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

FORM 10-K

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

For the fiscal year ended January 31, 2009

OR

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

Commission File Number: 0-22823

QAD Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

77-0105228
(I.R.S. Employer Identification No.)

**100 Innovation Place
Santa Barbara, California 93108**
(Address of principal executive offices and zip code)

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

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

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

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

☐ YES ☒ NO

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

☐ YES ☒ NO

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

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

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

☐ Large accelerated
filer

☒ Accelerated filer

☐ Non-accelerated filer

☐ Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ YES ☒ NO

As of July 31, 2008, the last business day of the Registrant's most recently completed second fiscal quarter, there were 30,663,847 shares of the Registrant's common stock outstanding, and the aggregate market value of such shares held by non-affiliates of the Registrant (based on the closing sale price of such shares on the NASDAQ Global Market on July 31, 2008) was approximately \$84.8 million. Shares of the Registrant's common stock held by each executive officer and director and by each entity that owns 5% or more of the Registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 31, 2009, there were 30,766,223 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10 through 14 of Part III incorporate information by reference from the Definitive Proxy Statement for the Registrant's Annual Meeting of Stockholders to be held on June 10, 2009.

QAD INC.
FISCAL YEAR 2009 FORM 10-K ANNUAL REPORT
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FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements. These statements typically are preceded or accompanied by words like “believe”, “anticipate”, “expect” and words of similar meaning. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to those discussed in Item 1A entitled “Risk Factors”. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s opinions only as of the date hereof. We undertake no obligation to revise or update or publicly release the results of any revision or update to these forward-looking statements. Readers should carefully review the risk factors and other information described in this Annual Report on Form 10-K and the other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by QAD in fiscal 2010.

PART I

ITEM 1. *BUSINESS*

ABOUT QAD

QAD Inc. (QAD, the Company, we or us), a Delaware corporation, is a global provider of enterprise software applications, professional services and application support for manufacturing companies. QAD software is used at approximately 6,000 sites by manufacturing companies that operate mainly in six industries: automotive, consumer products, food and beverage, high technology, industrial products and life sciences. QAD employs about 1,500 people around the world. QAD’s vision for manufacturing is an environment in which all suppliers, manufacturers and customers collaborate jointly and seamlessly to eliminate inefficiencies and automate processes at all stages of the supply chain. QAD refers to this vision as the *Perfect Lean Market* and embraces it in its product direction.

QAD Enterprise Applications, which includes modules formerly marketed as MFG/PRO, is QAD’s core product suite. QAD Enterprise Applications provides a broad spectrum of capabilities designed to support customers’ common business processes. QAD designs its software so that it is easy to implement and easy to use. We believe QAD customers are able to implement QAD solutions faster than other competing solutions and realize lower operating costs over time.

QAD has a global services and customer support capability to assist customers in both deployment and ongoing operation of QAD Enterprise Applications. QAD’s services and support organizations deliver a variety of offerings aimed at assisting customers with common challenges surrounding their use of QAD Enterprise Applications.

THE QAD STRATEGY

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

- *Expand Our Footprint Within the Existing Customer Base.* As of January 31, 2009, QAD software was licensed in more than 90 countries. QAD enjoys a historical maintenance renewal rate in excess of 90 percent, demonstrating strong continued commitment and loyalty from its customers. QAD strives to work closely with its customer base to identify emerging business requirements and to rapidly develop solutions addressing their needs. We leverage our reputation and success with existing customers to build business for our offerings in additional customer divisions and sites.
- *Leverage Our Market Position and Expertise in Key Industries.* We have developed expertise in specific market niches within the six industries we serve. This focus on specific market niches—such as automotive parts in the automotive industry and medical devices in the life sciences industry—allows QAD to precisely target its application development and differentiate itself from competitors who have more broadly targeted applications. An example of QAD's niche market focus is the development of its Enhanced Controls module, which enables medical device companies to meet the regulatory compliance requirements of cGMP (Current Good Manufacturing Practice) as defined by local regulatory agencies such as the U.S. FDA (Food and Drug Administration) and the European Medicines Agency (EMA).
- *Leverage Our Market Position and Reputation in Emerging Manufacturing Markets.* Many of QAD's customers are global multinational manufacturers. These companies are often first to establish operations in new and emerging manufacturing markets around the world. In supporting these companies, QAD has focused on establishing operations in emerging markets. The global capabilities of QAD Enterprise Applications, together with local operations, allow QAD to develop a presence in these markets where growth is positive.
- *Extend Our Product Offerings.* To remain competitive, QAD's strategy is to continually broaden the capabilities of its applications. In pursuit of this goal, we continue to invest significantly in research and development (R&D) efforts. We expect to continue to focus on acquisitions of software, technology and service companies as necessary. In fiscal 2009 we increased our capabilities to support Product Information Management and Product Lifecycle Management to further benefit our customers.
- *Provide Capabilities to Support an On Demand Environment.* In fiscal 2009, QAD continued to offer some of its applications on demand in a Software as a Service (SaaS) model. Those products included QAD Enterprise Applications and QAD Supply Visualization (SV). QAD continues to monitor the evolution of this deployment method and currently expects this market to continue to develop.
- *Enhance Our Services Offerings.* QAD Global Services is focused on areas where we can help our customers reduce operating costs and improve key business processes. We continue to grow our Application Management Services offering with application lifecycle management, systems management, database administration and help desk support. We have a team of experts in the Business Consulting Services practice to help customers increase their return on investment in QAD Enterprise Applications and identify areas for business improvement. We have introduced an Integrated Development Toolkit for customers to create non-intrusive custom programs to reduce development time and provides an easier upgrade path. QAD Global Services continues to provide support for the QAD On Demand offering and has added several global customers in fiscal 2009.

- *Provide Training and Education.* QAD customers are often faced with the challenge of ensuring their employees are trained in both the use of QAD Enterprise Applications as well as the application of underlying business processes. This can be particularly challenging during times of organizational change or when employees change roles within the company. To assist customers in this area, QAD has a broad range of online eLearning tools that are available to customers as part of their maintenance and support agreement. QAD also provides customer-specific and classroom training. QAD has a diagnostic services offering (Learning Assessment), which enables customers to identify training requirements and implement actionable plans to address them.
- *Leverage Our Global Network of Alliances.* QAD has strategic alliances with partners, enabling the Company to expand its sales reach, improve marketing impact, provide technological advantages and strengthen its strategic position in the industries it serves. We leverage the expertise of distribution, software, services and technology alliances to meet the diverse needs of our customers around the world. We augment our direct sales organization with a global network of distributors and sales agents, as well as service organizations that offer consulting and implementation services to expand our reach.

QAD SOLUTIONS

QAD products and services are designed to address the majority of common business processes of global manufacturing companies. QAD focuses on identifying emerging requirements and business practices and embracing them in its product set. In the development of QAD Enterprise Applications, QAD has focused on ensuring that its software is simple to implement through delivery of predefined business processes that reflect common best practices for the industries it serves. QAD products are built with simple configuration controls, enabling companies to map their business processes rapidly using QAD Enterprise Applications. Across QAD's core Enterprise Applications suite, QAD delivers a process mapping tool that simplifies the implementation task and allows users to navigate unfamiliar business processes simply and effectively with visual representation.

QAD also has a philosophy of developing software that is both simple to learn and use. In pursuit of this goal, QAD has invested significant research and resources in the areas of human engineering and usability. The user interface for QAD Enterprise Applications embraces current best practices in usability and, we believe, provides a simple, user-friendly interface and positive user experience. QAD also has a philosophy of developing software that is simple to integrate and, where relevant, embraces open standards for communication and technology. QAD Enterprise Applications can be deployed in a variety of computer infrastructures, supporting on demand and on premise deployment as well as a number of underlying databases, hardware platforms and operating systems.

In order to assist customers in the deployment and ongoing use of QAD Enterprise Applications, QAD has developed a significant services and support capability with approximately 625 personnel worldwide.

QAD's philosophy of building software that is simple to implement, learn and use, and the resulting architecture of its products, sets it apart from other software providers with broad enterprise suites and minimal predefined business processes. As a result, QAD customers experience faster implementations and, in the event of business change, are able to adapt quickly with less disruption to the business than customers using other software applications.

QAD ENTERPRISE APPLICATIONS

QAD Enterprise Applications is an integrated suite of software applications, that supports the core business processes of manufacturers. The suite has been built with specific functionality to address the needs of customers in our target industries. It allows single and multi-plant manufacturers, both global and local, to control all aspects of their operations and coordinate their entire supply chain. QAD Enterprise Applications can support a number of different deployment methods, including On Premise (system is installed on a customer's computer), On Demand (system is accessible remotely via the Web), On Appliance (system is delivered on a machine that QAD remotely supports and administers) or a hybrid of these options. Customers can choose between these methods to suit their needs. This blended deployment option is a differentiator for QAD that allows customers a choice in how they deploy their business solutions. The QAD Enterprise Applications suite has evolved over time to address a broader range of business processes as our customers' needs have changed. Today, QAD Enterprise Applications consists of both the core suite and extended applications, which enable manufactures to address specific peripheral functions within their businesses, such as plant maintenance. The solution suites that comprise QAD Enterprise Applications are detailed below.

CORE APPLICATIONS

QAD Enterprise Financials

As part of QAD Enterprise Applications, QAD delivers a complete set of financial applications, covering both transactional accounting (i.e. accounts payable, accounts receivable and cash management) and corporate accounting (i.e. general ledger and reporting). QAD has two derivatives of its financial suite, QAD Standard Financials and QAD Enterprise Financials. QAD Standard Financials offers complete functionality required by global manufacturers. QAD Enterprise Financials is the latest evolution of QAD's financial suite and offers enhanced capabilities around reporting, governance and compliance, budgeting and control. The Enterprise Financials suite addresses the emerging needs of complex global organizations. After an aggressive, global early adopter program, several customers are now live with the product.

