UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 31, 1999

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 _____

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 X No_____.

The number of shares outstanding of the issuer's common stock as of the close of business on November 30, 1999: 30,327,665.

QAD Inc.
Index

Part I Page

Financial Information

Item 1 Financial Statements

Condensed Consolidated Balance Sheets as of October 31, 1999 and January 31, 1999 1

	Condensed Consolidated Statements of Operations for the Three and Nine Months Ended October 31, 1999 and 1998	2
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended October 31, 1999 and 1998	3
	Notes to Condensed Consolidated Financial Statements	4
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	8
Item 3	Quantitative and Qualitative Disclosures About Market Risk	11
Part II		
	Other Information	
Item 1	Legal Proceedings	12
Item 2	Changes in Securities and Use of Proceeds	12
Item 3	Defaults upon Senior Securities	12
Item 4	Submission of Matters to a Vote of Security Holders	12
Item 5	Other Information	12
Item 6	Exhibits and Reports on Form 8-K	12

Part I - Financial Information
QAD Inc.
Condensed Consolidated Balance Sheets
(In thousands, except for share data)

Assets	October 31, 1999 (Unaudited)	January 31, 1999
Current assets:		
Cash and equivalents	$ 13,327	$ 16,078
Short-term cash investments	--	3,000
Accounts receivable, net	72,808	95,344
Other current assets	19,596	19,680
Total current assets	105,731	134,102
Property and equipment, net	33,303	36,835
Goodwill and intangibles, net	25,148	25,152
Other assets	4,444	3,966

Total assets	$ 168,626	$ 200,055

Liabilities and Stockholders' Equity

Current liabilities:		
Notes payable	$ 566	$ 7,166
Accounts payable	12,194	16,314
Accrued expenses	27,283	29,933
Deferred revenue and deposits	48,601	59,946
Total current liabilities	88,644	113,359
Long-term debt	17,192	6,526
Other liabilities	1,352	741
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 30,320,165 at October 31, 1999 and 29,703,500 at January 31, 1999	30	30
Additional paid-in-capital	100,090	99,566
Accumulated deficit	(36,961)	(18,526)
Receivable from stockholders	(24)	(54)
Unearned compensation - restricted stock	(265)	(970)
Accumulated other comprehensive loss	(1,432)	(617)
Total stockholders' equity	61,438	79,429
Total liabilities and stockholders' equity	$ 168,626	$ 200,055

See accompanying notes to condensed consolidated financial statements

QAD Inc.
Condensed Consolidated Statements of Operations
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	1999	1998	1999	1998
Revenue:				
License fees	$ 20,634	$ 17,071	$ 61,657	$ 72,918
Maintenance and other	22,118	16,902	66,402	49,079
Services	13,976	2,462	40,321	5,987
Total revenue	56,728	36,435	168,380	127,984
Cost of revenue	24,834	11,359	76,601	33,885
Gross margin	31,894	25,076	91,779	94,099
Operating expenses:				
Sales and marketing	18,847	24,143	58,926	69,567
Research and development	8,528	14,012	25,991	38,552
General and administrative	5,995	5,394	19,212	17,137
Restructuring charge	--	1,889	1,152	1,889
Total operating expenses	33,370	45,438	105,281	127,145
Operating loss	(1,476)	(20,362)	(13,502)	(33,046)

Other (income) expense:				
Interest income	(82)	(423)	(294)	(2,072)
Interest expense	548	153	1,341	254
Other, net	(114)	131	49	(170)
	352	(139)	1,096	(1,988)
Loss before income taxes	(1,828)	(20,223)	(14,598)	(31,058)
Income tax provision	2,681	4,117	3,823	--
Net loss	$ (4,509)	$(24,340)	$(18,421)	$(31,058)
Basic and diluted net loss per share	$ (0.15)	$ (0.83)	$ (0.61)	$ (1.06)

See accompanying notes to condensed consolidated financial statements

QAD Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine Months Ended October 31,	
	1999	1998
Net cash used in operating activities	$ (3,068)	$ (17,044)
Cash flows from investing activities:		
Purchase of property and equipment	(4,747)	(15,270)
Capitalized software development costs	(2,126)	(3,524)
Proceeds from sale of short-term investments	3,000	--
Acquisition of businesses, net of cash acquired	(81)	(6,022)
Other, net	(414)	12
Net cash used in investing activities	(4,368)	(24,804)
Cash flows from financing activities:		
Proceeds from notes payable and long-term debt	17,109	--
Repayment of notes payable and long-term debt	(12,720)	(225)
Issuance of common stock for cash	1,162	1,288
Repurchase of common stock	(67)	(944)
Other, net	16	325
Net cash provided by financing activities	5,500	444
Effect of exchange rates on cash and equivalents	(815)	(415)
Net decrease in cash and equivalents	(2,751)	(41,819)
Cash and equivalents at beginning of period	16,078	70,082
Cash and equivalents at end of period	$ 13,327	$ 28,263

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 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, 1999. The results of operations for the nine months ended October 31, 1999 are not necessarily indicative of the results to be expected for the year ending January 31, 2000.

