

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2000

OR

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

For the transition from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-22823

QAD Inc.

(Exact name of registrant as specified in its charter)

Delaware

77-0105228

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer Identification No.)

6450 Via Real, Carpinteria, California 93013  
(Address of principal executive offices)

(805) 684-6614

(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 filing requirements for the past 90 days. Yes ☒ No ☐.

The number of shares outstanding of the issuer's common stock as of the close of business on May 31, 2000 was 33,358,058.

QAD INC.  
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FINANCIAL INFORMATION

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## PART I

## ITEM 1 - FINANCIAL STATEMENTS

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

	April 30, 2000	January 31, 2000
	-----	-----
	(Unaudited)	
ASSETS		
Current assets:		
Cash and equivalents	\$ 36,575	\$ 35,936
Accounts receivable, net	67,780	98,567
Other current assets	14,587	15,523
	-----	-----
Total current assets	118,942	150,026
Property and equipment, net	31,038	32,729
Capitalized software development costs, net	8,094	8,233

Other assets, net	22,833	23,383
	-----	-----
Total assets	\$ 180,907	\$ 214,371
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and capital lease obligations	\$ 969	\$ 1,240
Accounts payable	16,154	17,671
Accrued expenses	25,637	34,647
Deferred revenue and deposits	56,685	64,731
	-----	-----
Total current liabilities	99,445	118,289
Notes payable and capital lease obligations, less current portion	14,804	21,890
Other liabilities	112	200
Minority interest	504	563
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 and outstanding 33,292,908 and 33,012,210 shares at April 30, 2000 and January 31, 2000, respectively	33	33
Additional paid-in-capital	112,543	111,553
Accumulated deficit	(43,652)	(34,876)
Unearned compensation - restricted stock	(112)	(146)
Accumulated other comprehensive loss	(2,770)	(3,135)
	-----	-----
Total stockholders' equity	66,042	73,429
	-----	-----
Total liabilities and stockholders' equity	\$ 180,907	\$ 214,371
	=====	=====

See accompanying notes to condensed consolidated financial statements

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QAD INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
(In thousands, except per share amounts)

	Three Months Ended April 30,	
	2000	1999
	-----	-----
Revenue:		
License fees	\$ 15,085	\$ 20,461
Maintenance and other	23,929	21,001
Services	12,583	11,876
	-----	-----
Total revenue	51,597	53,338
Costs and expenses:		
Cost of license fees	3,998	5,588
Other cost of revenue	22,323	19,761
Sales and marketing	17,050	21,507
Research and development	9,691	9,006
General and administrative	6,507	6,880
	-----	-----
Total costs and expenses	59,569	62,742
	-----	-----
Operating loss	(7,972)	(9,404)
Other (income) expense:		
Interest income	(420)	(107)
Interest expense	672	294
Other (income) expense	(14)	352
	-----	-----
Total other (income) expense	238	539

Loss before income taxes	(8,210)	(9,943)
Income tax expense	566	--
Net loss	\$ (8,776)	\$ (9,943)
Basic and diluted net loss per share	\$ (0.26)	\$ (0.33)
Basic and diluted weighted average shares	33,166	29,931

See accompanying notes to condensed consolidated financial statements

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QAD INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(In thousands)

	Three Months Ended April 30,	
	2000	1999
Net cash provided by (used in) operating activities	\$ 10,253	\$ (41)
Cash flows from investing activities:		
Purchase of property and equipment	(1,376)	(1,423)
Investment in software development	(752)	(671)
Proceeds from sale of short-term investments	--	3,000
Investment in equity securities	--	(500)
Other, net	--	78
Net cash provided by (used in) investing activities	(2,128)	484
Cash flows from financing activities:		
Proceeds from notes payable	--	16,000
Reduction of notes payable	(7,360)	(12,455)
Issuance of common stock for cash	873	548
Repurchase of common stock	(45)	(67)
Other, net	5	9
Net cash provided by (used in) financing activities	(6,527)	4,035
Effect of exchange rates on cash and equivalents	(959)	(261)
Net increase in cash and equivalents	639	4,217
Cash and equivalents at beginning of period	35,936	16,078
Cash and equivalents at end of period	\$ 36,575	\$ 20,295

See accompanying notes to condensed consolidated financial statements

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

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary (consisting only of reclassifications and normal recurring adjustments) to present fairly the financial information contained therein. These statements do not include all disclosures required by generally accepted accounting principles and should be read in conjunction with the audited financial statements and related notes included in our Form 10-K for the year ended January 31, 2000. The results of operations for the three months ended April 30, 2000 are not necessarily indicative of the results to be expected for the year ending January 31, 2001.

Certain prior period financial statement items have been reclassified to conform to current period presentation.