QAD Customer Management

The QAD Customer Management suite addresses the major aspects of both customer-facing and demand-facing operations for a manufacturer, from accurate demand forecasting and management to sales force automation and order management. In addition, Trade Management capabilities allow manufacturers and distributors to more effectively plan, manage and track promotional spending activities. The Customer Management suite allows customers to configure their businesses with orders made via electronic data interchange (EDI), eCommerce over the Web or by a customer service representative, and to manage their order flows and customer services requirements based on their industry or chosen business model. In fiscal 2009, QAD acquired the assets of FullTilt Solutions Inc., a Product Information Management (PIM) software developer. FullTilt's enterprise PIM solution addresses the growing need for product-centric Master Data Management (MDM).

QAD Manufacturing

The QAD Manufacturing suite provides capabilities for manufacturers to support and control their materials management and manufacturing processes. This suite has been designed to support mixed mode manufacturing and multi-plant operations. It allows companies to deploy business processes in line with best practices. At the core of the QAD Manufacturing suite is a comprehensive master production scheduling and material requirements planning engine, which is fully integrated with the QAD Customer Management and QAD Supply Chain suites. Customers can configure their execution systems to support discrete work order scheduling, flow production or a combination, depending on their business model. This suite also offers capabilities that support customers who embrace Lean principles in their manufacturing operations and enables them to tightly manage inventory, establish and execute Kanban processes and implement effective pull systems—both inside the manufacturing plant and with suppliers. QAD's capabilities in support of Lean can be accommodated in parallel with contemporary manufacturing resource planning (MRPII). Full lot and serial traceability exist throughout the QAD Manufacturing, QAD Customer Management and QAD Supply Chain suites, allowing compliance with industry and geography-specific regulations such as cGMP (Current Good Manufacturing Practice) in the life sciences industry and ISO TS 16949 (quality management regulation) in the automotive industry. The integration between scheduling, planning, execution and materials allows tight control and simple management of processes.

QAD Supply Chain

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

EXTENDED APPLICATIONS

In addition to the core suite of applications, a number of business processes are supported in the extended QAD Enterprise Applications suite.

QAD Service and Support

QAD Service and Support capabilities allow customers to manage and support their software applications after manufacture and sale. This suite tracks complex systems and installations allowing service calls to be tracked and scheduled in addition to maintaining tight control of built and installed records. This part of a product lifecycle has become more important to customers. Typical users include communication system manufacturers and medical device manufacturers.

QAD Enterprise Asset Management

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

QAD Transportation Management

QAD's Transportation Management suite addresses the needs of distributors and manufacturers in the key areas of Global Trade Management, Freight Management and Trade Compliance. The core capabilities of QAD Transportation Management came from the acquisition of Precision Software Limited (Precision) in fiscal 2007. QAD markets its Transportation Management suite directly to its existing customers and, using the Precision brand, markets outside the QAD target customer base.

QAD Analytics

QAD Enterprise Applications contains a wealth of information for use by customers to improve their manufacturing operations. Using QAD Analytics, this information can be used to perform complex analysis, enabling better decision-making and improved performance management.

QAD Interoperability

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

QAD CUSTOMER SUPPORT

QAD Customer Support provides the resources, tools and expertise needed to maximize the use of QAD Enterprise Applications. In addition to operating over 15 support centers around the world, QAD Customer Support offers access to an extensive knowledgebase, online training materials, a virtual training environment, remote diagnostics, a software download center and live chat, all of which help customers resolve issues faster and maintain their systems for optimal performance.

QAD GLOBAL SERVICES

QAD Global Services offers a broad range of consulting services to help customers support and improve their global operations. With over 400 consultants in 23 countries, QAD provides global coverage and local expertise to help companies get the most from their QAD investment. QAD Global Services offers the following:

- Implementation Services — which includes implementations, core model development and rollout, customization development, training, installations and reporting services;
- On Demand and Application Management Services — which includes service delivery management, application lifecycle management, help desk support, systems management and infrastructure management services;
- Migration and Upgrade Services — which includes technical conversions, service pack upgrades, customization upgrades, migrations to current releases of QAD Enterprise Applications and upgrade assessments; and
- Business Consulting Services — which includes strategic consulting, business optimization services, business metrics improvement, health checks, ROI tools and MMOG/LE (Materials Management Operations Guidelines/Logistics Evaluation) assessments.

By applying best practices designed specifically for manufacturers, along with a proven methodology and thousands of successful engagements, QAD Global Services uses its experience and tools to deliver a faster time to benefit compared to other consulting software companies or systems integrators.

QAD EDUCATION

QAD Education delivers an extensive course curriculum in a variety of formats including instructor-led training (either classroom or live via distance learning), independent eLearning modules and self-study training guides which allow students direct access to the software for hands-on work. These flexible educational offerings make it both cost-effective and convenient for QAD customers to ensure that their employees are fully leveraging the extensive capabilities of QAD Enterprise Applications.

Course offerings are geared toward QAD Enterprise Applications end users, IT professionals and department managers. Courses address 'best practices' in topics that include among others: Financials, System Administration, Manufacturing Planning, Manufacturing Execution and Customization. Our instructors are recognized experts in matching QAD Enterprise Applications to students' particular fields of manufacturing expertise.

QAD PRODUCT ALLIANCES

We have a number of ongoing business alliances that extend the functionality of our software through integrated best-in-class applications and support various hardware platforms. We have also entered into select agreements with third-party software developers who provide functionality that has been embedded into or integrated with QAD software. We continue to form alliance arrangements in order to deliver more complete solutions for the vertical markets we target. Our alliances include, but are not limited to Progress Software Corporation and Microsoft.

CUSTOMERS

As of January 31, 2009, QAD software was licensed at approximately 6,000 sites in more than 90 countries. No single customer accounted for more than 10% of total revenue during any of the last three fiscal years. QAD Enterprise Applications are used by manufacturers of all sizes, from small, single site manufacturers with revenues as low as \$5.0 million to large, global manufacturers with revenues in excess of \$20.0 billion. The following are among the companies and/or subsidiaries of those companies that have each generated more than \$1.0 million in software license, maintenance and services billings over the last three fiscal years:

Automotive

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

Consumer Products

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

High Technology

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

Food and Beverage

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

Industrial Products

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

Life Sciences

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

COMPETITION

In recent years, industry consolidation has been a primary factor shaping the Enterprise Resource Planning (ERP) software marketplace. Today's market is primarily served by three companies with significant market share—SAP AG, Oracle Corporation and Infor Global Solutions. The balance of the market is served by niche players including QAD, Epicor and Lawson.

We believe the competition can be divided into two broad categories of providers—global and local. In addition, there is emerging competition in the delivery of Software as a Service (SaaS). QAD is well positioned to compete with providers in each of these categories based on proven global deployment, deep manufacturing capabilities and a blended deployment model.

QAD offers an Enterprise Application suite that addresses the needs of global ERP for manufacturers. This is the principal market for QAD. In this space, QAD competes against primary market players as well as a number of smaller, local companies that provide a variety of offerings. QAD differentiates itself in this space by focusing on manufacturing capabilities and by further focusing on sub-segments of the markets it serves. SAP and Oracle, on the other hand, have indiscriminate market footprints developing applications suited for many industries, not specifically for manufacturers. As a result, QAD applications are generally easier and less expensive to implement and support over time than those of its larger competitors.

The scalability of QAD Enterprise Applications allows companies with as few as five users or thousands of users to use the same applications. Further, this scalability means the same applications that are deployed by global multinational companies can also be deployed by local companies, operating in a single country or even in a single location. When comparing QAD's offerings with other ERP competitors such as SAP, Oracle, Epicor and Lawson, QAD is often seen as an attractive software choice due to its flexibility, ease of implementation, multiple language and currency support, and local support.

QAD first offered its Enterprise Applications in a Software as a Service model in fiscal 2009. QAD has delivered QAD Supply Visualization (SV), the company's supply chain visibility solution on demand for more than five years. Of our competitors, SAP and Oracle continue to deliver hosted offerings and a number of smaller players have discrete offerings available On Demand. Currently demand for this market is relatively small and represents less than 5% of QAD's annual license revenue, which is in line with overall market trends. QAD believes it will be well positioned as this market continues to evolve.

From a competitive perspective, ERP providers of all sizes—global, regional and local—often compete for the same business in a given market. QAD continues to differentiate itself by providing deep industry expertise and solutions that are simple to use and implement and have a lower operating cost over time.

TECHNOLOGY

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

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

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

QAD continues to design applications that are simple to use. In recent years, QAD has invested heavily in the development of software that is simple and intuitive to users, requires minimal training and delivers high functionality. We call this 'software for the next generation of users.' QAD has made significant investment in the development of its User Interface technology and today has a unified interface with which the Company delivers most of its software applications. User Interface technology enables users to harness common functions such as reporting and inquires, regardless of which part of the software application they use. Customers also benefit from simple navigation and the ability to visualize their roles in the context of visual process maps. QAD's goal is to ensure that users find QAD Enterprise Applications simple and pleasing to use in their day-to-day roles.

RESEARCH AND DEVELOPMENT

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

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

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

Our R&D expenses totaled \$43.1 million, \$41.1 million and \$40.1 million in fiscal years 2009, 2008 and 2007, respectively.

SALES AND MARKETING

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

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

Our indirect sales channel consists of over 70 distributors and sales agents worldwide. We do not grant exclusive rights to any of our distributors or sales agents. Our distributors and sales agents primarily sell independently to companies within their geographic territory, but may also work in conjunction with our direct sales organization. We also leverage our relationships with implementation service providers, hardware vendors and other third parties to identify sales opportunities on a global basis.

