291	18,834
Other assets, net	14,671	14,194
Total assets	\$ 202,927	\$ 227,017
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 279	\$ 272
Accounts payable	8,777	11,662
Deferred revenue	64,915	77,075
Other current liabilities	36,789	37,951
Total current liabilities	110,760	126,960
Long-term debt	17,060	17,271
Other liabilities	3,264	4,756
Minority interest	—	672
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value. Authorized 5,000,000 shares; none issued and outstanding	—	—
Common stock, \$0.001 par value. Authorized 150,000,000 shares; issued 35,347,159 and 35,351,923 shares at October 31, 2007 and January 31, 2007, respectively	35	35
Additional paid-in capital	133,109	128,757
Treasury stock, at cost (4,145,390 and 3,061,400 shares at October 31, 2007 and January 31, 2007, respectively)	(32,270)	(22,870)
Accumulated deficit	(24,871)	(21,216)
Accumulated other comprehensive loss	(4,160)	(7,348)
Total stockholders' equity	71,843	77,358
Total liabilities and stockholders' equity	\$ 202,927	\$ 227,017

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2007	2006	2007	2006
Revenue:				
License fees	\$ 14,074	\$ 10,974	\$ 39,082	\$ 34,736
Maintenance and other	32,287	30,949	95,090	91,847
Services	20,247	15,401	53,277	42,515
Total revenue	66,608	57,324	187,449	169,098
Costs and expenses:				
Cost of license fees	2,294	1,852	6,217	5,367
Cost of maintenance, service and other revenue	25,820	21,311	73,531	62,346
Sales and marketing	17,167	15,566	51,154	47,114
Research and development	9,986	9,835	30,375	30,092
General and administrative	8,017	7,389	24,726	21,138
Amortization of intangibles from acquisitions	168	107	576	148
Total costs and expenses	63,452	56,060	186,579	166,205
Operating income	3,156	1,264	870	2,893
Other expense (income):				
Interest income	(550)	(617)	(1,713)	(2,008)
Interest expense	325	320	1,025	859
Other expense (income), net	506	99	431	(1,533)
Total other expense (income)	281	(198)	(257)	(2,682)
Income before income taxes	2,875	1,462	1,127	5,575
Income tax expense	1,359	515	959	2,099
Net income	\$ 1,516	\$ 947	\$ 168	\$ 3,476
Basic net income per share	\$ 0.05	\$ 0.03	\$ 0.01	\$ 0.11
Diluted net income per share	\$ 0.05	\$ 0.03	\$ 0.01	\$ 0.10

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended October 31,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 168	\$ 3,476
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,850	5,654
Provision for doubtful accounts and sales adjustments	496	67
(Gain) loss on disposal of property and equipment	(83)	10
Exit costs	24	524
Stock compensation expense	4,456	3,887
Other, net	(366)	(82)
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	18,310	22,200
Other assets	1,638	721
Accounts payable	(2,935)	(1,957)
Deferred revenue	(15,485)	(19,751)
Other liabilities	(2,366)	(3,806)
Net cash provided by operating activities	10,707	10,943
Cash flows from investing activities:		
Purchase of property and equipment	(3,969)	(3,714)
Capitalized software costs	(984)	(1,044)
Acquisition of businesses, net of cash acquired	(3,940)	(6,973)
Restricted cash	—	(2,612)
Proceeds from sale of intangible assets	—	906
Proceeds from sale of property and equipment	100	177
Net cash used in investing activities	(8,793)	(13,260)
Cash flows from financing activities:		
Repayments of debt	(209)	(244)
Proceeds from issuance of common stock	2,579	1,384
Changes in cash overdraft	(1,359)	950
Dividends paid	(2,406)	(2,441)
Minority shareholder payment	—	(389)
Repurchase of common stock	(14,218)	(5,567)
Net cash used in financing activities	(15,613)	(6,307)
Effect of exchange rates on cash and equivalents	3,542	(979)
Net decrease in cash and equivalents	(10,157)	(9,603)
Cash and equivalents at beginning of period	54,192	59,971
Cash and equivalents at end of period	<u>\$ 44,035</u>	<u>\$ 50,368</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements fairly present the financial information contained therein. These statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The Condensed Consolidated Financial Statements do not include all disclosures required by accounting principles generally accepted in the United States of America for annual financial statements and should be read in conjunction with the audited financial statements and related notes included in the Annual Report on Form 10-K for the year ended January 31, 2007 of QAD Inc. (QAD or the Company). The results of operations for the three and nine months ended October 31, 2007 are not necessarily indicative of the results to be expected for the year ending January 31, 2008.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157), which establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for the Company on February 1, 2008. The Company is currently evaluating the impact, if any, that SFAS 157 will have on its financial statements.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will be effective for the Company on February 1, 2008. The Company is currently evaluating the impact of adopting SFAS 159 on its financial position, cash flows and results of operations.

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

3. COMPUTATION OF NET INCOME PER SHARE

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2007	2006	2007	2006
	(in thousands, except per share data)			
Net income	\$ 1,516	\$ 947	\$ 168	\$ 3,476
Weighted average shares of common stock outstanding — <i>basic</i>	31,210	32,238	31,829	32,465
Weighted average shares of common stock equivalents issued using the treasury stock method	813	673	708	727
Weighted average shares of common stock and common stock equivalents outstanding — <i>diluted</i>	32,023	32,911	32,537	33,192
Basic net income per share	\$ 0.05	\$ 0.03	\$ 0.01	\$ 0.11
Diluted net income per share	\$ 0.05	\$ 0.03	\$ 0.01	\$ 0.10

Common stock equivalent shares consist of the shares issuable upon the vesting of restricted stock units (RSUs) and the exercise of stock options and stock appreciation rights (SARs) using the treasury stock method. For the three and nine months ended October 31, 2007, shares of common stock equivalents of approximately 2.6 million and 3.7 million, respectively, were not included in the diluted calculation because they were anti-dilutive. For the three and nine months ended October 31, 2006, shares of common stock equivalents of approximately 4.4 million and 3.8 million, respectively, were not included in the diluted calculation because they were anti-dilutive.

4. COMPREHENSIVE INCOME

Comprehensive income includes changes in the balances of items that are reported directly as a separate component of stockholders' equity in the Company's Condensed Consolidated Balance Sheets. The components of comprehensive income are as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2007	2006	2007	2006
	(in thousands)			
Net income	\$ 1,516	\$ 947	\$ 168	\$ 3,476
Foreign currency translation adjustments	1,460	337	3,188	(1,184)
Comprehensive income	\$ 2,976	\$ 1,284	\$ 3,356	\$ 2,292

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

5. BUSINESS COMBINATIONS

The results of operations of the following acquired businesses are included in the Condensed Consolidated Financial Statements from the respective dates of acquisition.

FBO Systems, Inc.