## 2. COMPREHENSIVE LOSS

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

(In thousands)	Three Months Ended April 30,	
	2000	1999
Net loss	\$ (8,776)	\$ (9,943)
Foreign currency translation adjustments	365	(261)
Comprehensive loss	\$ (8,411)	\$ (10,204)

## 3. PER SHARE INFORMATION

Net income (loss) per share is computed in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share. Basic income (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is computed using the weighted average number of common and dilutive common stock equivalents outstanding during the period. Common stock equivalents consist of the shares issuable upon the exercise of warrants and stock options using the treasury stock method. The following table sets forth the computation of basic and diluted income (loss) per share:

(In thousands, except per share amounts)	Three Months Ended April 30,	
	2000	1999
Numerator:		
Net loss	\$ (8,776)	\$ (9,943)
Denominator:		
Weighted average basic shares outstanding	33,166	29,931
Effect of dilutive common stock equivalents	--	--
Weighted average diluted shares outstanding	33,166	29,931
Basic and diluted loss per share	\$ (0.26)	\$ (0.33)

Common stock equivalent shares of approximately 1,278,000 and 256,000 for the three months ended April 30, 2000 and 1999, respectively, were not included in the diluted calculations because, due to the net loss positions, they were anti-dilutive.

## 4. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

In consideration for the ability to execute up to \$5.5 million of potential acquisitions between May 1, 2000 and January 31, 2001, with a maximum cash outflow of \$3.0 million during that period, the commitment under our revolving credit facility with Bank One was reduced by \$5.0 million to \$20.0 million.

## 5. RESTRUCTURING CHARGE

In response to changes in customers' manufacturing capital software spending patterns during fiscal year 1999, we undertook a restructuring program that, among other things, more closely aligned costs with sales expectations. The

program included the consolidation of certain facilities and an approximate reduction of 230 positions across a broad cross-section of QAD. As of April 30, 2000, \$5.2 million of the total \$5.5 million restructuring charge was utilized, and we expect to pay the remaining balance by January 31, 2002.

#### 6. BUSINESS SEGMENT INFORMATION

QAD operates in geographic regions. 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.

Operating income attributable to each business segment is based upon the management assignment of revenue and costs. Regional cost of revenue includes the cost of goods produced by QAD's manufacturing operations at the transfer price charged to the distribution operation. Income from manufacturing operations is included in the Corporate operating segment. Research and development costs are also included in the Corporate operating segment. Identifiable assets are assigned by region based upon the location of each legal entity.

During the latter part of fiscal year 2000, management changed the composition of our reportable segments for operating income (loss), in order to disclose components related to the corporate segment. Prior period segment information has not been restated to separately disclose corporate segment data, as it is impracticable to do so.

(In thousands)	Three Months Ended April 30,	
	2000	1999
	-----	-----
REVENUE		
North America	\$ 21,091	\$ 20,874
EMEA	20,407	21,085
Asia Pacific	7,924	7,918
Latin America	2,175	3,461
	-----	-----
	\$ 51,597	\$ 53,338
	=====	=====
OPERATING INCOME (LOSS):		
North America	\$ 1,205	\$ (6,128)
EMEA	(888)	(1,963)
Asia Pacific	(2,267)	(1,314)
Latin America	(1,089)	1
Corporate	(4,933)	--
	-----	-----
	\$ (7,972)	\$ (9,404)
	=====	=====
	April 30,	January 31,
	2000	2000
	-----	-----
IDENTIFIABLE ASSETS:		
North America	\$ 80,254	\$ 96,853
EMEA	68,558	84,233
Asia Pacific	23,672	24,575
Latin America	8,423	8,710
	-----	-----
	\$ 180,907	\$ 214,371
	=====	=====

#### 7. RECENT ACCOUNTING STANDARDS

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" (FIN 44). FIN 44 provides guidance for issues arising in

applying APB Opinion No. 25, "Accounting for Stock Issued to Employees". FIN 44 applies specifically to new awards, exchanges of awards in a business combination, modification to outstanding awards, and changes in grantee status that occur on or after July 1, 2000, except for the provisions related to repricings and the definition of an employee which apply to awards issued after December 15, 1998. Application of FIN 44 did not have an effect on the Company's financial reporting.

## ITEM 2 - MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD LOOKING STATEMENT

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 the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as other factors detailed in our Annual Report on Form 10-K for the year ended January 31, 2000. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. QAD undertakes no obligation to revise, update or publicly release the results of any revision or update to these forward-looking statements. Readers should carefully review the risk factors described in other documents QAD files from time to time with the Securities and Exchange Commission, including future Quarterly Reports on Form 10-Q to be filed by QAD in fiscal year 2001.

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

### 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 April 30,	
	2000	1999
	----	----
Revenue:		
License fees	29%	38%
Maintenance and other	46	40
Services	25	22
	----	----
Total revenue	100	100
Costs and expenses:		
Cost of license fees	8	11
Other cost of revenue	43	37
Sales and marketing	33	40
Research and development	19	17
General and administrative	12	13
	----	----
Total costs and expenses	115	118
	----	----
Operating loss	(15)	(18)
Other expense	1	1
	----	----
Loss before income taxes	(16)	(19)
Income tax expense	1	0
	----	----
Net loss	(17)%	(19)%
	----	----

Total revenue for the first quarter of fiscal year 2001 was \$51.6 million, a decrease of \$1.7 million, or 3%, from \$53.3 million in the first quarter of fiscal 2000. This decline was due to a 26% decrease in license revenue, offset by 14% and 6% growth rates in maintenance and other, and services revenue, respectively.

Although the Year 2000 capital spending lock-down is substantially over, customers have not yet resumed former buying levels. They are instead taking the time to evaluate their e-business strategies before investing in associated software, resulting in our license revenue decline. Maintenance revenue continues to grow due to expansion of our installed base. The increase in services revenue is due to greater utilization in our Global Services business, which was launched late in fiscal year 1999.