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

EMPLOYEES

As of January 31, 2009, we had approximately 1,500 full-time employees, of which approximately 625 were in support and services, 350 were in research and development, 300 were in sales and marketing and 225 were in administration. Generally, our employees are not represented by collective bargaining agreements. However, certain employees of our Netherlands and French subsidiaries are represented by statutory works councils as required under local law. Employees of our Brazilian subsidiary are represented by a collective bargaining agreement with the Data Processing Union. We believe that, in general, our employee relations are good.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information concerning our executive officers. All ages are as of March 31, 2009.

<u>NAME</u>	<u>AGE</u>	<u>POSITION(S)</u>
Pamela M. Lopker	54	Chairman of the Board and President
Karl F. Lopker	57	Chief Executive Officer
Daniel Lender	42	Executive Vice President and Chief Financial Officer
Kara Bellamy	33	Sr. Vice President, Corporate Controller and Chief Accounting Officer

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

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

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

Kara Bellamy has served as Senior Vice President, Corporate Controller and Chief Accounting Officer since January 2008. Previously she served as QAD's Corporate Controller beginning December 2006. She joined QAD as Assistant Corporate Controller in July 2004 after working for Somera Communications, Inc. as its Corporate Controller from April 2002 through June 2004. Ms. Bellamy began her career at the public accounting firm of Ernst & Young. She is a Certified Public Accountant and received a bachelor of arts degree in business economics with an accounting emphasis from the University of California, Santa Barbara.

SEGMENT REPORTING

Segment financial information for fiscal years 2009, 2008 and 2007 is presented in note 11 within the Notes to Consolidated Financial Statements included in Item 15 of this Annual Report on Form 10-K.

AVAILABLE INFORMATION

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

ITEM 1A. RISK FACTORS

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

THE EFFECTS OF THE RECENT GLOBAL ECONOMIC CRISIS MAY IMPACT OUR BUSINESS, OPERATING RESULTS OR FINANCIAL CONDITION

The current global economic crisis has caused a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, and extreme volatility in credit, equity and fixed income markets. These macroeconomic developments have negatively affected our business, operating results or financial condition in a number of ways and could continue to do so. For example, current or potential customers may be unable to fund software purchases, which could cause them to delay, decrease or cancel purchases of our products and services or not pay us or delay paying us for previously purchased products and services. These conditions are particularly evident in the automotive industry, which is an important market segment for QAD. In addition, financial institution failures may cause us to incur increased expenses or make it more difficult either to utilize our existing debt capacity or otherwise obtain financing for our operations, investing activities (including the financing of any future acquisitions), or financing activities (including the timing and amount of any dividend payments or repurchases of our common stock or debt we may declare or make in the future). Finally, our investment portfolio, which includes short-term debt securities, is generally subject to general credit, liquidity, counterparty, market and interest rate risks that may be exacerbated by the recent global financial crisis. If the banking system or the fixed income, credit or equity markets continue to deteriorate or remain volatile, our investment portfolio may be impacted and the values and liquidity of our investments could be adversely affected.

RISK OF FLUCTUATIONS IN REVENUE AND EXPENSE

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

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

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

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

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

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

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

- Changes in the relative proportions of revenues and income before taxes in various jurisdictions;
- Changing tax laws, regulations and interpretations thereof;
- Unanticipated changes in tax rates;
- Changes in accounting and tax treatment of stock-based compensation;
- Tax effects of purchase accounting for acquisitions and restructuring charges that may cause fluctuations between reporting periods;
- Changes to the valuation allowance on net deferred tax assets;
- Assessments and any related tax interest or penalties; and
- Discrete items which are not related to income.

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

RISKS ASSOCIATED WITH SALES CYCLE

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

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

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

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

DEPENDENCE ON THIRD-PARTY SUPPLIERS

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

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

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

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

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

RAPID TECHNOLOGICAL CHANGE

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

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

PROPRIETARY RIGHTS AND LICENSING

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

Our pricing and licensing models may affect our ability to compete. Our pricing policy is based on a standard price list and may vary based on different parameters, including the number of end-users, number of sites, number of modules, number of languages, length of time, the country in which the license is granted and level of ongoing support, training and services to be provided by QAD. We expect to continue to introduce products using our On Demand (or SaaS) licensing model. Our ability to offer competitive pricing models in response to the market is also a risk. There are no assurances that such licensing models will be accepted in the market place or will yield revenue comparable to that of past licensing models.

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

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

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

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

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

ENTERPRISE APPLICATION SOLUTIONS

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

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

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

Our efforts to expand our offering beyond the traditional manufacturing ERP market may not succeed. We have traditionally focused our business on providing enterprise applications and services for manufacturing companies' internal system services for the vertical manufacturing markets we target. However, in the future, we may seek to expand into other markets. For instance, in fiscal 2007 we launched the Precision Software division, a provider of solutions for transportation management. The Precision solution targets customers outside our traditional vertical manufacturing markets. Efforts to expand beyond these markets may not result in significant revenue growth for us. In addition, efforts to expand beyond our traditional markets and, in the case of SaaS offerings, outside our traditional delivery and licensing models, may divert management resources from existing operations and require us to commit significant financial resources to an unproven business, which may harm our existing business.

MARKET CONCENTRATION

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

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

We are dependent upon the development and maintenance of sales and marketing channels. We sell and support our products through direct and indirect sales, services and support organizations throughout the world. Our indirect sales channel consists of over 70 distributors and sales agents worldwide that we refer to as sales channels. We do not grant exclusive distribution rights to our sales channels. Our sales channels primarily sell independently to companies within their geographic territory, and may work in conjunction with our direct sales organization. Sales derived through indirect channels are more difficult to forecast and may have lower profit margins than direct sales.

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

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

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

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

ACQUISITIONS AND INTEGRATION OF ACQUIRED BUSINESS AND INTELLECTUAL PROPERTY

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

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

RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS

Our operations are international in scope, exposing us to additional risk. For the last three fiscal years, we derived approximately 60 percent of our total revenue from sales outside the United States. A significant aspect of our strategy is to focus on developing business in emerging markets. Of approximately 6,000 licensed sites as of January 31, 2009, approximately 75% are outside the United States, in over 90 countries.

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

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

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

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

RISKS DUE TO BUSINESS INTERRUPTIONS

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

MARKET CONDITIONS

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

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

THE MARKET FOR OUR STOCK IS VOLATILE

The market prices for securities of technology companies, such as QAD, have been volatile. The market price of our common stock and the number of shares traded each day has occasionally varied greatly. In addition, the securities of many technology companies have experienced extreme price and volume fluctuations which have often been unrelated to the companies' operating performance. In addition, due to the current global financial crisis and other factors, there can be no assurance that QAD will be in a position to continue any dividend or stock repurchase activities it has conducted in the past. Because of these and other factors affecting our operating results, past financial performance should not be considered as an indicator of future stock performance.

As of January 31, 2009, QAD had 30.8 million shares of common stock outstanding, 6.0 million stock options and stock appreciation rights and 0.7 million restricted stock units outstanding, all under stock compensation plans. As a result, a substantial number of shares of common stock will be eligible for sale in the public market at various times in the future. Sales of substantial amounts of such shares could adversely affect the market price of our common stock.

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

Failure to maintain effective internal controls could adversely affect our ability to meet our reporting requirements.

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

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

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

PRINCIPAL STOCKHOLDERS AND DEPENDENCE UPON KEY PERSONNEL

Our principal stockholders are also directors and officers. As of March 31, 2009, Karl and Pamela Lopker jointly and beneficially owned approximately 60% of our outstanding common stock. Karl and Pamela Lopker currently constitute two of the seven members of the board of directors and are also officers of QAD in their capacity as CEO and President, respectively. On a combined basis, current directors and executive officers beneficially owned approximately 60% of the common stock as of March 31, 2009.

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

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

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

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

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

IMPACT OF REGULATION

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

None.

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

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

	<u>Low Price</u>	<u>High Price</u>
Fiscal 2009:		
Fourth quarter	\$ 2.56	\$ 5.32
Third quarter	4.01	7.41
Second quarter	6.57	8.02
First quarter	7.39	8.90
Fiscal 2008:		
Fourth quarter	\$ 8.25	\$ 9.88
Third quarter	7.57	9.39
Second quarter	7.90	9.71
First quarter	8.07	10.17

Holders

As of March 31, 2009, there were approximately 300 shareholders of record of our common stock, although there is a much larger number of beneficial owners.

Dividends

We declared four quarterly dividends in fiscal 2009 of \$0.025 per share of common stock. Continuing quarterly cash dividends are subject to profitability measures and liquidity requirements of QAD.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

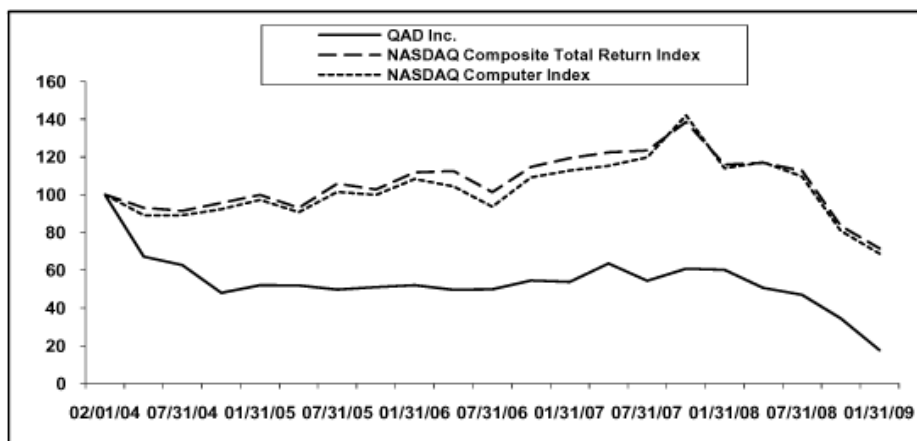
There was no stock repurchase activity during the three months ended January 31, 2009.