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

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

Precision Software Limited

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

The Company acquired all of the capital stock of Precision. The Precision acquisition includes certain tangible assets and all intangible assets, including a trade name, customer relationships and all intellectual property rights to Precision's software solutions. At closing, the Company paid \$8.1 million in cash, of which \$2.6 million was held in escrow and is contingent upon the completion of an audit of the acquired opening balance sheet as agreed upon by the parties. The first anniversary payment of \$3.7 million was made in September 2007. A second and final payment of \$3.5 million will be made in September 2008.

The purchase price, including \$0.5 million of acquisition costs, was allocated to net tangible assets acquired of \$4.2 million, deferred tax liability of \$0.6 million, amortizable intangible assets comprised of intellectual property, trade name and customer relationships, totaling \$4.9 million and goodwill of \$4.7 million. The current purchase price allocation is preliminary and subject to adjustment based on the final determination of the amount to be released from escrow.

Bisgen Ltd.

On June 30, 2006, the Company acquired UK-based Bisgen Ltd. (Bisgen). Bisgen develops and sells Customer Relationship Management (CRM) software marketed under the eBisgen name. The Company acquired all of the capital stock of Bisgen, including all intellectual property rights to Bisgen's CRM software, for approximately \$1.1 million, of which \$0.9 million was paid in cash by the Company at closing. Included in the purchase price is contingent consideration whereby the Company will pay an earn-out to Bisgen based on future license sales related to CRM, of which a minimum of \$0.2 million is guaranteed.

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

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

5. BUSINESS COMBINATIONS (Continued)

Soft Cell N.V.

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

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

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

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

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

6. CAPITALIZED SOFTWARE COSTS

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

	October 31, 2007	January 31, 2007
	(in thousands)	
Capitalized software costs:		
Acquired software technology	\$ 8,803	\$ 9,996
Capitalized software development costs	2,699	2,639
	11,502	12,635
Accumulated amortization	(2,288)	(3,004)
Capitalized software costs, net	<u>\$ 9,214</u>	<u>\$ 9,631</u>

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

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

6. CAPITALIZED SOFTWARE COSTS (Continued)

The change in capitalized software costs from January 31, 2007 to October 31, 2007 includes \$2.7 million of “Capitalized software costs” being removed from the balance sheet. It is the Company’s policy to write-off capitalized software costs once fully amortized. Accordingly, the corresponding \$2.7 million of “Accumulated amortization” was also removed from the balance sheet. These write-offs do not impact “Capitalized software costs, net.”

Amortization of capitalized software costs was \$0.7 million and \$1.7 million for the three and nine months ended October 31, 2007 and \$0.4 million and \$1.0 million for the three and nine months ended October 31, 2006. Capitalized software is amortized over the product’s estimated useful life, which is typically 3 years. Amortization of capitalized software costs is included in “Cost of license fees” in the accompanying Condensed Consolidated Statements of Operations.

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The changes in the carrying amounts of goodwill for the nine months ended October 31, 2007, by reporting unit, were as follows (reporting unit regions are defined in note 12 “Business Segment Information” within these Notes to Condensed Consolidated Financial Statements):

	<u>North America</u>	<u>EMEA</u>	<u>Asia Pacific</u> (in thousands)	<u>Latin America</u>	<u>Total</u>
Balances, January 31, 2007	\$ 3,563	\$ 14,151	\$ 316	\$ 804	\$ 18,834
Additions	36	36	568	—	640
Impact of foreign currency translation	—	1,791	—	26	1,817
Balances, October 31, 2007	<u>\$ 3,599</u>	<u>\$ 15,978</u>	<u>\$ 884</u>	<u>\$ 830</u>	<u>\$ 21,291</u>

The additions to goodwill for the nine months ended October 31, 2007 were primarily due to \$0.6 million in goodwill related to the Company’s Thailand subsidiary. On April 19, 2007, the minority shareholders exercised their put option to sell their shares, representing 25% ownership in the Thailand subsidiary, at fair value to the Company. As of October 31, 2007, the Company has accrued the preliminary fair value of the liability for the put option and the parties are in the process of finalizing the option price.

The Company is required to analyze goodwill for impairment on at least an annual basis. The Company has chosen the fourth quarter of its fiscal year as its annual test period.

Intangible Assets

	<u>October 31, 2007</u> (in thousands)	<u>January 31, 2007</u> (in thousands)
Amortizable intangible assets		
Customer relationships	\$ 1,517	\$ 1,430
Trade name	555	499
Covenant not to compete	193	203
Other	—	34
	2,265	2,166
Less: accumulated amortization	(959)	(382)
Net amortizable intangible assets	<u>\$ 1,306</u>	<u>\$ 1,784</u>

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

7. GOODWILL AND INTANGIBLE ASSETS (Continued)

Intangible assets are included in “Other assets, net” in the accompanying Condensed Consolidated Balance Sheets. As of October 31, 2007 and January 31, 2007, all of the Company’s intangible assets, excluding goodwill, were determined to have definite useful lives and were subject to amortization. The aggregate amortization expense related to amortizable intangible assets was \$0.2 million and \$0.6 million for the three and nine months ended October 31, 2007 and \$0.1 million and \$0.2 million for the three and nine months ended October 31, 2006. The estimated remaining amortization expense related to amortizable intangible assets for the years ended January 31, 2008, 2009 and 2010 is \$0.2 million, \$0.7 million and \$0.4 million, respectively. No additional amortization of these assets is estimated in fiscal 2011 and thereafter.

8. DEBT

	October 31, 2007	January 31, 2007
	(in thousands)	
Total debt		
Notes payable	\$ 17,303	\$ 17,479
Capital lease obligations	36	64
	17,339	17,543
Less current maturities	(279)	(272)
Long-term debt	<u>\$ 17,060</u>	<u>\$ 17,271</u>

Notes Payable

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

Credit Facility

Effective April 7, 2005, the Company entered into an unsecured loan agreement with Comerica Bank. The agreement provides a three-year commitment for a \$20 million line of credit (Facility). The maximum amount that may be borrowed under the Facility is subject to a borrowing base calculation of 1.5 times the four-quarter trailing earnings before interest, taxes, depreciation and amortization (EBITDA) less the total amount of letters of credit and other similar obligations. At October 31, 2007, the maximum that could have been borrowed under the Facility was \$20 million. The agreement includes an annual commitment fee of between 0.25% and 0.50% calculated on the average unused portion of the \$20 million Facility. The rate is determined by the ratio of funded debt to the Company’s 12-month trailing EBITDA.

The Facility provides that the Company will maintain certain financial and operating covenants which include, among other provisions, maintaining a minimum liquidity ratio of 1.3 to 1.0, a minimum 12-month trailing EBITDA of \$10 million and minimum cash balances in the United States of \$10 million. Borrowings under the Facility bear interest at a floating rate based on LIBOR or prime plus the corresponding applicable margins, ranging from 0.75% to 1.75% for the LIBOR option or -0.25% to 0.25% for the prime option, depending on the Company’s funded debt to 12-month trailing EBITDA ratio. At October 31, 2007, a prime rate borrowing would have had an effective rate of 7.25% and a 30 day LIBOR borrowing would have had an effective rate of approximately 5.46%.