As a result of these factors, our revenue mix has shifted away from higher margin license revenue, from 38% of total revenue in the first quarter of fiscal year 2000 to 29% in the first quarter of fiscal year 2001, toward lower margin maintenance and services revenue.

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**TOTAL COST OF REVENUE.** Total cost of revenue (combined cost of license fees and other cost of revenue) as a percentage of total revenue increased from 48% in the first quarter of fiscal year 2000 to 51% in the first quarter of fiscal year 2001. This increase was primarily due to the shift in revenue mix away from the higher margin license business and toward lower margin maintenance and services.

**SALES AND MARKETING.** Sales and marketing expense decreased 21% to \$17.1 million for the first quarter of fiscal 2001, from \$21.5 million in the same period last year. The decreased spending was primarily due to reduced personnel costs resulting from the restructuring program initiated late in fiscal 1999.

**RESEARCH AND DEVELOPMENT.** Research and development expense increased 8% to \$9.7 million for the first quarter of fiscal 2001, from \$9.0 million in the first quarter of fiscal 2000. The change was primarily due to increased investment in QAD eQ and our web-enabled ERP products.

**GENERAL AND ADMINISTRATIVE.** General and administrative expense decreased 5% to \$6.5 million for the first quarter of fiscal 2001 from \$6.9 million in the same prior year period. The decreased spending was primarily due to reduced personnel costs resulting from the restructuring program initiated late in fiscal 1999.

**INCOME TAXES.** We recorded income tax expense of \$0.6 million for the three months ended April 30, 2000 to provide for taxes in the jurisdictions that were profitable for the quarter. We have not provided benefit for the jurisdictions in loss positions due to management's determination regarding the uncertainty of the realization of these benefits in the current year.

## 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. We had working capital of \$19.5 million and \$31.7 million as of April 30, 2000 and January 31, 2000, respectively. Cash and equivalents were \$36.6 million and \$35.9 million at April 30, 2000 and January 31, 2000, respectively.

Accounts receivable, net of allowances, decreased to \$67.8 million at April 30, 2000 from \$98.6 million at January 31, 2000. Accounts receivable day's sales outstanding decreased to 118 days at April 30, 2000 from 125 days at January 31, 2000. We are continuing our focus on sales terms and collection processes to further improve cash flows and working capital.

Net cash provided by (used in) operating activities was \$10.3 million and \$(41,000) for the three months ended April 30, 2000 and 1999, respectively. The increase relates primarily to significantly higher accounts receivable collections, partially offset by a larger decline in the deferred revenue balance.

Net cash provided by (used in) investing activities primarily relates to the purchase of property and equipment and the sale of short-term cash investments in the three months ended April 30, 1999, and aggregated \$(2.1) million and \$0.5



million in the three months ended April 30, 2000 and 1999, respectively. At April 30, 2000 we had no material commitments for capital expenditures.

Net cash provided by (used in) financing activities totaled \$(6.5) million and \$4.0 million for the three months ended April 30, 2000 and 1999, respectively, and was comprised of net proceeds and repayments of borrowings and issuance of common stock.

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

#### ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

No material changes from our Annual Report on Form 10-K for the fiscal year ended January 31, 2000.

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### PART II

#### ITEM 1 - LEGAL PROCEEDINGS

Not applicable

#### ITEM 2 - CHANGES IN SECURITIES

Not applicable

#### ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

Not applicable

#### ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

#### ITEM 5 - OTHER INFORMATION

Not applicable

#### ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

##### a) Exhibits

10.1 Third Amendment to Credit Agreement between QAD Inc. and Bank One, NA.

10.2 Fourth Amendment to Credit Agreement between QAD Inc. and Bank One, NA.

10.3 Fifth Amendment to Credit Agreement between QAD Inc. and Bank One, NA.

27 Financial Data Schedule

##### b) Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended April 30, 2000.

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#### Signatures

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

QAD INC.  
(Registrant)

Date: June 13, 2000

By   /s/ KATHLEEN M. FISHER  
-----  
Kathleen M. Fisher  
Chief Financial Officer  
(on behalf of the registrant and as  
Principal Financial Officer)

THIRD AMENDMENT TO CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT (the "Third Amendment") is made and dated as of the 5th day of November, 1999, by and among QAD INC., a Delaware corporation (the "Borrower"), BANK ONE, NA ("Bank One"), formerly known as THE FIRST NATIONAL BANK OF CHICAGO, in its capacity as the sole current Lender, and BANK ONE, as agent for the Lenders (in such capacity, the "Agent").

RECITALS

A. Pursuant to that certain Credit Agreement dated as of April 19, 1999 by and among the Borrower, the Lender and the Agent (as amended from time to time, the "Credit Agreement"), the Lender agreed to extend credit to the Borrower on the terms and subject to the conditions set forth therein. All capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Credit Agreement.

B. The Borrower, the Agent and the Lender have agreed to amend the Credit Agreement in certain respects as set forth more particularly herein.

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

AGREEMENT

1. FINANCING OF CERTAIN REAL PROPERTY. To reflect the agreement of the Agent and the Lender to permit the Borrower to obtain financing secured by certain existing Property owned by the Borrower, effective as of the Effective Date (as defined in Paragraph 3 below):

(a) Section 6.11 of the Credit Agreement is hereby amended to delete the existing subsection (iv) and to add new subsections (iv) and (v) to read in their entirety as follows:

"(iv) Indebtedness in an amount not to exceed \$7,500,000 secured by Liens on the Ortega Property and the Mark Hill/Twin Pines Property as provided in Section 6.15(viii) below.