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

2. Comprehensive Income (Loss)

Comprehensive income (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 income (loss) are as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	1999	1998	1999	1998
Net loss	$(4,509)	$(24,340)	$(18,421)	$(31,058)
Foreign currency translation adjustments	(139)	(331)	(815)	(466)
Comprehensive loss	$(4,648)	$(24,671)	$(19,236)	$(31,524)

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 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 for per share amounts):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	1999	1998	1999	1998
Numerator:				
Net loss	$ (4,509)	$ (24,340)	$ (18,421)	$ (31,058)
Denominator:				
Weighted average basic shares outstanding	30,272	29,454	30,126	29,271
Effect of dilutive options	--	--	--	--
Weighted average diluted shares outstanding	30,272	29,454	30,126	29,271

Basic and diluted loss per share	$ (0.15)	$ (0.83)	$ (0.61)	$ (1.06)

Common stock equivalents of approximately 143,000 and 160,000 for the three and nine months ended October 31, 1999 and 652,000 and 870,000 for the three and nine months ended October 31, 1998, respectively, were not included in the diluted calculations because, due to the net loss positions, they were anti-dilutive.

4. Notes Payable and Long-Term Debt

(In thousands)	October 31, 1999	January 31, 1999
Line of credit	$ 16,980	$ --
Subordinated notes	--	12,362
Capitalized leases	658	1,102
Other	120	228
	17,758	13,692
Less current maturities	566	7,166
Total long-term debt	$ 17,192	$ 6,526

In April 1999, we entered into a secured credit agreement with Bank One, formerly known as The First National Bank of Chicago, which expires and will be due on April 18, 2002. The maximum amount that can be borrowed under this credit agreement is subject to terms of the borrowing base, measured on a monthly basis, up to a maximum of $30 million as of October 31, 1999. Eight million of the available borrowing base was available and unutilized at October 31, 1999. This credit agreement is secured by certain QAD assets and can be terminated voluntarily by us. Borrowings under this credit agreement bear interest equal to the LIBOR plus 2.50 percent or ABR plus 1.00 percent. ABR is the higher of the corporate base rate or the Federal Funds Effective Rate plus 0.50 percent. As of October 31, 1999, the rate was 7.9075 percent based on a LIBOR of 5.4075 plus 2.50 percent. We pay an annual commitment fee of 0.625 percent calculated on the average unused portion of the $30 million.

On November 8, 1999, we raised an additional $5 million of long-term debt via a promissory note with First Credit Bank, a California Banking Corporation, secured by our real property located on Ortega Hill Road, Summerland, California. The note has a 5-year maturity, and carries a variable interest rate based on the prime rate plus 2.5%. The initial rate was set at 10.75%. The principal amortizes at a rate of $20,000 per month, with the balance due at maturity on November 8, 2004. Concurrently with this financing, the commitment under our revolving credit facility with Bank One was reduced by $5 million to $25 million.

In April 1999, the subordinated notes, which were outstanding at January 31, 1999 totaling $12.4 million in principal amount, were repaid. We funded the payoff of the subordinated notes with a draw on the Bank One line of credit.

As of October 31, 1999, we did not meet one of our bank covenants, but obtained a waiver from Bank One.

5. Restructuring Charge

In response to changes in customers' manufacturing capital software spending patterns during fiscal year 1999, we undertook a restructuring program that would, among other things, more closely align 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. The restructuring plan, which resulted in a fiscal year 1999 charge of $4.3 million, was continued in fiscal year 2000 with an additional $1.2 million charge in the quarter ended July 31, 1999. This charge was comprised of $0.9 million in employee reduction costs and $0.3 million of facility consolidation costs. As of October 31, 1999, $4.5 million of the total $5.5 million restructuring charge was utilized and we expect to pay the remaining balance by January 31, 2003. The liability was increased by $0.1 million during the nine months ended October 31, 1999 to reflect changes in estimates used in determining the January 31, 1999 balance.