As of October 31, 2007, there were no borrowings under the Facility and the Company was in compliance with the financial covenants.

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

9. INCOME TAXES

Effective February 1, 2007, the Company adopted the provisions of FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax position as the largest amount that is more than 50% likely of being realized upon ultimate settlement. A tax benefit from an uncertain tax position was previously recognized if it was probable of being sustained.

As a result of the implementation of FIN 48, the Company decreased the liability for net unrecognized tax benefits by \$0.7 million, and accounted for the decrease as a cumulative effect of a change in accounting principle that resulted in a decrease in accumulated deficit of \$0.7 million. The total amount of gross unrecognized tax benefits as of the date of adoption was \$2.0 million. The entire amount of unrecognized tax benefits will impact the effective tax rate if recognized. Under FIN 48, the liability for unrecognized tax benefits is classified as long-term unless the liability is expected to conclude within 12 months of the reporting date. The Company historically classified contingencies related to taxes in current taxes payable. The Company expects that during the next 12 months it is reasonably possible that unrecognized tax benefit liabilities will decrease by \$0.1 million. As a result of the adoption, \$1.9 million has been reclassified to long-term income taxes payable as the amounts are not anticipated to be settled within the next 12 months. There have been no significant changes to these amounts during the nine months ended October 31, 2007.

The Company's policy is to include interest and penalties related to unrecognized tax contingencies within the provision for taxes on the consolidated condensed statements of income. As of the date of adoption of FIN 48, the Company had accrued approximately \$0.2 million for the payment of interest and penalties relating to unrecognized tax benefits.

The Company files U.S. federal, U.S. state and foreign tax returns and those returns are subject to audit by various tax authorities. The years that may be subject to examination vary by jurisdiction due to different statute of limitation expiration dates. As of January 31, 2007, a summary of the tax years that remain subject to examination in the Company's major tax jurisdictions are:

United States — federal	Fiscal years ended January 31, 2002 and later
United States — states	Fiscal years ended January 31, 2002 and later
Australia	Fiscal years ended January 31, 2002 and later
France	Fiscal years ended January 31, 2004 and later
Ireland	Fiscal years ended January 31, 1999 and later
Netherlands	Fiscal years ended January 31, 2002 and later
United Kingdom	Fiscal years ended January 31, 2004 and later

The Company reasonably expects that the unrecognized long-term tax liabilities will not materially change during the next 12 months.

10. STOCKHOLDERS' EQUITY*Stock Based Compensation*

On February 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based Payment" (SFAS 123R), which requires recognition of stock-based compensation expense for all equity awards using the fair-value measurement method.

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

10. STOCKHOLDERS' EQUITY (Continued)

The following table sets forth, for the periods indicated, reported stock compensation expense for the three and nine month periods ended October 31, 2007 and 2006.

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2007	2006	2007	2006
	(in thousands)			
Stock-based compensation expense by function:				
Cost of maintenance, service and other revenue	\$ 251	\$ 240	\$ 760	\$ 701
Sales and marketing	418	315	1,074	940
Research and development	247	214	579	639
General and administrative	540	522	2,043	1,607
Total stock-based compensation expense	<u>\$ 1,456</u>	<u>\$ 1,291</u>	<u>\$ 4,456</u>	<u>\$ 3,887</u>

In accordance with SFAS 123R, the Company presents any benefits of realized tax deductions in excess of recognized compensation expense as cash flow from financing activities in the accompanying Condensed Consolidated Statement of Cash Flows, rather than as cash flow from operating activities, as was prescribed under accounting rules applicable prior to adoption of SFAS 123R. There were no excess tax benefits recorded for equity awards exercised in both the nine months ended October 31, 2007 and October 31, 2006, as those tax benefits were not realized as a reduction to income taxes payable.

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

	Nine Months Ended October 31,	
	2007	2006
Expected life in years (1)	5.25	5.22
Risk free interest rate (2)	4.58%	4.96%
Volatility (3)	59%	71%
Dividend rate (4)	1.05%	1.31%

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

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

10. STOCKHOLDERS' EQUITY (Continued)

The following table summarizes the activity for outstanding options and SARs for the nine months ended October 31, 2007:

	Options/ SARs (in thousands)	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 31, 2007	5,634	\$ 7.38	5.4	\$ 7,472
Granted	1,135	9.14		
Exercised	(646)	4.11		
Expired	(155)	11.45		
Forfeited	(241)	8.01		
Outstanding at October 31, 2007	<u>5,727</u>	\$ 7.96	5.6	\$ 7,982
Vested and expected to vest at October 31, 2007 (1)	<u>4,946</u>	\$ 7.92	5.5	\$ 7,206
Vested and exercisable at October 31, 2007	<u>2,542</u>	\$ 7.56	4.4	\$ 5,011

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

The Company began issuing RSUs to board members and select executives in the second quarter of fiscal 2008. The estimated fair value of the RSUs was calculated based on the market price of the Company's common stock on the date of grant, reduced by the present value of dividends foregone during the vesting period. During the nine months ended October 31, 2007, 295,000 RSUs were issued with a weighted average grant date fair value of \$8.12 per share and as of October 31, 2007, all 295,000 RSUs remain outstanding.

At October 31, 2007, there was approximately \$9.7 million of total unrecognized compensation cost related to unvested stock options and unvested SARs. This cost is expected to be recognized over a weighted-average period of approximately 1.7 years. Total unrecognized compensation cost related to RSUs and restricted stock awards was approximately \$2.2 million as of October 31, 2007. This cost is expected to be recognized over a period of approximately 3.6 years.

Stock Repurchase Programs

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

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

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

10. STOCKHOLDERS' EQUITY (Continued)

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

Stock Repurchase Activity

During the three months ended October 31, 2007, the Company repurchased approximately 226,000 shares of its common stock at an average repurchase price of \$8.56 per share, including fees. For the nine months ended October 31, 2007, the Company repurchased approximately 1.7 million shares at an average price of \$8.24 per share, including fees, for total consideration of \$14.2 million. Of the 1.7 million shares repurchased to date, one million shares were repurchased in a single privately negotiated transaction.

For comparison purposes, during the three months ended October 31, 2006, the Company repurchased approximately 196,000 shares of its common stock at an average repurchase price of \$7.60 per share, including fees. For the nine months ended October 31, 2006, the Company repurchased approximately 739,000 shares at an average price of \$7.53 per share, including fees, for total consideration of \$5.6 million.

For the full fiscal year ended January 31, 2007, the Company repurchased approximately 794,000 shares of its common stock at an average repurchase price of \$7.56 per share for total cash consideration of \$6.0 million, including fees.