STOCKHOLDER RETURN PERFORMANCE GRAPH

The line graph below compares the yearly percentage change in the cumulative total stockholder return on QAD's common stock with the cumulative total return of the NASDAQ Composite Total Return Index and the NASDAQ Computer Index, on a quarterly basis, for the period beginning February 1, 2004 and ending January 31, 2009.

The graph assumes that \$100 was invested in QAD common stock on February 1, 2004 and that all dividends were reinvested. Historic stock price performance should not be considered indicative of future stock price performance.

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



Measurement Periods
(Quarterly from Fiscal
Year 2005 through
Fiscal Year 2009)

	QAD Inc.	NASDAQ Composite Total Return Index	NASDAQ Computer Index
02/01/04	100.00	100.00	100.00
04/30/04	67.18	93.07	89.21
07/31/04	62.73	91.48	89.18
10/31/04	47.97	95.73	92.33
01/31/05	52.10	99.96	97.25
04/30/05	51.99	93.14	90.77
07/31/05	49.73	105.90	101.46
10/31/05	51.07	102.77	99.93
01/31/06	52.09	111.76	108.36
04/30/06	49.54	112.57	104.49
07/31/06	49.85	101.37	93.70
10/31/06	54.56	114.71	109.32
01/31/07	53.85	119.43	112.90
04/30/07	63.55	122.39	115.41
07/31/07	54.42	123.42	119.90
10/31/07	60.81	138.58	142.17
01/31/08	60.29	115.84	114.08
04/30/08	50.66	116.95	117.25
07/31/08	47.01	112.72	109.63
10/31/08	34.49	83.41	80.79
01/31/09	17.56	71.56	68.75

ITEM 6. SELECTED FINANCIAL DATA

	Years Ended January 31, ⁽¹⁾				
	2009 ⁽⁴⁾ (5)	2008	2007	2006 ⁽³⁾	2005 ⁽²⁾
(in thousands, except per share data)					
STATEMENTS OF OPERATIONS DATA:					
Revenues:					
License fees	\$ 46,673	\$ 61,491	\$ 54,425	\$ 57,926	\$ 60,545
Maintenance and other	133,717	128,183	122,740	117,139	113,729
Services	83,050	73,073	58,422	50,429	56,932
Total revenue	263,440	262,747	235,587	225,494	231,206
Operating (loss) income	(23,166)	5,588	8,137	15,625	23,386
Net (loss) income	\$ (23,095)	\$ 5,416	\$ 7,276	\$ 20,539	\$ 24,483
Basic net (loss) income per share	\$ (0.75)	\$ 0.17	\$ 0.22	\$ 0.63	\$ 0.72
Diluted net (loss) income per share	\$ (0.75)	\$ 0.17	\$ 0.22	\$ 0.61	\$ 0.70
Cash dividends declared per common share	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.18
BALANCE SHEET DATA:					
Cash and equivalents	31,467	45,613	54,192	59,971	55,289
Working capital	(3,023)	8,846	14,762	20,694	27,559
Total assets	193,673	235,893	227,132	207,331	207,093
Current portion of long-term debt	266	274	272	243	1,725
Long-term debt	16,717	16,998	17,271	17,546	23,911
Total stockholders' equity	48,096	72,595	76,572	72,159	64,037

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- (1) Historical results of operations are not necessarily indicative of future results. Refer to Item 1A entitled "Risk Factors" for discussion of factors that may impact future results.
- (2) Fiscal 2005 includes \$6.5 million tax benefit from the reversal of valuation allowances.
- (3) Fiscal 2006 includes \$11.5 million tax benefit from the reversals of valuation allowances and contingency reserves.
- (4) Fiscal 2009 includes \$14.4 million goodwill impairment charge.
- (5) Fiscal 2009 includes \$0.7 million tax benefit from the reversal of valuation allowances.

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

FORWARD LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements. These statements typically are preceded or accompanied by words like “believe,” “anticipate,” “expect” and words of similar meaning. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Item 1A entitled “Risk Factors.” Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s opinions only as of the date hereof. We undertake no obligation to revise or update or publicly release the results of any revision or update to these forward-looking statements. Readers should carefully review the risk factors and other information described in this Annual Report on Form 10-K and the other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by QAD in fiscal 2010.

INTRODUCTION

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

OVERVIEW

QAD Inc. a Delaware corporation, is a global provider of enterprise software applications, professional services and application support for manufacturing companies. QAD software is used by manufacturing companies that operate mainly in six industries: automotive, consumer products, high technology, food and beverage, industrial products and life sciences. QAD Enterprise Applications, which includes modules formerly marketed as MFG/PRO, is QAD’s core product suite. QAD Enterprise Applications provides a suite of capabilities designed to support customers’ common business processes. QAD has a global services and application support capability to assist customers in both deployment and ongoing operation of QAD Enterprise Applications.

Total revenue was flat year over year at \$263.4 million in fiscal 2009, compared to \$262.7 million in fiscal 2008. Increases in services and maintenance and other revenues were offset by decreases in license revenue. Services revenue increased 14% in fiscal 2009 compared to fiscal 2008, while maintenance revenue increased 4% year over year. License revenue decreased by 24% for fiscal 2009 when compared to license revenue in fiscal 2008. Overall gross margin was 54% for fiscal 2009, compared to 58% for fiscal 2008, down primarily due to unfavorable changes in our revenue mix.

Cash flows from operations were \$7.3 million for fiscal 2009, compared to fiscal 2008 cash flows from operations of \$15.9 million. The decrease in cash flows from operations was primarily due to a decrease in net earnings and the negative effect of the change in deferred revenue partially offset by the positive effect of the change in accounts receivable. Contributing to a decrease in net earnings was a non-cash goodwill impairment charge of \$14.4 million in fiscal 2009.

Global economic conditions deteriorated significantly during fiscal 2009 and particularly during the fourth quarter ended January 31, 2009. We have seen demand for our products and services decline in each of our geographic regions and in the manufacturing industries we serve, most notably in automotive. In response to the difficult economic environment, we took steps in the fourth quarter of fiscal 2009 to reduce our headcount and lower expenses. Our strategy remains focused on the development and delivery of best-in-class software applications for the manufacturing industry in our six key industry segments and we will continue to monitor the economic situation and the business environment throughout fiscal 2010.

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition. We derive our revenues from the sale or the license of our software products and of support services, subscriptions, consulting, development, training, and other professional services. The majority of our software is sold or licensed in multiple-element arrangements that include support services and often professional services or other elements. We therefore license our software generally in multiple-element arrangements. For software license arrangements that do not require significant modification or customization of the underlying software, we recognize revenue pursuant to the requirements of the American Institute of Certified Public Accountants (“AICPA”) Statement of Position 97-2, Software Revenue Recognition (“SOP 97-2”), as amended, when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. A majority of our license revenue is recognized in this manner. Revenue is presented net of sales, use and value-added taxes collected on behalf of our customers.

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

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

Multiple element arrangements for which VSOE does not exist for all undelivered elements typically occur when we introduce a new product or product bundles for which we have not established VSOE for maintenance or services under our VSOE policy. In these instances, revenue is deferred and recognized ratably over the longer of the maintenance term or services engagement or when delivery of all elements occurs. In the instances in which it has been determined that revenues on these bundled arrangements will not be recognized until VSOE has been established, at the time of recognition, we allocate these bundled arrangement fees to all of the non-license revenue categories based on VSOE of similar maintenance or consulting services. The remaining arrangement fees are then allocated to software license fee revenues using the residual method. The associated costs primarily consist of payroll and related costs to perform both the services work and provide support and royalty expense related to the license and maintenance revenue. These costs are included in cost of maintenance, services and other and cost of license based on the allocated revenue categories.

Revenue from product support and product updates, referred to as maintenance revenue, is recognized ratably over the term of the maintenance period, which in most instances is one year. Software license updates provide customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support period on a when-and-if available basis. Product support includes Internet access to technical content, as well as Internet and telephone access to technical support personnel. A majority of our customers purchase both product support and license updates when they acquire new software licenses. In addition, a majority of our customers renew their product support contracts annually.

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

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

Although infrequent, when an arrangement does not qualify for separate accounting of the software license and consulting transactions, the software license revenue is recognized together with the consulting services based on contract accounting using either the percentage-of-completion or completed-contract method. Arrangements that do not qualify for separate accounting of the software license fee and consulting services typically occur when we are requested to customize software or where we view the installation of our software as high risk in the customer's environment. This requires us to make estimates about the total cost to complete the project and the stage of completion. The assumptions, estimates, and uncertainties inherent in determining the stage of completion affect the timing and amounts of revenues and expenses reported. Changes in estimates of progress toward completion and of contract revenues and contract costs are accounted for as cumulative catch-up adjustments to the reported revenues. If we do not have a sufficient basis to measure the progress of completion or to estimate the total contract revenues and costs, revenue is recognized when the project is complete and, if applicable, final acceptance is received from the customer. We allocate these bundled arrangement fees to support and services revenues based on VSOE. The remaining arrangement fees are then allocated to software license fee revenues. The associated costs primarily consist of payroll and related costs to perform the services and royalty expense and are included in cost of maintenance, services and other and cost of license based on the allocated revenue categories.