(v) Other Indebtedness in an amount not to exceed \$3,000,000 in the aggregate outstanding at any date."

(b) Section 6.15 of the Credit Agreement is hereby amended to add a new subsection (viii) thereto to read in its entirety as follows:

"(viii) Liens on the Ortega Property and the Mark Hill/Twin Pines Property securing Indebtedness in a principal amount not to exceed \$7,500,000; provided that such Liens shall not extend to any property other than the Ortega Property and the Mark Hill/Twin Pines Property, respectively."

(c) Section 2.1(ii) is hereby amended to read in its entirety as follows:

"(ii) the aggregate Dollar Amount of Loans and Facility LCs outstanding hereunder shall not exceed the lesser of:

(1) the Aggregate Commitment (as reduced concurrently therewith) minus the sum of: (i) the aggregate Dollar Amount of Loans and Facility LCs outstanding hereunder, plus (ii) the aggregate Dollar Amount of Related Facility Loans outstanding under the Related Facility Credit Agreements, and

(2) the Collateral Value of the Borrowing Base minus the sum

of: (i) the aggregate Dollar Amount of Loans and Facility LCs outstanding under the Credit Agreement, plus (ii) the aggregate Dollar Amount of Parent Collateral Supported Related Facility Loans outstanding under the Related Facility Credit Agreements; and"

(d) Section 6.13 of the Credit Agreement is hereby amended to amend subsection (ii) and renumber it as subsection (iii) and to add a new subsection (ii), such amended and renumbered subsection (iii) and new subsection (ii) to read in their entirety as follows:

"(ii) Transfers of the Ortega Property and/or the Mark Hill/Twin Pines Property to single purpose Subsidiaries in connection with the financings permitted under Sections 6.11(iv) and 6.15(viii)."

(iii) Other leases, sales and dispositions of its Property that, together with all other Property of the Borrower and its Subsidiaries previously leased, sold or disposed of (other than inventory in the ordinary course of business) as permitted by this Section during the twelve-month period ending with the month in which any such lease, sale or other disposition occurs, with a fair market value not to exceed \$5,000,000."

(e) Article I of the Credit Agreement is hereby amended to insert the following new definitions, in correct alphabetical order, to read in their entirety as follows:

"'Ortega Property' means that certain Property commonly referred to as 2111 Ortega Hill road, Summerland, Santa Barbara County, California."

"'Mark Hill/Twin Pines Property' means that certain Property commonly referred to as 6390 Via Real, Carpinteria, Santa Barbara County, California."

2. REDUCTION IN COMMITMENT. In consideration of the agreement of the Agent and the Lender to permit the incurrence of the secured Indebtedness referred to in Paragraph 1 above, the Borrower, the Agent and the Lender hereby agree that effective as of the Effective Date, the Commitment of Bank One, as the sole current Lender under the Credit Agreement, shall be reduced from \$30,000,000 to \$25,000,000, with the Aggregate Commitment thereby being reduced to \$25,000,000.

3. EFFECTIVE DATE. This Third Amendment shall be effective, retroactive to the date first above written, upon the date upon which the Agent has received:

(a) A copy of this Third Amendment, duly executed by all parties hereto, including the current Subsidiary Borrowers;

(b) For payment to the Lender, immediately available funds in the amount, if any, by which the aggregate Dollar Amount of Loans and Facility LCs outstanding under the Credit Agreement after giving effect to the reduction in Commitment set forth in Paragraph 2 above exceeds the lesser of:

(1) the Aggregate Commitment (as reduced concurrently therewith) minus the sum of: (i) the aggregate Dollar Amount of Loans and Facility LCs outstanding hereunder, plus (ii) the aggregate Dollar Amount of Related Facility Loans outstanding under the Related Facility Credit Agreements, and

(2) the Collateral Value of the Borrowing Base minus the sum of: (i) the aggregate Dollar Amount of Loans and Facility LCs outstanding under the Credit Agreement, plus (ii) the aggregate Dollar Amount of Parent Collateral Supported Related Facility Loans outstanding under the Related Facility Credit Agreements; and

(c) Such corporate resolutions, incumbency certificates and other authorizing documentation as the Agent may require.

4. REAFFIRMATIONS. The Borrower hereby affirms and agrees that (a) the execution and delivery by the Borrower of and the performance of its obligations under this Third Amendment shall not in any way amend, impair, invalidate or otherwise affect any of the obligations of the Borrower or the rights of the Agent and the Lenders under the Borrower Security Agreement or any other document, agreement or instrument made or given by the Borrower or any Subsidiary Borrower in connection therewith, (b) the term "Secured Obligations" as used in the Borrower Security Agreement and any Subsidiary Borrower Security

Agreement includes, without limitation, the Obligations of the Company under the Credit Agreement as amended to date, including, without limitation, pursuant to this Third Amendment, and (c) each of the Borrower Security Agreement and any Subsidiary Borrower Security Agreement remains in full force and effect and continues to constitute a first priority security interest in and lien upon the Collateral.

5. NO OTHER AMENDMENT. Except as expressly amended herein, the Credit Agreement and other Loan Documents shall remain in full force and effect as currently written.