11. COMMITMENTS AND CONTINGENCIES

Indemnifications

The Company sells software licenses and services to its customers under written agreements. Each agreement contains the relevant terms of the contractual arrangement with the customer, and generally includes certain provisions for indemnifying the customer against losses, expenses and liabilities from damages that may be awarded against the customer in the event the Company's software is found to infringe upon certain intellectual property rights of a third party. Each 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 scope limitations and a right to replace an infringing product.

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

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.

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

12. BUSINESS SEGMENT INFORMATION

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

Operating income (loss) attributable to each business segment is based upon management's assignment of revenue and costs. Regional cost of revenue includes the cost of goods produced by the Company's production operations at the price charged to the distribution operation. Income from production operations and research and development costs are included in the corporate operating segment. Identifiable assets are assigned by geographic region based upon the location of each legal entity.

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2007	2006	2007	2006
	(in thousands)			
Revenue:				
North America	\$ 29,531	\$ 24,514	\$ 82,407	\$ 72,508
EMEA	21,329	19,660	60,916	56,792
Asia Pacific	11,146	9,116	31,512	28,235
Latin America	4,602	4,034	12,614	11,563
	<u>\$ 66,608</u>	<u>\$ 57,324</u>	<u>\$ 187,449</u>	<u>\$ 169,098</u>
Operating income (loss):				
North America	\$ 4,578	\$ 4,932	\$ 12,076	\$ 13,503
EMEA	1,997	526	2,271	856
Asia Pacific	204	639	979	1,706
Latin America	241	(75)	219	(545)
Corporate	(3,864)	(4,758)	(14,675)	(12,627)
	<u>\$ 3,156</u>	<u>\$ 1,264</u>	<u>\$ 870</u>	<u>\$ 2,893</u>
			October 31, 2007	January 31, 2007
			(in thousands)	
Identifiable assets:				
North America			\$ 109,905	\$ 126,633
EMEA			60,393	70,489
Asia Pacific			24,433	21,051
Latin America			8,196	8,844
			<u>\$ 202,927</u>	<u>\$ 227,017</u>

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

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements. These statements typically are preceded or accompanied by words like “believe,” “anticipate,” “expect” and words of similar meaning. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Part I, Item 1A entitled “Risk Factors” within our Annual Report on Form 10-K for the year ended January 31, 2007. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s opinions only as of the date hereof. We undertake no obligation to revise or update or publicly release the results of any revision or update to these forward-looking statements. Readers should carefully review the risk factors and other information described in other documents we file from time to time with the Securities and Exchange Commission.

INTRODUCTION

The following discussion should be read in conjunction with the information included within our Annual Report on Form 10-K for the year ended January 31, 2007, and the Condensed Consolidated Financial Statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

OVERVIEW

The Business

QAD Inc., a Delaware corporation founded in 1979, is a provider of enterprise applications, including enterprise resource planning (ERP) software applications and related extended enterprise applications, as well as services for global manufacturing companies. QAD Enterprise Applications and services provide robust solutions for managing manufacturing operations and resources within and beyond the enterprise. These solutions help manufacturers simplify the management of their global supply chain through collaboration with customers, suppliers and partners, and allow them to fulfill dynamic customer and market demands more accurately and efficiently.

QAD Enterprise Applications, including our foundational QAD MFG/PRO system, address the needs of multinational manufacturers, enabling them to operate globally while preserving their ability to meet local requirements. QAD Enterprise Applications provide traditional ERP functionality as well as communication capabilities for supply chain management and customer management functions.

QAD Enterprise Applications are focused on addressing the needs of manufacturers in six industry segments: automotive, consumer products, electronics, food and beverage, industrial products and life sciences. We develop our products and services with input from leading multinational manufacturers within the vertical industries we serve. We believe the simplicity and rich functionality of QAD solutions and related services enable customers to implement QAD Enterprise Applications rapidly, realize a high return on investment and achieve lower total cost of ownership when compared with the product offerings of competitors targeting these same industries.

QAD Global Services and application support are important components of QAD solutions. We have the capabilities and industry expertise required to implement our solutions almost anywhere in the world, in multiple languages and currencies, and to support business processes for local financial and operational practices. Our geographic management structure enables us to adapt our global practices to meet local requirements and deliver our services effectively within each region. We work closely with our customers to support their global operations through our network of regional support centers, alliances and online support which are accessible 24 hours a day, seven days a week, virtually anywhere in the world. Our services offerings include post-implementation services, such as Application Management Services, that enable continuous operational and business improvement by our customers.

CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

At times our license and support arrangements include consulting implementation services sold separately under consulting engagement contracts. Consulting revenues from these arrangements are generally accounted for separately from new software license revenues because the arrangements qualify as service transactions as defined in SOP No. 97-2. When the services are determined to not have been sold separately from our license and support arrangements, we allocate revenue to services based on vendor-specific, objective evidence. Revenues for consulting services are generally recognized as the services are performed. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is sufficiently resolved.

On occasion, we enter into fixed-price services arrangements. We estimate the proportional performance on contracts with fixed or “not to exceed” fees on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project. If we do not have a sufficient basis to measure progress towards completion, we recognize revenue on a straight-line basis over the period during which the services are performed. When total cost estimates exceed revenues, we accrue for the estimated losses using cost estimates that are based upon an average fully burdened daily rate applicable to the consultants delivering the services.

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

Accounts Receivable Allowances. We review the collectibility of our accounts receivable each period by analyzing balances based on age and record specific allowances for any balances that we believe may not be fully collectible. We also provide an additional reserve based on historical data including analysis of credit memo data and other known factors. These determinations require management judgment. Actual collections may differ from our estimates for a variety of reasons.

Goodwill and Intangible Assets. At October 31, 2007, goodwill and other intangible assets balances totaled \$21.3 million and \$1.3 million, respectively, and accounted for 11.1% of total assets. All of our goodwill and intangible assets have been accounted for under the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, “Goodwill and Other Intangible Assets.” The excess cost of the acquisition over the fair value of the net assets acquired is recorded as goodwill. SFAS No. 142 requires that goodwill and intangible assets deemed to have indefinite lives not be amortized, but rather be tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment. Finite-lived intangible assets are required to be amortized over their useful lives and are subject to impairment evaluation under the provisions of SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.”

Goodwill is tested for impairment at least annually utilizing an “income approach” methodology, which utilizes a discounted cash flow method to determine the fair value of the reporting unit based on the present value of future benefits the reporting unit is expected to generate, and the “publicly-traded guideline company method” or the “market approach,” which utilizes financial and valuation ratios of publicly traded companies that are considered comparable to QAD to determine if our valuation ratios are a fair measure of QAD’s enterprise value. In assessing the recoverability of goodwill and intangible assets, we make assumptions regarding various factors to determine if impairment tests are met. These estimates contain management’s best estimates, using appropriate and customary assumptions available at the time. For further discussion of goodwill, see note 7 “Goodwill and Intangible Assets” within the Notes to Condensed Consolidated Financial Statements.