We execute arrangements through indirect sales channels via sales agents and distributors in which the indirect sales channels are authorized to market our software products to end users. In arrangements with sales agents, revenue is recognized on a sell-through basis once an order is received from the end user, collectibility from the end user is probable, a signed license agreement from the end user has been received by us, delivery has been made to the end user and all other revenue recognition criteria have been satisfied in accordance with SOP 97-2. Sales agents are compensated on a commission basis. Distributor arrangements are those in which the resellers are authorized to market and distribute our software products to end users in specified territories and the distributor bears the risk of collection from the end user customer. We recognize revenue from transactions with distributors when the distributor submits a written purchase commitment, collectibility from the distributor is probable, a signed license agreement is received from the distributor and delivery has occurred to the distributor, provided that all other revenue recognition criteria have been satisfied in accordance with SOP 97-2. Revenue for distributor transactions is recorded on a net basis (the amount actually received by us from the distributor). We do not offer rights of return, product rotation or price protection to any of our distributors.

Accounts Receivable Allowances. We review the collectibility of our accounts receivable each period by analyzing balances based on age and record specific allowances for any balances that we determine may not be fully collectible due to the inability of the customer to pay. We also provide an additional reserve based on historical data including analysis of write-offs and other known factors. The allowance for sales adjustments primarily relates to reserves required to adjust revenue to the amount that will actually be realized. Provisions to the allowance for doubtful accounts are included in bad debt expense in general and administrative expenses and provisions for sales adjustments are recorded against revenue. If the financial condition of any customer were to deteriorate, resulting in an impairment of its ability to make payments, additional allowances could be required. Actual results may differ from our estimates for a variety of reasons.

Goodwill and Intangible Assets. Goodwill and other intangible assets at January 31, 2009 were \$6.2 million and \$0.5 million, respectively, and accounted for 3% of our total assets. All of our goodwill and intangible assets have been accounted for under the provisions of Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets" (SFAS 142). The excess cost of the acquisition over the fair value of the net assets acquired is recorded as goodwill. SFAS 142 requires that goodwill and intangible assets deemed to have indefinite lives not be amortized, but rather be tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment. Finite-lived intangible assets are required to be amortized over their useful lives and are subject to impairment evaluation under the provisions of SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144).

Goodwill is tested for impairment at least annually utilizing an "income approach" methodology, which utilizes a discounted cash flow method to determine the fair value of the reporting unit based on the present value of future benefits the reporting unit is expected to generate, and the "publicly-traded guideline company method" or the "market approach," which utilizes financial and valuation ratios of publicly traded companies that are considered comparable to QAD to determine if our valuation ratios are a fair measure of QAD's enterprise value. Significant management judgment is required in the forecasts of future operating results that are used in the discounted cash flow method of valuation. The estimates we have used are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans may change and estimates used may prove to be inaccurate. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges. For further discussion of goodwill, see note 5 within the Notes to Consolidated Financial Statements included in Item 15 of this Annual Report on Form 10-K.

Other intangible assets are tested for impairment when, in our judgment, events or changes in circumstances suggest that the carrying value of an asset may not be fully recoverable in accordance with SFAS 144. Other intangible assets arise from business combinations and consist of customer relationships, restrictive covenants related to employment agreements and trade names that are amortized, on a straight-line basis, over periods of up to five years. For further discussion of other intangible assets, see note 5 within the Notes to Consolidated Financial Statements included in Item 15 of this Annual Report on Form 10-K.

Capitalized Software Development Costs. We capitalize software development costs incurred once technological feasibility has been achieved in the form of a working model. These costs are primarily related to the localization and translation of our products. A working model is defined as an operative version of the computer software product that is completed in the same software language as the product to be ultimately marketed, performs all the major functions planned for the product and is ready for initial customer testing. We also capitalize software purchased from third parties or through business combinations as acquired software technology if such software has reached technological feasibility. Capitalized software costs are amortized on a product-by-product basis and charged to "Cost of license fees". The amortization is the greater of straight-line basis over three years, the expected useful life, or computed using a ratio of current revenue for a product compared to the estimated total of current and future revenues for that product. We periodically compare the unamortized capitalized software development costs to the estimated net realizable value of the associated product. The amount by which the unamortized capitalized software costs of a particular software product exceed the estimated net realizable value of that asset is reported as a charge to the statement of income. This review requires management judgment regarding future cash flows. If these estimates or their related assumptions require updating in the future, we may be required to recognize write-offs for these assets.

Valuation of Deferred Tax Assets and Tax Contingency Reserves. SFAS 109, “Accounting for Income Taxes” (SFAS 109), requires that the carrying value of our deferred tax assets reflects an amount that is more likely than not to be realized. At January 31, 2009, we had \$26.8 million of deferred tax assets, net of valuation allowances, consisting of \$37.4 million of gross deferred tax assets offset by valuation allowances of \$10.6 million. In the ordinary course of our business, there are many transactions and calculations where the tax law and ultimate tax determination is uncertain. As part of the process of preparing our Consolidated Financial Statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate prior to the completion and filing of tax returns for such periods. This process requires estimating both our geographic mix of income and our uncertain tax positions in each jurisdiction where we operate. These estimates involve complex issues and require us to make judgments, such as anticipating the positions that we will take on tax returns prior to actually preparing the returns and the outcomes of disputes with tax authorities. The ultimate resolution of these issues may take extended periods of time due to examinations by tax authorities. We are also required to make determinations of the need to record deferred tax liabilities and the recoverability of deferred tax assets. A valuation allowance is established to the extent that it is more likely than not that certain deferred tax assets will not be realized based on our estimation of future taxable income in each jurisdiction. There was a net decrease of valuation allowances recorded in fiscal 2009 of \$3.2 million. Should we determine that we would not be able to realize all or part of the net deferred tax asset in the future, an adjustment to deferred tax assets would increase tax expense in the period such determination was made.

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

We have reserves for taxes to address potential exposures involving tax positions that could be challenged by taxing authorities, even though we believe that the positions taken on previously filed tax returns are appropriate. The tax reserves are reviewed as circumstances warrant and adjusted as events occur that affect our potential liability for additional taxes. We are subject to income taxes in the U.S. and in numerous foreign jurisdictions, and in the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. We historically have considered undistributed earnings of our foreign subsidiaries to be indefinitely reinvested outside of the United States and accordingly, no U.S. taxes have been provided thereon.

Stock-based Compensation Expense. We are required to estimate the fair value of share-based payment awards on the date of grant. The estimated fair value of stock appreciation rights and other equity instruments is determined using the Black-Scholes valuation model, which requires us to make certain assumptions about the future. Determining the estimated fair value is affected by our stock price as well as assumptions regarding subjective and complex variables, such as expected employee exercise behavior and our expected stock price volatility over the term of the award. Determining the estimated fair value of our stock-based awards at the grant date requires judgment, including estimating volatility and the expected life of the award. Additionally, in recognizing the resultant expense, we must estimate the percentage of awards that will be forfeited and other inputs. If actual forfeitures differ significantly from the estimates, stock-based compensation expense and our results of operations could be materially impacted.

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

RECENT ACCOUNTING STANDARDS

Determination of the Useful Life of Intangible Assets

In April 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 142-3, “Determination of the Useful Life of Intangible Assets.” This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement of Financial Accounting Standards (SFAS) No. 142, “Goodwill and Other Intangible Assets” (SFAS 142). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141 (Revised 2007), “Business Combinations,” and other U.S. generally accepted accounting principles (GAAP). This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. We do not expect the adoption of this FSP to have a material effect on our financial position, results of operations or cash flows.

Business Combinations

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

Minority Interests

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

RESULTS OF OPERATIONS

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

	Years Ended January 31,		
	2009	2008	2007
Revenue:			
License fees	18%	23%	23%
Maintenance and other	51	49	52
Services	31	28	25
Total revenue	100	100	100
Costs and expenses:			
Cost of license fees	4	4	4
Cost of maintenance, service and other revenue	42	38	36
Sales and marketing	28	27	27
Research and development	17	16	17
General and administrative	13	13	13
Amortization of intangibles from acquisitions	—	—	—
Goodwill impairment loss	5	—	—
Total costs and expenses	109	98	97
Operating (loss) income	(9)	2	3
Other income	—	—	(2)
(Loss) income before income taxes	(9)	2	5
Income tax (benefit) expense	—	—	2
Net (loss) income	(9)%	2%	3%

Comparison of fiscal 2009 revenue to fiscal 2008

Total revenue for fiscal 2009 was \$263.4 million, an increase of \$0.7 million, or less than 1%, from \$262.7 million in fiscal 2008. Our customers are widely dispersed and no single customer accounted for more than 10% of total revenue in any of the last three fiscal years. Holding foreign currency exchange rates constant to those prevailing in fiscal 2008, total revenue for the current year would have been approximately \$262.9 million, or \$0.2 million higher when compared to the same period last year. When comparing categories within total revenue at constant rates, our current results included an increase in revenue in the services and maintenance and other revenue categories partially offset by a decrease in the license revenue category. Revenue outside the North America region as a percentage of total revenue was 57% in fiscal 2009, as compared to 56% in fiscal 2008. Revenue increased in the Europe, Middle East and Africa (EMEA), Asia Pacific and Latin America geographic regions during fiscal 2009 compared to fiscal 2008 while total revenue attributable to the North America region decreased during fiscal 2009 compared to fiscal 2008. Our products are sold to manufacturing companies that operate mainly in the following six industries: automotive, consumer products, food and beverage, high technology, industrial products and life sciences. Our fiscal 2009 revenue by industry was approximately 31% in automotive, 13% in consumer products, 10% in food and beverage, 14% in high technology, 21% in industrial products and 11% in life sciences. These percentages were fairly consistent with fiscal 2008. Although revenue generated from the automotive sector was consistent year over year, there was a decline in revenue in the fourth quarter of fiscal 2009, compared to the fourth quarter fiscal 2008 primarily due to a decline in revenue from the U.S. automotive suppliers. We expect a decline in total revenue in fiscal 2010 compared to revenue recognized in fiscal 2009.