6. COUNTERPARTS. This Third Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement.

7. REPRESENTATIONS AND WARRANTIES. The Borrower hereby represents and warrants to the Agent and each Lender as follows:

(a) The Borrower has the corporate power and authority and the legal right to execute, deliver and perform this Third Amendment and has taken all necessary corporate action to authorize the execution, delivery and performance of this Third Amendment. This Third Amendment has been duly executed and delivered on behalf of the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms.

(b) At and as of the date of execution hereof and at and as of effective date hereof: (1) the representations and warranties of the Borrower contained in the Credit Agreement and the other Loan Documents are accurate and complete in all respects, and (2) there has not occurred a Default or an Unmatured Default under the Credit Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Third Amendment to be executed as of the day and year first above written.

QAD INC., a Delaware corporation

By \_\_\_\_\_  
Name \_\_\_\_\_  
Title \_\_\_\_\_

BANK ONE, NA, formerly known as THE FIRST NATIONAL  
BANK OF CHICAGO, as the sole current Lender and as  
the Agent

By \_\_\_\_\_  
Name \_\_\_\_\_  
Title \_\_\_\_\_

ACKNOWLEDGED AND AGREED TO  
as of the day and year first above written:

QAD AUSTRALIA PTY LIMITED

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

QAD EUROPE BV

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

QAD EUROPE LTD.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FOURTH AMENDMENT TO CREDIT AGREEMENT

THIS FOURTH AMENDMENT TO CREDIT AGREEMENT (the "Fourth Amendment") is made and dated as of the 18th day of April, 2000, by and among QAD INC., a Delaware corporation (the "Borrower"), the Lenders, and BANK ONE, NA, formerly known as The First National Bank of Chicago, as agent for the Lenders (in such capacity, the "Agent").

RECITALS

A. Pursuant to that certain Credit Agreement dated as of April 19, 1999 by and among the Borrower, the Lenders, and the Agent (as amended from time to time, the "Credit Agreement"), the Lenders agreed to extend credit to the Borrower on the terms and subject to the conditions set forth therein. All capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Credit Agreement.

B. The Borrower has requested that the Agent and the Lenders amend the Credit Agreement in certain respects and waive an existing Event of Default and the Agent and the Lenders have agreed to do so on the terms and subject to the conditions set forth herein.

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

AGREEMENT

1. WAIVER. The Agent and the Lenders hereby agree that the Event of Default existing under the Credit Agreement as a result of the failure of the Company to be in compliance with the financial covenant set forth in Section 6.23.4 of the Credit Agreement at the end of the fiscal quarter and fiscal year ended January 31, 2000 is hereby waived.

2. RESERVATION OF RIGHTS. The Borrower hereby acknowledges and agrees that nothing contained herein shall constitute any agreement by the Agent or any Lender to waive: (a) any future Event of Default under Section 6.23.4 of the Credit Agreement, or (b) any other Event of Default, whether existing on the date hereof or arising in the future and whether or not known to the Agent and the Lenders or which should be known to the Agent and the Lenders in the course of their business.

3. AMENDMENT OF FINANCIAL COVENANTS. To reflect the agreement of the Agent and the Lenders to amend certain of the financial covenants set forth in the Credit Agreement:

(a) Section 6.23.1 is hereby amended to read in its entirety as follows:

"6.23.1. INTEREST COVERAGE RATIO. The Borrower will not permit the ratio, determined as of the end of each of its fiscal quarters, commencing with the fiscal quarter ending July 31, 2000, for the then most-recently ended four fiscal quarters, of (i) Consolidated EBITDA plus Consolidated Rentals to (ii) Consolidated Interest Expense plus Consolidated Rentals to be less than 1.30 to 1.0."

(b) Section 6.23.2 is hereby amended to read in its entirety as follows:

"6.23.2. LEVERAGE RATIO. The Borrower will not permit the ratio, determined as of the end of each of its fiscal quarters, commencing with the fiscal quarter ending July 31, 2000, of (i) Consolidated Funded Indebtedness to (ii) Consolidated EBITDA less Consolidated Capital Expenditures for the then most-recently ended four fiscal quarters to be greater than 2.00 to 1.0."

(c) Section 6.23.3 is hereby amended to read in its entirety as

follows:

"6.23.3. MINIMUM NET WORTH. The Borrower will at all times maintain Consolidated Net Worth of not less than the sum of (i) \$66,000,000 plus (ii) 75% of Consolidated Net Income earned in each fiscal quarter beginning with the quarter ending April 30, 2000 (without deduction for losses), and plus (iii) 100% of the net proceeds from any equity offering of the Borrower or any of its Subsidiaries."

(d) Section 6.23.4 is hereby amended to read in its entirety as follows:

"6.23.4. MINIMUM EBITDA. The Borrower will: (i) not have a negative Consolidated EBITDA of more than \$3,250,000 for the fiscal quarter ending April 30, 2000, and (ii) thereafter, at all times maintain Consolidated EBITDA of not less than: (1) for the fiscal quarter ending July 31, 2000, \$6,500,000, (2) for the fiscal quarter ending October 31, 2000, \$7,500,000, and (3) for the fiscal quarter ending January 31, 2001 and for each fiscal quarter end thereafter, \$10,000,000."