Other intangible assets are tested when events or changes in circumstances suggest that the carrying value of an asset may not be fully recoverable in accordance with SFAS No. 144. Other intangible assets arise from business combinations and consist of customer relationships, restrictive covenants related to employment agreements, and trade names that are amortized, on a straight-line basis, over periods of up to five years. For further discussion of other intangible assets, see note 7 “Goodwill and Intangible Assets” within the Notes to Condensed Consolidated Financial Statements.

Capitalized Software 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. We capitalize software purchased from third parties or through business combinations as acquired software technology if such software has reached technological feasibility. 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.

[Table of Contents](#)

Capitalized software costs are amortized on a product-by-product basis and charged to “Cost of license fees”. The amortization is the greater of straight-line basis over three years or computed using a ratio of current revenue for a product to total of current and anticipated future revenues for that product. We periodically compare the unamortized capitalized software development costs to the estimated net realizable value of the associated product. The amount by which the unamortized capitalized software costs of a particular software product exceed the estimated net realizable value of that asset is reported as a charge to the statement of operations. This review requires management judgment regarding future cash flows. If these estimates or their related assumptions require updating in the future, we may be required to recognize losses for these assets.

Valuation of Deferred Tax Assets and Tax Contingency Reserves. SFAS No. 109, “Accounting for Income Taxes”, requires that the carrying value of our deferred tax assets reflect an amount that is more likely than not to be realized. 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 no reduction of valuation allowances recorded in the first nine months of fiscal 2008 or 2007. Should we determine that we would not be able to realize all or part of our deferred tax assets in the future, an adjustment to deferred tax assets would increase tax expense in the period such determination was made.

FASB Interpretation 48, “Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109” (FIN 48) became effective for us beginning February 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In accordance with FIN 48, we recognized a cumulative effect adjustment of \$0.7 million to the opening balance of retained earnings as of February 1, 2007. For further discussion of our adoption of FIN 48, see note 9 “Income Taxes” within the Notes to Condensed Consolidated Financial Statements.

Equity-based Compensation Expense. SFAS No. 123 (revised 2004), “Share-Based Payment” (SFAS 123R) requires that share-based payment transactions with employees be accounted for using a fair-value-based method and expensed ratably over the vesting period of the equity instrument.

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

Equity instruments issued to non-employees in exchange for services are recorded in accordance with the provisions of SFAS 123R and Emerging Issues Task Force Issue No. 96-18, “Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services”. Under this guidance, the fair value of the equity instruments is re-measured each period until the instruments vest. The incremental change is recorded as an expense in the period in which the change occurred.

RESULTS OF OPERATIONS

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2007	2006	2007	2006
Revenue:				
License fees	21%	19%	21%	21%
Maintenance and other	49	54	51	54
Services	30	27	28	25
Total revenue	100	100	100	100
Costs and expenses:				
Cost of license fees	3	3	3	3
Cost of maintenance, service and other revenue	39	37	40	37
Sales and marketing	26	27	27	28
Research and development	15	17	16	18
General and administrative	12	13	13	12
Amortization of intangibles from acquisitions	—	1	—	—
Total costs and expenses	95	98	99	98
Operating income	5	2	1	2
Other expense (income)	1	(1)	—	(1)
Income before income taxes	4	3	1	3
Income tax expense	2	1	1	1
Net income	2%	2%	—%	2%

Total Revenue. Total revenue for the third quarter of fiscal 2008 was \$66.6 million, an increase of \$9.3 million, or 16%, from \$57.3 million in the third quarter of fiscal 2007. Our acquisitions of Precision and FBOS, which were completed in the previous year, accounted for \$3.4 million of total revenue in the third quarter of fiscal 2008, compared to \$0.8 million in the same quarter of the previous year. Holding foreign currency exchange rates constant to those applicable in the third quarter of fiscal 2007, total revenue for the current quarter would have been approximately \$64.6 million, representing a performance increase of \$7.3 million, or 13%, when compared to the same period last year. Holding exchange rates constant, all revenue categories increased when comparing our current quarter results to the same quarter of the previous year, with the most significant increases in services and license revenue. As a percentage of total revenue, revenue outside the North America region was relatively consistent at 56% and 57% in the third quarter of fiscal 2008 and fiscal 2007, respectively. The slight decrease was primarily due to higher growth in services and license revenue in North America compared to other regions. All of our geographic regions experienced increases in total revenue quarter over quarter. The favorable currency impact of \$2.0 million for the third quarter of fiscal 2008 related primarily to fluctuations in the euro and Australian dollar.

Total revenue for the first nine months of fiscal 2008 was \$187.4 million, an increase of \$18.3 million, or 11%, from \$169.1 million in the first nine months of fiscal 2007. Our acquisitions of Precision and FBOS, which were completed in the previous year, accounted for \$9.2 million of total revenue in the first nine months of fiscal 2008 compared to \$0.8 million in the same period of the previous year. Holding foreign currency exchange rates constant to those applicable in the first nine months of fiscal 2007, total revenue for the current year would have been approximately \$182.6 million, representing a performance increase of \$13.5 million, or 8%, when compared to the same period last year. Holding exchange rates constant, all revenue categories increased when comparing the first nine months of fiscal 2008 to the first nine months of fiscal 2007, with the most significant increase in services revenue. Revenue outside the North America region was relatively consistent at 56% and 57% of total revenue for the first nine months of fiscal 2008 and 2007, respectively. The slight decrease was primarily due to higher growth in services and license revenue in North America compared to the other regions. All of our geographic regions experienced increases in total revenue period over period. The favorable currency impact of \$4.8 million for the first nine months of fiscal 2008 was related primarily to fluctuations in the euro, Australian dollar and Thai baht.

License Revenue. License revenue was \$14.1 million for the third quarter of fiscal 2008, an increase of \$3.1 million, or 28%, from \$11.0 million for the third quarter of fiscal 2007. Our acquisitions of Precision and FBOS, which were completed in the previous year, accounted for \$0.9 million of license revenue in the third quarter of fiscal 2008. Holding foreign currency exchange rates constant to those applicable in fiscal 2007, license revenue for the current quarter would have been approximately \$13.7 million, representing a \$2.7 million, or 25%, performance increase from the same period last year. License revenue increased across all of our geographic regions. One of the metrics that management uses to measure license revenue performance is the number of customers that have placed sizable license orders in the period. During the third quarter of fiscal 2008, 12 customers placed license orders totaling more than \$300,000, of which one exceeded \$1 million. This compared to the fiscal 2007 third quarter in which six customers placed license orders totaling more than \$300,000, of which none exceeded \$1 million. When comparing the current quarter to the same quarter of the previous year, discounts granted to customers for software licenses increased primarily due to larger discounts that generally accompany larger transactions.