License revenue was \$46.7 million for fiscal 2009, down \$14.8 million, or 24%, from \$61.5 million in fiscal 2008. We believe significant declines in demand for our customers' products generally resulted in a preservation of capital as well as delays in license purchasing decisions by our customers. This was especially true in the automotive sector, which represents approximately a third of our business. Holding foreign currency exchange rates constant to those prevailing in fiscal 2008, license revenue for fiscal 2009 would have been approximately \$47.1 million, representing a \$14.4 million, or 23%, decrease from the same period last year. We experienced decreases in license revenue in all of our geographic regions, except for our EMEA region. One of the metrics that management uses to measure license revenue performance is the number of customers that have placed sizable license orders in the period. During fiscal 2009, 33 customers placed license orders totaling more than \$0.3 million, five of which exceeded \$1.0 million. In comparison, during fiscal 2008 46 customers placed license orders totaling more than \$0.3 million, nine of which exceeded \$1.0 million. Discounts associated with license revenue were consistent when comparing fiscal 2009 to fiscal 2008. We expect a decline in license revenue in fiscal 2010 compared to license revenue recognized in fiscal 2009.

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

Maintenance and other revenue was \$133.7 million for fiscal 2009, representing an increase of \$5.5 million, or 4%, from \$128.2 million over the same period in fiscal 2008. When we hold exchange rates constant to those prevailing in the same period of fiscal 2008, maintenance and other revenue for fiscal 2009 would have been unchanged at \$133.7 million. Maintenance and other revenue increased across all our geographic regions except in the EMEA region, which experienced a decrease in fiscal 2009 compared to fiscal 2008. We track our rate of contract renewals by determining the number of customer sites with active contracts as of the end of the previous reporting period and compare this to the number of customers that renewed, or are in the process of renewing, their maintenance contract as of the current period end. Our maintenance contract renewal rate has remained consistent, in excess of 90% for the fiscal years 2009, 2008 and 2007. We have recently seen some extended negotiations during the renewal process, which poses an increased risk in maintaining our maintenance renewal rate in fiscal 2010.

Services revenue was \$83.1 million for fiscal 2009, representing an increase of \$10.0 million, or 14%, when compared to services revenue of \$73.1 million earned in the same period last year. Holding exchange rates constant to those prevailing during the prior year period, services revenue for fiscal 2009 would have been approximately \$82.1 million, reflecting a \$9.0 million, or 12%, increase from the same period last year. When comparing fiscal 2009 to fiscal 2008, services revenue increased across all our geographic regions. The increase in services revenue period over period was primarily due to global services implementations related to a small number of large, multi-national customers. During the fourth quarter of fiscal 2009, a large services engagement in the automotive sector was scaled back significantly impacting our fourth quarter services results. We expect a decline in services revenue in fiscal 2010 compared to fiscal 2009 services revenue.

Comparison of fiscal 2008 revenue to fiscal 2007

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

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

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

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

Comparison of costs and expenses—fiscal 2009, 2008 and 2007

Restructuring

<i>(in thousands)</i>	Year Ended January 31, 2009
Restructuring Charges:	
Cost of maintenance, service and other revenue	\$ 854
Sales and marketing	1,607
Research and development	590
General and administrative	300
Total restructuring charges	\$ 3,351

In the fourth quarter of fiscal 2009, we initiated a restructuring program in order to reduce our operating costs. This program reduced the number of employees by approximately 125 full-time positions globally. In connection with this restructuring plan, we recorded restructuring charges totaling \$3.4 million related to one-time termination benefits for the elimination of approximately 110 of these full-time positions during the fourth quarter of fiscal 2009. Charges associated with these one-time termination benefits have been recorded in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." As of January 31, 2009, \$0.5 million was paid. The remaining accrual associated with the termination benefits is expected to be substantially paid during the first quarter of fiscal 2010. In the first quarter of fiscal 2010, we expect to record \$0.3 million to \$0.5 million primarily related to one-time employee severance arrangements for the elimination of approximately 15 full-time positions globally. If our revenue should continue to decline significantly we will look to further reduce our operating expenses to align them with our financial condition, including the possibility of a further restructuring. In taking these actions, we may incur additional costs which could negatively impact our net income and cash flows from operating activities.

Total Cost of Revenue. Total cost of revenue (combined cost of license fees and cost of maintenance, services and other revenue) was \$121.6 million for fiscal 2009, \$110.9 million for fiscal 2008 and \$93.5 million for fiscal 2007, and as a percentage of total revenue was 46% for fiscal 2009, 42% for fiscal 2008 and 40% for fiscal 2007. Holding exchange rates constant to the most recent preceding fiscal year, total cost of revenue would have been approximately \$120.8 million and \$106.8 million for fiscal 2009 and 2008, respectively, reflecting the impact of the weakening U.S. dollar in fiscal 2008 and during the first half of fiscal 2009 in comparison to other currencies. At constant exchange rates, the total cost of revenue percentage for fiscal 2009 and 2008 would have been unchanged at 46% and 42%, respectively. Changes in the cost of revenue as a percentage of total revenue were due to a decrease in license revenue and an increase in services revenue as a percentage of total revenue as margins related to services revenue are lower than the margins related to license and maintenance and other revenue.

The non-currency related increase in total cost of revenue of \$10.0 million from fiscal 2008 to fiscal 2009 was primarily due to an increase in the cost of maintenance, services and other revenue mainly related to increased services costs to generate additional services revenue. Cost of revenue consisted of higher salaries and related expenses of \$4.9 million primarily attributable to increased headcount in services and third party contractors expense of \$2.9 million. In addition, during the fourth quarter of fiscal 2009, we initiated a reduction in workforce and as a result severance charges of \$0.9 million were incurred primarily related to the reduction of approximately 50 positions in services. We expect a decline in cost of revenue in fiscal 2010 compared to cost of revenue recognized in fiscal 2009 mainly as a result of lower personnel and contractor expenses in services.

Total cost of revenue increased \$17.4 million from fiscal 2007 to fiscal 2008. Holding foreign currency exchange rates constant to those in fiscal 2007, total cost of revenue would have increased approximately \$13.3 million. At constant exchange rates, the total cost of revenue percentage for fiscal 2008 and 2007 would have been 42% and 40%, respectively. Changes in the cost of revenue as a percentage of total revenue was primarily due to changes in revenue mix as services revenue, which has lower margins, grew at a higher rate than license and maintenance and other revenue.

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

Sales and Marketing. Sales and marketing expense was \$73.0 million, \$71.0 million and \$63.8 million for fiscal 2009, 2008 and 2007, respectively. Holding foreign currency exchange rates constant to fiscal 2008, fiscal 2009 sales and marketing expense would have been approximately \$72.9 million, representing an increase of \$1.9 million, or 3%. The increase of \$1.9 million from fiscal 2008 to fiscal 2009 primarily related to increases in salaries and related expenses of \$3.4 million and severance charges of \$1.6 million related to the elimination of approximately 35 positions. In addition, in November, 2008 we hosted our EMEA Explore event which cost \$0.4 million. In January, 2009 we canceled our fiscal 2010 Explore event and incurred cancellation charges of \$0.4 million. These increases in expenses were offset by lower sales agent fees of \$1.5 million and lower commissions of \$1.0 million primarily relating to lower license revenue, in addition to lower travel of \$0.5 million and lower marketing expense of \$0.5 million primarily related to our cost cutting initiatives. We expect sales and marketing expense to decrease in fiscal 2010 compared with fiscal 2009 primarily due to lower personnel and savings from the cancellation of our annual Explore event.

Sales and marketing expense increased \$7.2 million from fiscal 2007 to fiscal 2008. Holding foreign currency exchange rates constant to those in fiscal 2007, fiscal 2008 sales and marketing expense would have been approximately \$68.5 million, representing an increase of \$4.7 million, or 7%. The \$4.7 million increase from fiscal 2007 to fiscal 2008 primarily related to higher commissions and bonuses of \$3.4 million due to accelerators associated with our higher revenue levels and higher sales agent commissions of \$0.8 million. Fiscal 2008 also included increased salary expense of \$1.4 million associated with an increase in the number of sales and marketing employees, higher travel expenses of \$0.5 million and increased recruiting expenses of \$0.4 million. Higher travel and recruiting expenses were primarily due to the hiring and training of our sales and marketing team. These increases were partially offset by lower marketing expense of \$1.6 million, due in part to not holding our EMEA Explore Conference in fiscal 2008.

Research and Development. Research and development expense, which is managed on a global basis, was \$43.1 million, \$41.1 million and \$40.1 million in fiscal 2009, 2008 and 2007, respectively. Holding foreign currency exchange rates constant to fiscal 2008, fiscal 2009 research and development expense would have been approximately \$42.6 million, representing an increase of \$1.5 million, or 4%. The increase of \$1.5 million from fiscal 2008 to fiscal 2009 was primarily related to increases in salaries and related expenses of \$1.5 million and severance charges of \$0.6 million related to a reduction in workforce initiated in the fourth quarter of fiscal 2009. These increases in expenses were partially offset by a decrease in travel expense of \$0.6 million.

Research and development expense increased \$1.0 million from fiscal 2007 to fiscal 2008. Holding foreign currency exchange rates constant to those in fiscal 2007, fiscal 2008 research and development expense would have been approximately \$39.7 million, representing a decrease of \$0.4 million, or 1%. The decrease of \$0.4 million from fiscal 2007 to fiscal 2008 was primarily related to lower travel expense of \$0.5 million.