(e) Section 6.23.5 is hereby amended to read in its entirety as follows:

"6.23.5. CAPITAL EXPENDITURES. The Borrower will not, nor will it permit any Subsidiary to, expend or be committed to expend in excess of \$3,000,000 in the aggregate for the Borrower and such Subsidiaries for Capital Expenditures during each of the fiscal quarters ending April 30, 2000 and July 31, 2000."

(f) Schedule I to the Compliance Certificate is hereby amended to conform to the amendments to the financial covenants set forth in this Paragraph 3.

4. PRICING MODIFICATION. In consideration of the agreement of the Agent and the Lenders to enter into this Fourth Amendment, the parties hereto hereby agree as follows:

(a) From and after the date of this Fourth Amendment the Eurocurrency pricing option incorporated in the Credit Agreement shall no longer be available. All Advances funded from and after such date shall be denominated in Dollars and funded as Floating Rate Advances and Floating Rate Advances outstanding shall not be permitted to be converted into Eurocurrency Advances. All Eurocurrency Advances outstanding on the date of this Fourth Amendment shall be automatically converted into Floating Rate Advances payable in Dollars, it being agreed by the Agent and the Lenders that any funding indemnification which would otherwise be payable by the Borrower pursuant to Section 3.3 of the Credit Agreement as a result of the conversion of outstanding Eurocurrency Advances prior to the last day of the Interest Period therefor as required hereunder is hereby waived by the Lenders.

(b) The Pricing Schedule dated as of July 1, 1999 (the "Existing Pricing Schedule") is hereby amended and restated to read in its entirety as set forth on the Pricing Schedule attached hereto as AMENDMENT EXHIBIT 1 (the "Amended Pricing Schedule"), which Amended Pricing Schedule shall replace and supercede the Existing Pricing Schedule. It is expressly acknowledged and agreed by the Borrower that from and after the date of this Fourth Amendment there shall be no pricing differential based upon the Leverage Ratio of the Borrower and that the "Level I Status" and "Level II Status" provisions contained in the Existing Pricing Schedule are hereby deleted in their entirety.

(c) The Credit Agreement and the other Loan Documents are hereby amended to conform to the amendment to the pricing provisions of the Credit Agreement as provided above.

5. EFFECTIVE DATE. This Fourth Amendment shall be effective, retroactive to the date first above written, upon the date upon which the Agent has received:

(a) A copy of this Fourth Amendment, duly executed by all parties hereto; and

(b) Such corporate resolutions, incumbency certificates and other authorizing documentation as the Agent may require.



6. REAFFIRMATIONS. The Borrower hereby affirms and agrees that: (a) the execution and delivery by the Borrower of and the performance of its obligations under this Fourth Amendment shall not in any way impair, invalidate or otherwise affect any of the obligations of the Borrower or the rights of the Agent and the Lenders under the Borrower Security Agreement or any other document, agreement or instrument made or given by the Borrower or any Subsidiary Borrower in connection therewith, (b) the term "Secured Obligations" as used in the Borrower Security Agreement and any Subsidiary Borrower Security Agreement includes, without limitation, the Obligations of the Company under the Credit Agreement as amended to date, including, without limitation, pursuant to this Fourth Amendment, and (c) each of the Borrower Security Agreement and any Subsidiary Borrower Security Agreement remains in full force and effect and continues to constitute a first priority security interest in and lien upon the Collateral.

7. NO OTHER AMENDMENT. Except as expressly amended herein, the Credit Agreement and other Loan Documents shall remain in full force and effect as currently written.

8. COUNTERPARTS. This Fourth Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement.

9. REPRESENTATIONS AND WARRANTIES. The Borrower hereby represents and warrants to the Agent and each Lender as follows:

(a) The Borrower has the corporate power and authority and the legal right to execute, deliver and perform this Fourth Amendment and has taken all necessary corporate action to authorize the execution, delivery and performance of this Fourth Amendment. This Fourth Amendment has been duly executed and delivered on behalf of the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms.

(b) At and as of the date of execution hereof and at and as of effective date hereof: (1) the representations and warranties of the Borrower contained in the Credit Agreement and the other Loan Documents are accurate and complete in all respects, and (2) other than the Event of Default described in Paragraph 1 above, there has not occurred an Event of Default or Potential Default under the Credit Agreement.

(c) Each of the representations and warranties set forth in the Acknowledgment and Agreement attached hereto by each of the Subsidiary Borrowers are accurate and complete in all respects.

IN WITNESS WHEREOF, the parties hereto have caused this Fourth Amendment to be executed as of the day and year first above written.

QAD INC., a Delaware corporation

By \_\_\_\_\_  
Name \_\_\_\_\_  
Title \_\_\_\_\_

BANK ONE, NA, formerly known as THE FIRST  
NATIONAL BANK OF CHICAGO, as the  
sole Lender and as the Agent

By \_\_\_\_\_  
James P. Moore, Senior Vice President

OF SUBSIDIARY BORROWERS

Each of the undersigned Subsidiary Borrowers hereby acknowledges and agrees and represents and warrants as follows:

1. Such Subsidiary Borrower has reviewed and acknowledges the effectiveness of the Fourth Amendment and all previous amendments to the Credit Agreement and related Loan Documents and confirms that the Fourth Amendment constitutes, and each such previous amendment concurrently constituted, a conforming amendment to the Related Facility Agreement to which such Subsidiary Borrower is party and all documents, agreements and instruments made or given by such Subsidiary Borrower in connection therewith. Without limiting the generality of the foregoing, such Subsidiary Borrower acknowledges that the modifications to pricing described in Paragraph 4 of the Fourth Amendment are applicable to the pricing provisions of said Related Facility Agreement.