License revenue was \$39.1 million for the first nine months of fiscal 2008, an increase of \$4.4 million, or 13%, from \$34.7 million for the first nine months of fiscal 2007. Our acquisitions of Precision and FBOS, which were completed in the previous year, accounted for \$2.6 million of license revenue in the first nine months of fiscal 2008. Holding foreign currency exchange rates constant to those applicable in fiscal 2007, license revenue for the current year would have been approximately \$38.3 million, representing a \$3.6 million, or 10%, performance increase from the same period last year. License revenue increased across all of our geographic regions with the exception of our Asia Pacific region where license revenue was flat. During the first nine months of fiscal 2008, 26 customers placed license orders totaling more than \$300,000, of which two exceeded \$1 million. This compared to 17 customers who placed license orders totaling more than \$300,000 in the first nine months of fiscal 2007, of which none exceeded \$1 million. Discounts granted to customers for software licenses remained consistent during the first nine months of fiscal 2008 when compared to the same period in fiscal year 2007.

Maintenance and Other Revenue. Maintenance and other revenue was \$32.3 million for the third quarter of fiscal 2008, representing an increase of \$1.4 million, or 5%, from \$30.9 million for the third quarter of fiscal 2007. Our acquisitions of Precision and FBOS, which were completed in the previous year, accounted for \$0.7 million of maintenance and other revenue in the third quarter of fiscal 2008 compared to \$0.1 million in the same period in fiscal 2007. When we hold exchange rates constant to those prevailing in the third quarter of fiscal 2007, fiscal 2008 maintenance and other revenue would have increased approximately \$0.7 million, or 2%, to \$31.6 million. Maintenance and other revenue increased across all our geographic regions quarter over quarter.

Maintenance and other revenue was \$95.1 million for the first nine months of fiscal 2008, an increase of \$3.3 million, or 4%, from \$91.8 million for the same period of fiscal year 2007. Our acquisitions of Precision and FBOS, which were completed in the previous year, accounted for \$1.8 million of maintenance and other revenue in the first nine months of fiscal 2008 compared to \$0.1 million in the same period in fiscal 2007. Holding exchange rates constant to those prevailing in the first nine months of fiscal 2007, the current year's maintenance and other revenue would have increased approximately \$1.4 million, or 2%, to \$93.2 million. Maintenance and other revenue increased in all our geographic regions with the exception of Latin America, where maintenance and other revenue remained flat during the first nine months of fiscal 2008 when compared to the same period in fiscal 2007.

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 for the third quarters and first nine months of both fiscal 2008 and 2007 was in excess of 90%.

Services Revenue. Services revenue was \$20.2 million for the third quarter of fiscal 2008, representing an increase of \$4.8 million, or 31%, when compared to the same period last year at \$15.4 million. Our acquisitions of Precision and FBOS, which were completed in the previous year, accounted for \$1.7 million of services revenue in the third quarter of fiscal 2008 compared to \$0.7 million in the third quarter of fiscal 2007. Holding exchange rates constant to those prevailing during the third quarter of fiscal 2007, services revenue for the third quarter of fiscal 2008 would have increased approximately \$3.9 million, or 25%, to \$19.3 million. When comparing the current quarter to the same quarter of the prior year, services revenue increased across all regions, with the most notable increase in our North America and Latin America regions.

[Table of Contents](#)

For the first nine months of fiscal 2008, services revenue was \$53.3 million, representing an increase of \$10.8 million, or 25%, when compared to the same period last year at \$42.5 million. Our acquisitions of Precision and FBOS, which were completed in the previous year, accounted for \$4.8 million of services revenue in the first nine months of fiscal 2008 compared to \$0.7 million in the first nine months of fiscal 2007. Holding exchange rates constant to those prevailing during the first nine months of fiscal 2007, services revenue for fiscal 2008 would have increased approximately \$8.6 million, or 20%, to \$51.1 million when compared to the same period last year. Services revenue increased in all regions with the exception of our Europe, Middle East and Africa region, where services revenue were slightly lower during the first nine months of fiscal 2008 when compared to the same period in fiscal 2007.

Total Cost of Revenue. Total cost of revenue (combined cost of license fees and cost of maintenance, service and other revenue) in the third quarter of fiscal 2008 was \$28.1 million, an increase of \$4.9 million, or 21%, from \$23.2 million in the third quarter of fiscal 2007. As a percentage of total revenue, total cost of revenue was 42% and 40% for the third quarter of fiscal 2008 and 2007, respectively. Holding exchange rates constant to those prevailing during the third quarter of fiscal 2007, total cost of revenue for the third quarter of fiscal 2008 would have increased approximately \$3.9 million, or 17%, to \$27.1 million, and the total cost of revenue as a percentage of total revenue would have been unchanged at 42%. The increase in total cost of revenue as a percent of total revenue was primarily due to the change in the revenue mix caused by the growth in lower margin services revenue as a percent of total revenue. The increased demand for our services was supported with existing resources and the use of sub-contractors.

Total cost of revenue for the first nine months of fiscal 2008 was \$79.7 million, an increase of \$12.0 million, or 18%, from \$67.7 million in the first nine months of fiscal 2007. As a percentage of total revenue, total cost of revenue was 43% and 40% for the first nine months of fiscal 2008 and 2007, respectively. Holding exchange rates constant to those prevailing during the first nine months of fiscal 2007, total cost of revenue for the fiscal 2008 period would have been approximately \$77.1 million, resulting in a performance change of \$9.4 million, or 14%, and the total cost of revenue as a percentage of total revenue would have decreased 1% to 42%. The increase in total cost of revenue as a percent of total revenue was primarily due to the change in the revenue mix caused by the growth in lower margin services revenue as a percent of total revenue. The increased demand for our services was supported with existing resources and the use of sub-contractors.

Sales and Marketing. Sales and marketing expense for the third quarter of fiscal 2008 was \$17.2 million, an increase of \$1.6 million, or 10%, from \$15.6 million in the third quarter of fiscal 2007. Holding exchange rates constant to last year, sales and marketing expense would have increased approximately \$0.9 million, or 6%, to \$16.5 million. The increase was primarily related to personnel expenses, including increased commissions of \$0.5 million and increased salary expense of \$0.4 million.

Sales and marketing expense for the first nine months of fiscal 2008 was \$51.2 million, an increase of \$4.1 million, or 9%, from \$47.1 million in the comparable prior year period. Higher sales and marketing expense was driven in part by sales and marketing expenses related to our Precision division which was acquired late in the third quarter of fiscal 2007. Holding exchange rates constant to last year, sales and marketing expense would have increased approximately \$2.5 million, or 5%, to \$49.6 million. The primary reasons for the increase in sales and marketing expense year-over-year was increased personnel costs. Commissions increased \$1.1 million, salary expense increased \$0.9 million and bonus expense increased \$0.5 million. In addition, recruiting expense increased \$0.3 million and travel costs increased \$0.3 million primarily due to additional sales training conducted in the second quarter of fiscal 2008. The increase in sales and marketing expense during the first nine months of fiscal 2008 was partially offset by a decrease in marketing costs of \$0.9 million primarily related to less outsourced public relations and advertising related activities.