6. Business Acquisitions

During the nine months ended October 31, 1999, we acquired certain assets and liabilities of two businesses:

- OpenPro (Pty.) Limited, a South Africa-based distributor, in February 1999.
- ATOS Integration SA, a France-based distributor, in June 1999.

The cost of the acquisitions totaled $0.9 million. The acquisitions were accounted for using the purchase method. Goodwill related to the acquisitions of $0.6 million is being amortized over ten years. Results of operations have been included in the financial statements since the respective dates of acquisition.

Prior shareholders of OpenPro and ATOS have earnouts of up to $0.8 million and $0.9 million, respectively, which may be added to the purchase price over the next four years.

The historical operations of the companies acquired are not material, individually, or in aggregate to our consolidated operations or financial position. Therefore, supplemental pro forma information has not been presented.

7. Business Segment Information

We adopted Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information," or SFAS No. 131, in fiscal year 1999. SFAS No. 131 establishes annual and interim standards for reporting financial and descriptive information regarding a company's operating segments. As a result, amounts presented are determined on a consistent basis in accordance with SFAS No. 131.

QAD operates in regions or geographic operating segments. Operations for the North America region include the United States and Canada. Operations for the Europe region also include sales to customers in the Middle East and Africa, while operations for the Asia Pacific region include sales to customers in Australia and New Zealand.

Operating income attributable to each operating segment is based upon the management assignment of costs. Regional cost of revenue includes the cost of goods produced by the Company'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 fiscal year 2000, management changed the composition of its reportable segments for operating income (loss). The prior periods have not been restated

as it is impracticable to do so.

(In thousands)	Three Months Ended October 31, 1999	Three Months Ended October 31, 1998	Nine Months Ended October 31, 1999	Nine Months Ended October 31, 1998
Revenue				
North America	$ 27,736	$ 21,061	$ 73,638	$ 76,185
Europe	18,349	8,634	60,466	29,817
Asia Pacific	7,752	5,965	24,988	19,349
Latin America	2,891	775	9,288	2,633
	$ 56,728	$ 36,435	$168,380	$127,984
Operating Income (Loss):				
North America	$ 791		$ (2,649)	
Europe	(1,525)		(2,472)	
Asia Pacific	(1,209)		(1,893)	
Latin America	(451)		(860)	
Corporate	918		(4,476)	
Restructuring Charge	--		(1,152)	
	$ (1,476)		$(13,502)	

	October 31, 1999	January 31, 1999
Identifiable Assets:		
North America	$ 74,700	$ 87,128
Europe	64,263	83,850
Asia Pacific	21,211	17,811
Latin America	8,452	11,266
	$168,626	$200,055

QAD Inc.

Management's Discussion & Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the condensed consolidated statements and notes thereto. This Quarterly Report on Form 10-Q may be deemed to include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that involve risk and uncertainty, including financial, business environment and trend projections. Forward-looking statements are statements other than historical information or statements of current condition and relate to future events or the future financial performance of QAD. Some forward-looking statements may be identified by use of such terms as "believes," "anticipates," "intends," "plans," "expects" or similar language indicating the expression of an opinion or view concerning the future.

Although QAD believes that its expectations are based on reasonable assumptions, we can give no assurance that our goals will be achieved. The important factors that could cause actual results to differ materially from those in the forward-looking statements herein include, without limitation, historical fluctuations in quarterly results and potential future significant fluctuations, risks associated with the sales cycle, product mix, dependence on third-party products, rapid technological change, supply chain solutions under development and underlying technology, market concentration, dependence on key personnel, dependence upon development and maintenance of sales and marketing channels, reliance on and need to develop additional relationships with third parties, risks associated with international operations, and other factors detailed in our Annual Report on Form 10-K for the year ended January 31, 1999. These factors, among other things, could cause actual results to differ materially from historical results or those currently anticipated.

Total Revenue. Total revenue for the three months ended October 31, 1999

increased 56% to $56.7 million from $36.4 million in the same period in 1998. Total revenue for the nine months ended October 31, 1999 increased 32% to $168.4 million from $128.0 million in the same period in 1998. License revenue increased 21% during the three months ended October 31, 1999 and decreased 15% during the nine months ended October 31, 1999 compared to the same periods in 1998. We believe the year-to-date decline stemmed primarily from manufacturers' decisions to delay capital spending due to concerns over Year 2000 readiness. The third quarter increase reflects the growing demand for our web-enabled MFG/PRO 9.0, as well as signs that the Year 2000 impact may be softening.