2. The execution and delivery by the Borrower and agreement by the Borrower to the terms of the Fourth Amendment and the performance by the Borrower of its obligations under the Fourth Amendment are conclusively binding upon such Subsidiary Borrower and shall not in any way impair, invalidate or otherwise affect any of the obligations of such Subsidiary Borrower or the rights of the Agent and the Lenders under the Subsidiary Borrower Loan Documents to which such Subsidiary Borrower is a party, including, without limitation, under the Related Facility Agreement and the Subsidiary Borrower Security Agreement.

3. Such Subsidiary Borrower has the corporate power and authority and the legal right to execute, deliver and perform this Acknowledgment and Agreement and has taken all necessary corporate action to authorize the execution, delivery and performance of this Acknowledgment and Agreement. This Acknowledgment and Agreement has been duly executed and delivered on behalf of such Subsidiary Borrower and constitutes the legal, valid and binding obligation of such Subsidiary Borrower, enforceable against such Subsidiary Borrower in accordance with its terms.

4. At and as of the date of execution hereof and at and as of effective date hereof: (a) the representations and warranties of such Subsidiary Borrower contained in the Related Facility Agreement and the Subsidiary Borrower Security Agreement to which it is party are accurate and complete in all respects, and (b) other than the Event of Default described in Paragraph 1 of the Fourth Amendment, there has not occurred an Event of Default or Potential Default under said Related Facility Agreement.

5. This Acknowledgment and Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement.

Dated as of April 18, 2000.

QAD AUSTRALIA PTY LIMITED

By: \_\_\_\_\_  
Barry Anderson, Director

QAD EUROPE BV

By: \_\_\_\_\_  
Barry Anderson, Director

QAD EUROPE LIMITED

By: \_\_\_\_\_  
Barry Anderson, Director

AMENDMENT EXHIBIT 1

PRICING SCHEDULE  
(as of April 18, 2000)

-----	
APPLICABLE MARGIN	
-----	
Floating Rate Advances	1.00%
-----	
APPLICABLE MARGIN	
-----	
Letter of Credit Fee	3.25%
-----	
Commitment Fee	0.625%
-----	

FIFTH AMENDMENT TO CREDIT AGREEMENT

THIS FIFTH AMENDMENT TO CREDIT AGREEMENT (the "Fifth Amendment") is made and dated as of the 26th day of May, 2000, by and among QAD INC., a Delaware corporation (the "Borrower"), the Lenders, and BANK ONE, NA, formerly known as The First National Bank of Chicago, as agent for the Lenders (in such capacity, the "Agent").

RECITALS

A. Pursuant to that certain Credit Agreement dated as of April 19, 1999 by and among the Borrower, the Lenders, and the Agent (as amended from time to time, the "Credit Agreement"), the Lenders agreed to extend credit to the Borrower on the terms and subject to the conditions set forth therein. All capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Credit Agreement.

B. The Borrower has requested that the Agent and the Lenders reduce the dollar commitment of the Lenders under the Credit Agreement and amend the Credit Agreement in certain other respects and the Agent and the Lenders have agreed to do so on the terms and subject to the conditions set forth herein.

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

AGREEMENT

1. REDUCTION IN COMMITMENT. The Borrower, the Agent and the Lender hereby agree that effective as of the Effective Date, the Commitment of Bank One, as the sole current Lender under the Credit Agreement, shall be reduced from \$25,000,000 to \$20,000,000, with the Aggregate Commitment thereby being reduced to \$20,000,000.

2. LIBERALIZATION OF RESTRICTIONS ON ACQUISITIONS. To reflect the agreement of the Agent and the Lenders to liberalize the restrictions on additional acquisitions by the Borrower and its Subsidiaries, Section 6.14 of the Credit Agreement is hereby amended to read in its entirety as follows:

"6.14. INVESTMENTS AND ACQUISITIONS. The Borrower will not, nor will it permit any Subsidiary to, make or suffer to exist any Investments (including without limitation, loans and advances to, and other Investments in, Subsidiaries), or commitments therefor, or to create any Subsidiary or to become or remain a partner in any partnership or joint venture, or to make any Acquisition of any Person, except:

(i) Cash Equivalent Investments.

(ii) Existing Investments in Subsidiaries and other Investments in existence on the date hereof and described on SCHEDULE 6.14(ii).

(iii) The French Acquisition.

(iv) Other Acquisitions consummated from and after May 1, 2000 to and including January 31, 2001 (the "Current Acquisition Period"): (a) for a total consideration which, when taken together with the total consideration for all other Acquisitions by the Borrower and its Subsidiaries during the Current Acquisition Period, would not exceed \$5,500,000, and (b) for a total cash consideration, which when taken together with the total cash consideration for all other Acquisitions by the Borrower and its Subsidiaries during the Current Acquisition Period which cash consideration is payable on or before January 31, 2001, would not exceed \$3,000,000."