Research and Development. Research and development expense for the third quarter of fiscal 2008 was \$10.0 million, an increase of \$0.2 million, or 2%, from \$9.8 million in the third quarter of fiscal 2007. Holding exchange rates constant to last year, current quarter expense was approximately \$9.6 million, a decrease of \$0.2 million, or 2%. Our research and development expense was relatively flat quarter over quarter and the slight performance decrease was primarily related to lower salary expense.

Research and development expense for the first nine months of fiscal 2008 was \$30.4 million, an increase of \$0.3 million, or 1%, from \$30.1 million in the comparable prior year period. Holding exchange rates constant to last year, research and development expense was approximately \$29.4 million, a decrease of \$0.7 million, or 2%. The decrease in research and development expense was primarily related to decreased travel costs of \$0.4 million and increased development income of \$0.3 million.

General and Administrative. General and administrative expense for the third quarter of fiscal 2008 was \$8.0 million, an increase of \$0.6 million, or 8%, from \$7.4 million in the third quarter of fiscal 2007. Holding exchange rates constant to last year, current quarter expense would have increased approximately \$0.4 million, or 5%, to \$7.8 million when comparing to the same quarter in the previous year. The performance variance was primarily related to increased bonus expense of \$0.3 million.

For the first nine months of fiscal 2008, general and administrative expense was \$24.7 million, an increase of \$3.6 million, or 17%, from \$21.1 million in the comparable prior year period. Holding exchange rates constant to last year, current year expense would have increased approximately \$3.0 million, or 14%, to \$24.1 million. The increase was primarily due to increased professional fees of \$1.1 million primarily related to tax consulting, increased bonus expense of \$0.7 million, increased salary expense of \$0.5 million and increased stock compensation expense of \$0.4 million.

Other (Income) Expense. Other (income) expense, net was \$0.3 million for the third quarter of fiscal 2008 compared to other (income) expense, net of \$(0.2) million in same period of fiscal 2007. The \$0.5 million change in other (income) expense, net was primarily due to a \$0.4 million unfavorable foreign currency variance when comparing the third quarter of fiscal 2008 to the third quarter of fiscal 2007.

Other income, net was \$0.3 million and \$2.7 million for the first nine months of fiscal 2008 and 2007, respectively. The \$2.4 million change was primarily due to a \$2.1 million unfavorable foreign currency variance when comparing the first nine months of fiscal 2008 to the first nine months of fiscal 2007.

Income Tax Expense. We recorded income tax expense of \$1.4 million for the quarter ended October 31, 2007 and \$0.5 million for the same quarter last year. Our income tax rate for the current quarter increased to 47% from 35% in the same quarter of the previous year. These amounts reflect higher levels of income in the current quarter as compared to the same quarter last year as well as changes in jurisdictional mix of income.

We recorded income tax expense of \$1.0 million and \$2.1 million for the first nine months of fiscal 2008 and 2007, respectively. Our income tax rate increased to 85% from 38% for the same periods. The higher income tax rate for the first nine months of the current year reflect a lower level of profitability for the first nine months of fiscal 2008 as well as changes in the jurisdictional mix of income over the same period last year. Our business outlook for the full year assumes an effective tax rate of 47%.

LIQUIDITY AND CAPITAL RESOURCES

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

Working Capital

Our working capital was \$4.2 million and \$15.0 million as of October 31, 2007 and January 31, 2007, respectively. The \$10.8 million decrease in working capital was primarily due to a \$27.0 million decrease in current assets, partially offset by a \$16.2 million decrease in current liabilities.

The \$27.0 million decrease in current assets related primarily to a \$17.7 million decrease in accounts receivable due to seasonal declines following high year-end renewal billings. Cash and equivalents decreased \$10.2 million to \$44.0 million as of October 31, 2007 from \$54.2 million as of January 31, 2007. Cash decreased primarily due to \$14.2 million of cash paid to repurchase common stock, purchases of property and equipment of \$4.0 million, business acquisition costs of \$3.9 million primarily related to our acquisition of Precision and dividend payments of \$2.4 million. Decreases in cash related to those activities were partially offset by \$10.7 million in cash generated from operating activities and proceeds from the exercise of stock options of \$2.6 million. For additional explanation of cash changes, please see the “Cash Flows” section below.

The \$16.2 million decrease in current liabilities was primarily related to a \$12.2 million decrease in deferred revenue due to seasonal declines following high year-end maintenance renewal billings. In addition, accounts payable decreased \$2.9 million due to a seasonal decline in trade payables and other current liabilities decreased \$1.1 million primarily due to payments in the current year of prior year-end liabilities which included seasonally higher year end royalties and sales and use taxes. Other current liabilities fluctuations included lower accrued severance and higher accrued vacation.

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 in the accounts receivable balance as of the period end. When reviewing the performance of our business units, DSO under the countback method is used by management. It is management’s belief that the countback method best reflects the relative health of our accounts receivable as of a given quarter-end or year-end because of the cyclical nature of our billings. Our billing cycle includes high maintenance renewal billings at year-end that will not be recognized as earned revenue until future periods, which is typically over the following twelve months.

DSO under the countback method as of October 31, 2007 and 2006 was consistent at 66 days. That compares to 56 days at January 31, 2007. DSO using the average method, which utilizes the accounts receivable balance and *earned* revenue in the calculation, was 69 days at October 31, 2007 and is relatively consistent with DSO at October 31, 2006 which was 67 days. DSO using the average method at January 31, 2007 was 93 days. Changes from fiscal year-end were due to seasonal fluctuations in sales, primarily related to high year-end maintenance renewal billings.

Cash Flows

Following is a summary of cash flows for the first nine months of fiscal 2008 and 2007:

Operating Activities

Net cash provided by operating activities remained relatively consistent at \$10.7 million and \$10.9 million for the first nine months of fiscal 2008 and 2007, respectively. The decrease in net cash provided by operating activities related primarily to a smaller decline in accounts receivable which had a negative effect on cash of \$3.9 million and a \$3.3 million decrease in net income to \$0.2 million for the first nine months of fiscal 2008 from \$3.5 million for the same period in fiscal 2007. These changes which resulted in decreased operating cash flow were mostly offset by a smaller decline in deferred revenue of \$4.3 million, which had a positive effect on cash. In addition, other liabilities decreased \$1.4 million less than in the prior year primarily due to higher accrued commissions, bonus and salary expenses in fiscal 2008 which also had a positive effect on cash. Depreciation and amortization expense increased \$1.2 million compared to the prior year primarily due to the amortization of acquired software technology and intangible assets.