General and Administrative. General and administrative expense was \$33.8 million, \$33.5 million, and \$29.7 million for fiscal 2009, 2008 and 2007, respectively. Holding foreign currency exchange rates constant to fiscal 2008, fiscal 2009 general and administrative expense would have been approximately \$33.9 million, representing an increase of \$0.4 million, or 1%. The \$0.4 million increase from fiscal 2008 to 2009 was primarily due to higher salaries and related expenses of \$1.1 million and an increase in bad debt expense of \$1.2 million, partially offset by a decrease in professional fees of \$0.8 million related to tax consulting, lower bonuses of \$0.4 million and lower stock compensation expense of \$0.4 million. During the fourth quarter of fiscal 2009, we initiated a reduction in workforce and as a result severance charges of \$0.3 million were incurred in the general and administrative category.

General and administrative expenses increased \$3.8 million from fiscal 2007 to fiscal 2008. Holding foreign currency exchange rates constant to fiscal 2007, fiscal 2008 general and administrative expenses would have been approximately \$32.6 million, representing an increase of \$2.9 million, or 10%. The \$2.9 million increase from fiscal 2007 to 2008 was primarily due to higher personnel expenses of \$1.9 million, primarily related to salary and bonus expense and higher professional fees of \$1.4 million related to tax consulting. These amounts were partially offset by lower bad debt expense of \$0.4 million.

Goodwill Impairment Charge. SFAS No. 142 requires that we assess goodwill for impairment at least annually or more frequently if indicators of impairment exist. Our annual impairment review is as of November 30th of each year. During the fourth quarter of fiscal 2009 our license revenue declined by over 50% from license revenue in the fourth quarter of the fiscal 2008, indicating a potential impairment. Under SFAS No. 142, the fair value of a reporting unit is compared to its carrying value and, if the fair value exceeds its carrying value, then goodwill is not impaired. If the carrying value of a reporting unit exceeds the fair value, then we must compare the implied fair value of goodwill to the carrying value of goodwill. If the implied fair value of a reporting unit's goodwill exceeds the carrying value then goodwill is not impaired; otherwise, an impairment loss will be recorded by the amount the carrying value exceeds the implied fair value. We have determined that we operate under four reporting units that are the same as our reporting segments, as defined in note 11, "Business Segment Information" within Notes to Consolidated Financial Statements included in Item 15 of this Annual Report on Form 10-K. Our impairment analysis indicated that the carrying value of goodwill in our EMEA segment exceeded the implied fair value of goodwill, resulting in an impairment charge of \$14.4 million in the fourth quarter of fiscal 2009. As of January 31, 2009, there was no remaining goodwill balance related to the EMEA reporting unit.

Amortization of Intangibles from Acquisitions. Amortization of intangibles from acquisitions totaled \$0.7 million, \$0.7 million and \$0.4 million in fiscal years 2009, 2008 and 2007, respectively. Amortization expense in each of the three years was primarily due to the intangible assets acquired during fiscal 2007 from our acquisitions of Precision, FBOS and Bisgen Ltd. (Bisgen). Amortization increased from fiscal 2007 to fiscal 2008 due to a partial year of amortization from the acquisitions in fiscal 2007. We expect amortization expense for intangibles in fiscal 2010 to decrease to \$0.4 million.

Total Other Income. Total other income was \$0.4 million, \$0.2 million and \$3.3 million in fiscal 2009, 2008 and 2007, respectively. The \$0.2 million favorable change from fiscal 2008 to fiscal 2009 was primarily related to a \$1.0 million favorable foreign exchange change caused by the strengthening of the U.S. dollar against foreign currencies in the second half of fiscal year 2009, partially offset by a decrease in interest income of \$0.8 million. Lower interest income was due to both lower interest rates and lower average balances in our investment accounts.

The \$3.1 million unfavorable change from fiscal 2007 to fiscal 2008 was primarily related to a \$2.6 million unfavorable foreign exchange change caused by the weakening of the U.S. Dollar against foreign currencies. A decrease in interest income of \$0.3 million also contributed to the change. Lower interest income was primarily due to lower average balances in our investment accounts.

Income Tax Expense. We recorded income tax expense of \$0.4 million, \$0.3 million and \$4.1 million in the fiscal years ended January 31, 2009, 2008 and 2007, respectively. Our fiscal 2009 income tax expense remained consistent with fiscal 2008 despite the significant book loss in fiscal 2009 compared to income in fiscal 2008. We would have sustained a tax benefit in fiscal 2009 if not for the significant portion of goodwill impairment that was non-deductible for tax purposes. In addition, the profits generated in fiscal 2008 were offset by net operating losses thus the main drivers of income tax expense for both years were withholding taxes, non-deductible equity compensation and Subpart F income.

Our income tax expense decreased from fiscal 2007 to fiscal 2008 primarily due to a decrease in the effective tax rate associated with changes in the jurisdictional mix of income and research and development credits that were applied in the fourth quarter of fiscal 2008.

We have not provided tax benefits for certain jurisdictions in loss positions due to management's determination that it was more likely than not that tax benefits associated with previously reserved net deferred tax assets in such jurisdictions would not be realized. In fiscal 2009 we released \$0.7 million valuation allowance on deferred tax assets for certain entities that management has determined will generate future taxable income.

For further information regarding income taxes, see note 8 within the Notes to Consolidated Financial Statements included in Item 15 of this Annual Report on Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES

Our primary source of cash is from the sale of licenses, maintenance and services to our customers. Our primary use of cash is payment of our operating costs which consist primarily of employee-related expenses, such as compensation and benefits, as well as general operating expenses for facilities and overhead costs. In addition to operating expenses, we also use cash for capital expenditures and to invest in our growth initiatives, which could include acquisitions of products, technology and businesses and funding of our dividend and stock repurchase programs. See further discussion of these items below.

At January 31, 2009, our principal sources of liquidity were cash and cash equivalents totaling \$31.5 million and net accounts receivable of \$71.0 million. At January 31, 2009, our cash and cash equivalents consisted of current bank accounts, registered money market funds and time delineated deposits. We had no investments in securities with an underlying exposure to sub-prime mortgages nor did we hold auction rate notes or similar securities. Approximately 60% of our cash and cash equivalents were held in U.S. dollar denominated accounts as of January 31, 2009 and 2008. We have a U.S. line of credit facility that permits unsecured short-term borrowings of up to \$20.0 million. Our line of credit agreement contains customary covenants that could restrict our ability to incur additional indebtedness or make dispositions of assets if we fail to maintain their financial covenants. Our line of credit is available for working capital or other business needs. We have not drawn down on the line of credit during any of the last three fiscal years nor do we expect to draw down on the line of credit during fiscal 2010. The facility expires in April 2011.

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Our primary commercial banking relationship is with Bank of America and its global affiliates. Our cash and cash equivalents are held by diversified financial institutions globally, and as of January 31, 2009 the portion of our cash and cash equivalents held by Bank of America was approximately 35%. Recently, Bank of America, like many financial institutions, has obtained government assistance.

Net cash flows provided by operating activities was \$7.3 million for fiscal 2009 and primarily comprised of our net loss offset by cashflow from accounts receivable and the effect of non-cash expenses associated with the impairment of goodwill related to our EMEA segment, depreciation and amortization and stock compensation expense. The primary working capital source of cash was a decrease in accounts receivable. The decrease in accounts receivable relates primarily to reduced billings at the end of fiscal 2009 due to a decline in revenue. The primary working capital use of cash was a decrease in deferred revenue and decreased accrued expenses primarily due to lower accrued employee bonuses, commissions and vacation and lower accrued royalties. In fiscal 2010, we expect net cash flows provided by operating activities to be affected by lower revenue combined with payments related to our restructuring plan.

Capital expenditures for fiscal 2009 were \$6.3 million and primarily related to computer equipment, software and leasehold improvements. In fiscal 2010, we have no plans for further leasehold improvements and expect our capital expenditures to be reduced by 30% to 50%.

Dividend related payments for fiscal 2009 totaled \$3.1 million. The Board of Directors evaluates our ability to continue to pay dividends on a quarterly basis.

Stock repurchase related payments for 2009 was \$2.2 million. We do not currently have a stock repurchase program in place; however the Board of Directors evaluates our position relating to future potential repurchases on a regular basis.

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

DSO under the countback method was 75 days at January 31, 2009, compared to 58 days at January 31, 2008. DSO using the average method, which utilizes the accounts receivable balance and *earned* revenue in the calculation, was 108 days and 99 days at January 31, 2009 and 2008, respectively. The increase in DSO was primarily related to less billings in fiscal 2009 compared to fiscal 2008 and the overall aging of our accounts receivable balances, specifically within the sixty to ninety day aged category and particularly in the automotive industry. We believe our reserve methodology is adequate and our reserves are properly stated as of January 31, 2009. We will continue to monitor our receivables closely given the economic environment.

There have been no material changes in our contractual obligations or commercial commitments. Cash requirements for items other than normal operating expenses are anticipated for the following: capital expenditures, dividend payments and restructuring costs. In fiscal 2010, we do not have further cash payment obligations related to previous acquisitions with the exception of one additional performance payment of up to \$0.4 million related to our acquisition of FBOS. Although not expected in fiscal 2010, we may require cash for acquisitions of new businesses, software products or technologies complementary to our business.

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

CONTRACTUAL OBLIGATIONS

The following summarizes our significant contractual obligations at January 31, 2009 and the effect these contractual obligations are expected to have on our liquidity and cash flows in future periods.