3. EFFECTIVE DATE. This Fifth Amendment shall be effective, retroactive to the date first above written, upon the date upon which the Agent has received:

(a) A copy of this Fifth Amendment, duly executed by all parties hereto; and

(b) Such corporate resolutions, incumbency certificates and other authorizing documentation as the Agent may require.

4. REAFFIRMATIONS. The Borrower hereby affirms and agrees that: (a) the execution and delivery by the Borrower of and the performance of its obligations under this Fifth Amendment shall not in any way impair, invalidate or otherwise affect any of the obligations of the Borrower or the rights of the Agent and the Lenders under the Borrower Security Agreement or any other document, agreement or instrument made or given by the Borrower or any Subsidiary Borrower in connection therewith, (b) the term "Secured Obligations" as used in the Borrower Security Agreement and any Subsidiary Borrower Security Agreement includes, without limitation, the Obligations of the Company under the Credit Agreement as amended to date, including, without limitation, pursuant to this Fifth Amendment, and (c) each of the Borrower Security Agreement and any Subsidiary Borrower Security Agreement remains in full force and effect and continues to constitute a first priority security interest in and lien upon the Collateral.

5. NO OTHER AMENDMENT. Except as expressly amended herein, the Credit Agreement and other Loan Documents shall remain in full force and effect as currently written.

6. COUNTERPARTS. This Fifth Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement.

7. REPRESENTATIONS AND WARRANTIES. The Borrower hereby represents and warrants to the Agent and each Lender as follows:

(a) The Borrower has the corporate power and authority and the legal right to execute, deliver and perform this Fifth Amendment and has taken all necessary corporate action to authorize the execution, delivery and performance of this Fifth Amendment. This Fifth Amendment has been duly executed and delivered on behalf of the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms.

(b) At and as of the date of execution hereof and at and as of effective date hereof: (1) the representations and warranties of the Borrower contained in the Credit Agreement and the other Loan Documents are accurate and complete in all respects, and (2) there has not occurred an Event of Default or Potential Default under the Credit Agreement.

(c) Each of the representations and warranties set forth in the Acknowledgment and Agreement attached hereto by each of the Subsidiary Borrowers are accurate and complete in all respects.

IN WITNESS WHEREOF, the parties hereto have caused this Fifth Amendment to be executed as of the day and year first above written.

QAD INC., a Delaware corporation

By \_\_\_\_\_  
Name \_\_\_\_\_  
Title \_\_\_\_\_

BANK ONE, NA, formerly known as THE FIRST NATIONAL  
BANK OF CHICAGO, as the sole Lender and as the

Agent

By

-----  
James P. Moore, Senior Vice President

ACKNOWLEDGMENT AND AGREEMENT  
OF SUBSIDIARY BORROWERS

Each of the undersigned Subsidiary Borrowers hereby acknowledges and agrees and represents and warrants as follows:

1. Such Subsidiary Borrower has reviewed and acknowledges the effectiveness of the Fifth Amendment and all previous amendments to the Credit Agreement and related Loan Documents and confirms that the Fifth Amendment constitutes, and each such previous amendment concurrently constituted, a conforming amendment to the Related Facility Agreement to which such Subsidiary Borrower is party and all documents, agreements and instruments made or given by such Subsidiary Borrower in connection therewith. Without limiting the generality of the foregoing, such Subsidiary Borrower acknowledges that the modifications to pricing described in Paragraph 4 of the Fifth Amendment are applicable to the pricing provisions of said Related Facility Agreement.

2. The execution and delivery by the Borrower and agreement by the Borrower to the terms of the Fifth Amendment and the performance by the Borrower of its obligations under the Fifth Amendment are conclusively binding upon such Subsidiary Borrower and shall not in any way impair, invalidate or otherwise affect any of the obligations of such Subsidiary Borrower or the rights of the Agent and the Lenders under the Subsidiary Borrower Loan Documents to which such Subsidiary Borrower is a party, including, without limitation, under the Related Facility Agreement and the Subsidiary Borrower Security Agreement.

3. Such Subsidiary Borrower has the corporate power and authority and the legal right to execute, deliver and perform this Acknowledgment and Agreement and has taken all necessary corporate action to authorize the execution, delivery and performance of this Acknowledgment and Agreement. This Acknowledgment and Agreement has been duly executed and delivered on behalf of such Subsidiary Borrower and constitutes the legal, valid and binding obligation of such Subsidiary Borrower, enforceable against such Subsidiary Borrower in accordance with its terms.

4. At and as of the date of execution hereof and at and as of effective date hereof: (a) the representations and warranties of such Subsidiary Borrower contained in the Related Facility Agreement and the Subsidiary Borrower Security Agreement to which it is party are accurate and complete in all respects, and (b) other than the Event of Default described in Paragraph 1 of the Fifth Amendment, there has not occurred an Event of Default or Potential Default under said Related Facility Agreement.

5. This Acknowledgment and Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement.

Dated as of April 18, 2000.

QAD AUSTRALIA PTY LIMITED

By:

-----  
Barry Anderson, Director

QAD EUROPE BV

By: -----  
Barry Anderson, Director

QAD EUROPE LIMITED

By: -----  
Barry Anderson, Director

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FORM THE  
CONDENSED CONSOLIDATED BALANCE SHEET AS OF APRIL 30, 2000 AND THE CONDENSED  
CONSOLIDATED STATEMENT OF OPERATIONS FOR THE THREE MONTHS ENDED APRIL 30, 2000  
AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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