Investing Activities

Net cash used in investing activities for the first nine months of fiscal 2008 and 2007 was \$8.8 million and \$13.3 million, respectively. The first nine months of fiscal 2008 and 2007 included \$4.0 million and \$3.7 million, respectively, of property and equipment purchases. The prior year purchases primarily related to computer equipment. The current year purchases primarily related to computer equipment and software. In the first nine months of fiscal 2008, we paid \$3.9 million related to the acquisitions completed in the previous year, including a \$3.7 million payment in the third quarter of fiscal year 2008 related to the acquisition of Precision.

[Table of Contents](#)

In the first nine months of fiscal 2007, we completed three acquisitions and paid \$7.0 million associated with those transactions. In addition, we transferred \$2.6 million of restricted cash held in escrow until certain contingencies are resolved. In fiscal 2007 we subsequently sold certain acquired intangible assets for \$0.9 million. For further discussion of business combinations, see note 5 “Business Combinations” within Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Financing Activities

Net cash used in financing activities was \$15.6 million and \$6.3 million for the first nine months of fiscal 2008 and 2007, respectively.

The first nine months of fiscal 2008 included repurchases of common stock of \$14.2 million compared to repurchases of \$5.6 million in the same period of the prior year. In fiscal 2007, all common stock repurchases were acquired on the open market while in fiscal 2008, the repurchases included one million shares acquired in a single, privately negotiated transaction.

The first nine months of the current and prior year also include \$2.6 million and \$1.4 million, respectively, in proceeds from the issuance of common stock, primarily related to the exercise of equity awards. Dividends paid to stockholders were consistent at \$2.4 million in both periods.

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 working capital requirements, debt service and other cash needs over the next twelve months.

Contractual Obligations

Notes Payable

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

Credit Facility

Effective April 7, 2005, we entered into an unsecured loan agreement with Comerica Bank. The agreement provides a three-year commitment for a \$20 million line of credit (Facility). The maximum amount that can be borrowed under the Facility is subject to a borrowing base calculation of 1.5 times the four-quarter trailing earnings before interest, taxes, depreciation and amortization (EBITDA) less the total amount of letters of credit and other similar obligations. At October 31, 2007, the maximum that could have been borrowed under the Facility was \$20 million. We pay an annual commitment fee of between 0.25% and 0.50% calculated on the average unused portion of the \$20 million Facility. The rate is determined by our ratio of funded debt to our 12-month trailing EBITDA.

The Facility provides that we will maintain certain financial and operating covenants which include, among other provisions, maintaining a minimum liquidity ratio of 1.3 to 1.0, a minimum 12-month trailing EBITDA of \$10 million and a minimum cash balance in the United States of \$10 million. Borrowings under the Facility bear interest at a floating rate based on LIBOR or prime plus the corresponding applicable margins, ranging from 0.75% to 1.75% for the LIBOR option or -0.25% to 0.25% for the prime option, depending on our funded debt to 12-month trailing EBITDA ratio. At October 31, 2007, a prime rate borrowing would have had an effective rate of 7.25% and a 30 day LIBOR borrowing would have had an effective rate of approximately 5.46%.

As of October 31, 2007, there were no borrowings under the Facility and we were in compliance with the debt covenants.

Minority Interest

During the nine month period ended October 31, 2007, the minority shareholders of QAD's Thailand subsidiary exercised their put option to sell their shares to QAD. To purchase the shares, we accrued a preliminary fair value estimate of the liability of \$1.1 million as of October 31, 2007 and expect to make payment in fiscal 2008.

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange. For the nine months ended October 31, 2007 and 2006, approximately 30% and 35% of our revenue was denominated in foreign currencies. Approximately 40% and 45% of our expenses were denominated in currencies other than the U.S. dollar for the nine month periods ended October 31, 2007 and October 31, 2006, respectively. As a result, fluctuations in the values of the respective currencies relative to the currencies in which we generate revenue and incur expenses could adversely impact our results.

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. Foreign currency transaction losses totaled \$0.6 million during the nine months ended October 31, 2007. This compares to transaction gains of \$1.5 million during the nine months ended October 31, 2006. Due to constantly changing currency exposures and the volatility of currency exchange rates, we may experience currency losses in the future. 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.

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

We prepared sensitivity analyses of our interest rate exposure and our exposure from anticipated investment and borrowing levels for fiscal 2008 to assess the impact of hypothetical changes in interest rates. Based upon the results of these analyses, a 10% adverse change in interest rates from the 2007 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 fiscal 2008.

ITEM 4 — CONTROLS AND PROCEDURES

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

Changes in internal control over financial reporting. We reported the following material weakness as of January 31, 2007 in our Annual Report on Form 10-K: we did not maintain effective control over financial reporting related to our year end accounting for income taxes. Specifically, we did not have effective procedures to provide for timely preparation of schedules supporting our current and deferred income tax provision and related deferred tax balances such that a comprehensive review of these supporting schedules could be performed. In order to remediate this material weakness, we are implementing revised policies and procedures pertaining to income taxes and we are enhancing the review processes. We believe that these corrective steps will sufficiently remediate the material weakness described above. Aside from the ongoing implementation of these measures, there were no changes in our internal control over financial reporting during the three and nine month periods ended October 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors reported in Item 1A within the Company's Annual Report on Form 10-K for the year ended January 31, 2007.

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

Stock repurchase activity during the three months ended October 31, 2007 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
8/1/07 — 8/31/07	—	\$ —	—	—
9/1/07 — 9/30/07	178,000	\$ 8.45	178,000	822,000
10/1/07 — 10/31/07	48,000	\$ 8.97	48,000	774,000

- (1) In September 2007, the Board of Directors authorized an open market repurchase program for one year to buy up to one million shares of QAD common stock. As of October 31, 2007, 226,000 shares had been repurchased under the program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits

- 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

Signatures

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

QAD Inc.
(Registrant)

Date: December 7, 2007

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

Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
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

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

I, Karl F. Lopker, certify that:

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

Date: December 7, 2007

/s/ KARL F. LOPKER

Karl F. Lopker
Chief Executive Officer
QAD Inc.

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

I, Daniel Lender, certify that:

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

Date: December 7, 2007

/s/ DANIEL LENDER

Daniel Lender
Chief Financial Officer
QAD Inc.

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

In connection with the Quarterly Report of QAD Inc. (the "Company") on Form 10-Q for the period ending October 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karl F. Lopker, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: December 7, 2007

/s/ KARL F. LOPKER

Karl F. Lopker
Chief Executive Officer
QAD Inc.

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

In connection with the Quarterly Report of QAD Inc. (the "Company") on Form 10-Q for the period ending October 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel Lender, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: December 7, 2007

/s/ DANIEL LENDER

Daniel Lender
Chief Financial Officer
QAD Inc.