Maintenance and other revenue increased 31% and 35% for the three and nine months ended October 31, 1999 versus the comparable prior year periods, primarily due to the growing installed base. Services revenue increased 468% and 573% during the three and nine months ended October 31, 1999 compared to the same periods in 1998. This growth is attributable to a new emphasis on services that began in late fiscal year 1999 with the acquisition of several QAD distributors and the launch of our QAD Global Services business.

Cost of Revenue. Cost of revenue consists primarily of charges incurred from reselling third-party databases (and associated maintenance contracts) which are required to run MFG/PRO software, the performance of software service and support contracts and costs to reproduce and deliver QAD software. During the three months ended October 31, 1999, cost of revenue increased 119% to $24.8 million (44% of total revenue) from $11.4 million (31% of total revenue) in the same period in 1998. During the nine months ended October 31, 1999, cost of revenue increased 126% to $76.6 million (45% of total revenue) from $33.9 million (26% of total revenue) in the same period in 1998. The increase as a percentage of total revenue was primarily due to a shift in revenue mix toward the lower margin services business, as well as toward externally sourced licenses which carry royalty costs.

Sales and Marketing. During the three months ended October 31, 1999, sales and marketing expense decreased 22% to $18.8 million (33% of total revenue) from $24.1 million (66% of total revenue) compared to the same period last year. During the nine months ended October 31, 1999, sales and marketing expense decreased 15% to $58.9 million (35% of total revenue) from $69.6 million (54% of total revenue) compared to the same period last year. The decreased spending was primarily due to reduced personnel and directly related costs resulting from the restructuring program which began in late fiscal year 1999.

Research and Development. During the three months ended October 31, 1999, research and development expense decreased 39% to $8.5 million (15% of total revenue) from $14.0 million (38% of total revenue) in

the same period in the prior year. During the nine months ended October 31, 1999, research and development expense decreased 33% to $26.0 million (15% of total revenue) from $38.6 million (30% of total revenue) compared to the same period last year. The decrease was primarily due to a reduction in the utilization of third-party developers, as well as the transfer of research and development personnel into revenue-generating positions within the Global Services organization in late fiscal year 1999.

General and Administrative. During the three months ended October 31, 1999, general and administrative expense increased 11% to $6.0 million (11% of total revenue) from $5.4 million (15% of total revenue) in the same period in 1998. During the nine months ended October 31, 1999, general and administrative expense increased 12% to $19.2 million (11% of total revenue) from $17.1 million (13% of total revenue) in the same period in 1998. The increase in absolute dollars resulted primarily from incremental expense related to the distributors acquired in late fiscal year 1999, including $2.1 million in year-to-date amortization expense for the acquired intangible assets. This increase was partially offset by a reduction in workforce related to the restructuring program implemented in late fiscal year 1999.

Restructuring Charge. In response to changes in customers' manufacturing

capital software spending patterns, we undertook a restructuring program in October 1998 that would, among other things, more closely align costs with sales expectations. This program was continued in fiscal year 2000 with an additional charge of $1.2 million, representing $0.9 million in employee reduction costs and $0.3 of facility consolidation costs recorded in the second quarter.

Other (Income) Expense. Total other (income) expense is composed primarily of interest income, interest expense, minority interest and foreign exchange transaction gains and losses. During the three months ended October 31 1999, other (income) expense decreased to $0.4 million from $(0.1) million. During the nine months ended October 31, 1999, other (income) expense decreased to $1.1 million from $(2.0) million. The decrease was primarily due to significantly reduced interest income related to less invested cash and increased interest expense on higher debt levels.

Income Taxes. We recorded an income tax provision of $2.7 million and $3.8 million for the three and nine months ended October 31, 1999. We have provided a tax provision in tax jurisdictions in which profits have been reported for the nine months ended October 31, 1999. However, we have not provided a tax benefit in tax jurisdictions in which losses have been reported, due to management's determination regarding the uncertainty of realization of those tax benefits in the current year. The income tax provision of $2.7 million for the three months ended October 31, 1999 included $1.3 million of income tax expense related to valuation allowances provided on certain deferred tax assets, as well as the settlement of the IRS audit of the years 1995 and 1996.

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 $17.1 million and $20.7 million as of October 31, 1999 and January 31, 1999, respectively. Cash and cash equivalents and short-term investments were $13.3 million and $19.1 million at October 31, 1999 and January 31, 1999, respectively.

Accounts receivable, net of allowance for doubtful accounts, decreased to $72.8 million at October 31, 1999 from $95.3 million at January 31, 1999. Accounts receivable days sales outstanding decreased to 115 days at October 31, 1999 from 131 days at January 31, 1999. We are continuing our focus on sales terms and collection processes to improve cash flows and working capital.

Cash flows used in operating activities were $3.1 million and $17.0 million for the nine months ended October 31, 1999 and 1998, respectively. The fiscal year 2000 decline in cash usage related to the decreased net loss, increased depreciation/amortization and significantly higher accounts receivable collections, partially offset by a decline in the deferred revenue balance.

Cash flows used in investing activities aggregated $4.4 million and $24.8 million in the nine months ended October 31, 1999 and 1998, respectively. The decrease stems primarily from lower capital spending, as well as significantly reduced acquisition activity in fiscal year 2000. Cash flows provided by financing activities totaled $5.5 million and $0.4 million for the nine months ended October 31, 1999 and 1998,

respectively, and were comprised of net proceeds from borrowings and issuance of common stock. At October 31, 1999, we had no material commitments for capital expenditures.

In April 1999, we entered into a secured credit agreement with Bank One, formerly known as The First National Bank of Chicago, which expires and will be due on April 18, 2002. The maximum amount that can be borrowed under this credit agreement is subject to terms of the borrowing base, measured on a monthly basis, up to a maximum of $30 million as of October 31, 1999. Eight million of the available borrowing base was available and unutilized at October 31, 1999. This credit agreement is secured by certain QAD assets and can be

terminated voluntarily by us. Borrowings under this credit agreement bear interest equal to the LIBOR plus 2.50 percent or ABR plus 1.00 percent. ABR is the higher of the corporate base rate or the Federal Funds Effective Rate plus 0.50 percent. As of October 31, 1999, the rate was 7.9075 percent based on a LIBOR of 5.4075 plus 2.50 percent. We pay an annual commitment fee of 0.625 percent calculated on the average unused portion of the $30 million.

On November 8, 1999, we raised an additional $5 million of long-term debt via a promissory note with First Credit Bank, a California Banking Corporation, secured by our real property located on Ortega Hill Road, Summerland, California. The note has a 5-year maturity, and carries a variable interest rate based on the prime plus 2.5%. The initial rate was set at 10.75%. The principal amortizes at a rate of $20,000 per month, with the balance due at maturity on November 8, 2004. Concurrently with this financing the commitment under our revolving credit facility with Bank One was reduced by $5 million to $25 million.

As of October 31, 1999, we did not meet one of our bank covenants, but obtained a waiver for Bank One.

We believe that the cash on hand and the available borrowings under the credit agreement will provide us with sufficient resources to meet our working capital requirements, debt service and other cash needs for the next twelve months.

Year 2000 Compliance

Our business operations are significantly dependent upon the same proprietary software products we license to customers. Our management believes it has successfully addressed Y2K readiness in our proprietary software products and does not anticipate any business interruptions associated with these applications. To ensure that we have adequately addressed exposures related to Y2K and to ensure that we are Y2K ready, we have established a Y2K program that includes business partners and other third-party relationships. We define systems as "Y2K ready" if they are either "Y2K compliant" or otherwise will operate without any substantial decrease in performance as a result of processing date data into the next century. "Y2K compliant" means the system must perform fault-free in the processing of date and date related data (including calculating, comparing and sequencing) by all software components individually and in combination, upon installation. Fault-free performance includes the manipulation of this data with dates prior to, through and beyond January 1, 2000.

Our Y2K program consists of these five phases: 1) Assessment, 2) Planning, 3) Resources, 4) Technology and 5) Reporting. These phases are defined as follows:

1) Assessment - which identifies the magnitude of Y2K exposure, a process that includes estimating the business risk of not becoming Y2K compliant, determining our potential areas for Y2K exposure, and developing an internal definition of compliance;

2) Planning - which details corporate planning efforts, including taking inventory and analyzing our systems for Y2K impact and developing contingency plans for systems that pose unusual compliance issues;

3) Resources - which ensures that funds and resources are sufficient, given the magnitude of the Y2K plan. This is facilitated by obtaining funds through internal mechanisms and assessing staff capacity for remediation and testing;

4) Technology - which executes the work needed to repair or retire existing systems, through a process which includes programming, code testing, user testing data conversion and program implementation

5) Reporting - which includes providing status of program activities to business and regulatory bodies.

For our information technology (IT) systems, excluding our proprietary software products which QAD believes to be generally Y2K compliant currently, and our

non-IT systems, we have completed the first four phases with regard to our state of readiness. For our third-party products that constitute material relationships, we are essentially complete with the first four phases, which encompass "Technology".

As of October 31, 1999, the direct costs incurred to remediate Y2K issues were not material. Costs directly attributed to our overall Y2K program are estimated to be approximately $1.0 million.

Significant uncertainty exists in the software industry concerning the potential effects associated with Y2K readiness. Although we currently offer software products that are designed and have been tested to be ready for the Year 2000, there can be no assurance that our software products contain all necessary date code changes. Furthermore, it has been widely reported that a significant amount of litigation surrounding business interruptions will arise out of Y2K issues. It is uncertain whether, or to what extent, this type of litigation may affect us. Additionally, third-party software, computer and other equipment used internally may materially impact us if it is not Y2K compliant. Our operations may be at risk if our suppliers and other third-parties fail to adequately address the problem or if software conversions result in system incompatibilities. This issue could result in system failures, the generation of erroneous information, and other significant disruptions of business activities. To the extent that either QAD or a third-party vendor or service provider on which we rely does not achieve Y2K readiness, we may be adversely impacted. As part of the five-phase process outlined above, we are developing specific contingency plans in connection with the assessment and resolution of the risks identified. We have established certain IT contingency plans, and we are continuing to develop additional plans regarding each specific area of risk associated with this issue as part of our Y2K program. We also hold insurance coverage for errors and omissions, which includes coverage for customer claims associated with certain Y2K issues.

QAD Inc.
Quantitative and Qualitative Disclosures About Market Risk

Foreign Exchange. QAD is subject to risks typical of a global business, including, but not limited to differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions and foreign exchange volatility. Historically, our revenue from international operations has primarily been denominated in United States dollars. We have generally priced our products in United States dollars and over 90 percent of our sales in the fiscal years 1997, 1998 and 1999, were denominated in United States dollars, with the remainder in approximately ten different currencies. Due to recent acquisitions of several international distributors and the launch of the QAD Global Services business, we expect that a growing percentage of our business will be conducted in currencies other than the United States dollar. We also incur a significant portion of our expenses in currencies other than the United States dollar. As a result, fluctuations in the values of the respective currencies relative to the other currencies in which we generate revenue could adversely affect us. While we may in the future change our pricing practices, an increase in the value of the United States dollar relative to foreign currencies could make QAD software products more expensive and, therefore, less competitive in other markets.

Fluctuations in currencies relative to the United States dollar have affected and will continue to affect period-to-period comparison of our reported results of operations. For the nine months ended October 31, 1999 and 1998, net gains from foreign currency transactions and remeasurement adjustments for those foreign entities whose books of record are not maintained in the functional currency totaled $0.1 million and $0.2 million, respectively. Due to the constantly changing currency exposures and the volatility of currency exchange rates, there can be no assurance that we will not experience currency losses in the future, nor can we predict the effect of exchange rate fluctuations upon future operating results. We continue to evaluate our currency management policies. Although we do not currently undertake hedging transactions, we may

choose to hedge a portion of our currency exposure in the future as we deem appropriate.

Interest Rates. QAD invests its 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. QAD's investment securities are held for purposes other than trading. Cash balances held by subsidiaries are invested in short-term time deposits with the local operating banks. QAD accounts for its investment instruments in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investment in Debt and Equity Securities" ("SFAS 115"). All of the cash equivalent and short-term investments are treated as "available for sale" under SFAS 115. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income

may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities which have seen a decline in market value due to changes in interest rates.

Part II - Other Information
QAD Inc.

Item 1 - Legal Proceedings

Not applicable

Item 2 - Changes in Securities and Use of Proceeds

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

27 Financial Data Schedule

b) Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended October 31, 1999.

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 14, 1999 By /s/ A.J. MOYER

A.J. Moyer
Chief Financial Officer
(on behalf of the registrant and as
Principal Financial Officer

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The schedule contains summary financial information extracted from the Condensed Consolidated Balance Sheet as of October 31, 1999 and the Condensed Consolidated Statement of Operations for the nine months ended October 31, 1999 and is qualified in its entirety by reference to such financial statements.
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