	Year Ended January 31,					Thereafter	Total
	2010	2011	2012	2013	2014		
	(In millions)						
Notes payable	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.4	\$ 15.4	\$ 17.0
Notes payable interest payments	1.1	1.1	1.1	1.1	1.0	0.5	5.9
Lease obligations	7.9	5.9	3.6	1.6	0.9	1.8	21.7
Total	<u>\$ 9.3</u>	<u>\$ 7.3</u>	<u>\$ 5.0</u>	<u>\$ 3.0</u>	<u>\$ 2.3</u>	<u>\$ 17.7</u>	<u>\$ 44.6</u>

We have omitted unrecognized tax benefits from this table due to the inherent uncertainty regarding the timing of potential issue resolution within each jurisdiction. Specifically, either (a) the underlying positions have not been fully enough developed under audit to quantify at this time, or (b) the years relating to the issues for certain jurisdictions are not under audit. As of January 31, 2009, we had \$2.8 million of unrecognized tax benefits. For further information regarding these unrecognized tax benefits see Note 8 "Income Taxes" within Notes to Consolidated Financial Statements.

Credit Facility

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

The Facility provides that we will maintain certain financial and operating covenants which include, among other provisions, a minimum total leverage ratio of 1.5 to 1.0, a minimum liquidity ratio of 1.3 to 1.0, a minimum 12-month trailing EBITDA of \$10 million and a minimum fixed charge coverage ratio of 2.00 to 1.00. Borrowings under the Facility bear interest at a floating rate based on LIBOR or prime plus the corresponding applicable margins, ranging from 0.75% to 1.75% for the LIBOR option or -0.25% to 0.25% for the prime option, depending on our funded debt to 12-month trailing EBITDA ratio. At January 31, 2009, a prime rate borrowing would have had an effective rate of 3.0% and a 30-day LIBOR borrowing would have had an effective rate of approximately 1.17%.

As of January 31, 2009, we were not in compliance with two of the four financial covenants of the Facility; the 12-month trailing EBITDA and the minimum fixed charge ratio. Bank of America, N.A. agreed to waive compliance with these covenants for the period ended January 31, 2009.

Effective April 10, 2009, we executed an amendment to the Facility to amend the 12-month trailing EBITDA and fixed charge ratio covenants for future reporting periods. For the reporting period beginning February 1, 2009 through the expiration of the Facility, the minimum 12-month trailing EBITDA is reduced to \$5 million with the definition of EBITDA amended to exclude goodwill impairment charges which might arise under the provisions of Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets". The minimum fixed charge ratio was amended to 1.3 to 1.0 for the period February 1, 2009 through October 31, 2009 and thereafter 1.5 to 1.0.

As of January 31, 2009 there were no borrowings under the Facility.

Notes Payable

In July 2004, we entered into a loan agreement with Mid-State Bank & Trust. The loan had an original principal amount of \$18.0 million and bears interest at a fixed rate of 6.5%. This loan is a non-recourse loan, which is secured by real property located in Santa Barbara, California. The terms of the loan provide that we will make 119 monthly payments consisting of principal and interest totaling \$115,000 and one final principal payment of \$15.4 million. The loan matures in July 2014. A portion of these proceeds were used to repay our then-existing construction loan with Santa Barbara Bank and Trust. The balance of the note payable at January 31, 2009 was \$17.0 million.

Lease Obligations

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Rates. In fiscal year 2009 approximately 35% of our revenue was denominated in foreign currencies compared to 30% in fiscal years 2008 and 2007. We also incurred approximately 45% of our expenses in currencies other than the U.S. dollar in each of the last three fiscal years. As a result, fluctuations in the values of the respective currencies relative to the currencies in which we generate revenue could adversely affect us.

Fluctuations in currencies relative to the U.S. dollar have affected, and will continue to affect, period-to-period comparisons of our reported results of operations. In fiscal 2009, 2008 and 2007, foreign currency transaction and remeasurement (gains) losses totaled \$(0.1) million, \$0.9 million and \$(1.7) million, respectively, and are included in “Other (income) expense, net” in our Consolidated Statements of Income. Due to constantly changing currency exposures and the volatility of currency exchange rates, we may experience currency losses in the future and we cannot predict the effect of exchange rate fluctuations upon future operating results. Although we do not currently undertake hedging transactions, we may choose to hedge a portion of our currency exposure in the future, as we deem appropriate.

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

We prepared sensitivity analyses of our interest rate exposure and our exposure from anticipated investment and borrowing levels for fiscal 2009 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 2009 fiscal year-end rates would not have a material adverse effect on the fair value of investments and would not materially impact our results of operations or financial condition for the next fiscal year.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

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

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

Management has assessed the effectiveness of QAD's internal control over financial reporting as of January 31, 2009 based on the criteria described in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's assessment, management has concluded that QAD's internal control over financial reporting was effective as of January 31, 2009.

Our independent registered public accounting firm, KPMG LLP, has audited our internal control over financial reporting as of January 31, 2009, as stated in their report included in this Annual Report on Form 10-K.

(c) Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

(d) Limitations on the Effectiveness of Controls

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
QAD Inc.:

We have audited QAD Inc.'s internal control over financial reporting as of January 31, 2009 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). QAD Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying report entitled *Management's Report on Internal Control Over Financial Reporting* included in Item 9A.(b). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, QAD Inc. maintained, in all material respects, effective internal control over financial reporting as of January 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of QAD Inc. and subsidiaries as of January 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended January 31, 2009, and our report dated April 14, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Los Angeles, California
April 14, 2009

ITEM 9B. OTHER INFORMATION

On April 10, 2009, we entered into an amendment and waiver to our credit agreement with Bank of America, N.A. The new agreement amended two of the original debt covenants as described in note 7 "Debt" within the Notes to Condensed Financial Statements included in Item 15 of this Annual Report on Form 10-K. The foregoing is a summary of the material terms of the amendment and waiver and does not purport to be complete. The agreement is filed herewith as Exhibit 10.11(a) and incorporated by reference under this Item 9B.

On December 18, 2008, we entered into change in control agreements with our President, our Chief Executive Officer and our Chief Financial Officer. These agreements provide acceleration of certain equity awards and severance compensation protection following a change in control of QAD. The specific terms of the agreement are described herein under Item 11, "Executive Compensation," which is a summary only and does not purport to be complete. The agreements are filed herewith as Exhibits 10.7, 10.8 and 10.9(a) and incorporated by reference under this Item 9B.

PART III

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

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

Information regarding QAD directors is set forth in the section entitled “Election of Directors” appearing in our Definitive Proxy Statement for the Annual Meeting of Stockholders (Proxy Statement) to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended January 31, 2009, which information is incorporated herein by reference.

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

ITEM 11. *EXECUTIVE COMPENSATION*

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

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

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

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

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

ITEM 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

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

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. FINANCIAL STATEMENTS

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

QAD INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Balance Sheets as of January 31, 2009 and 2008	44
Consolidated Statements of Operations for the years ended January 31, 2009, 2008 and 2007	45
Consolidated Statement of Stockholders' Equity and Comprehensive Income (Loss) for the years ended January 31, 2009, 2008 and 2007	46
Consolidated Statements of Cash Flows for the years ended January 31, 2009, 2008 and 2007	47
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2. INDEX TO FINANCIAL STATEMENT SCHEDULES

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

	Page
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS	75

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

3. INDEX TO EXHIBITS

See the Index of Exhibits at page 77.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
QAD Inc.:

We have audited the accompanying consolidated balance sheets of QAD Inc. and subsidiaries as of January 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended January 31, 2009. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement Schedule II. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of QAD Inc. and subsidiaries as of January 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended January 31, 2009, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 7 to the consolidated financial statements, effective February 1, 2007, the Company adopted the provisions of Financial Accounting Standard Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), QAD Inc.'s internal control over financial reporting as of January 31, 2009, based on criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 14, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California
April 14, 2009

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

	January 31,	
	2009	2008
Assets		
Current assets:		
Cash and equivalents	\$ 31,467	\$ 45,613
Accounts receivable, net of allowances of \$3,573 and \$3,657 at January 31, 2009 and 2008, respectively	70,954	83,027
Other current assets	19,092	22,742
Total current assets	121,513	151,382
Property and equipment, net	41,438	42,450
Capitalized software costs, net	5,699	8,783
Goodwill	6,237	22,591
Other assets, net	18,786	10,687
Total assets	<u>\$ 193,673</u>	<u>\$ 235,893</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 266	\$ 274
Accounts payable	12,494	12,249
Deferred revenue	80,695	89,349
Other current liabilities	31,081	40,664
Total current liabilities	124,536	142,536
Long-term debt	16,717	16,998
Other liabilities	4,324	3,764
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value. Authorized 5,000,000 shares; none issued or outstanding	—	—
Common stock, \$0.001 par value. Authorized 150,000,000 shares; issued 35,350,481 shares and 35,347,367 shares at January 31, 2009 and 2008, respectively	35	35
Additional paid-in capital	139,930	135,362
Treasury stock, at cost (4,597,758 shares and 4,596,476 shares at January 31, 2009 and 2008, respectively)	(36,614)	(36,336)
Accumulated deficit	(48,478)	(21,596)
Accumulated other comprehensive loss	(6,777)	(4,870)
Total stockholders' equity	48,096	72,595
Total liabilities and stockholders' equity	<u>\$ 193,673</u>	<u>\$ 235,893</u>

See accompanying notes to consolidated financial statements.

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

	Years Ended January 31,		
	2009	2008	2007
Revenue:			
License fees	\$ 46,673	\$ 61,491	\$ 54,425
Maintenance and other	133,717	128,183	122,740
Services	83,050	73,073	58,422
Total revenue	263,440	262,747	235,587
Costs and expenses:			
Cost of license fees	9,752	9,794	8,307
Cost of maintenance, service and other revenue	111,819	101,072	85,240
Sales and marketing	73,025	71,016	63,790
Research and development	43,107	41,069	40,053
General and administrative	33,763	33,459	29,695
Amortization of intangibles from acquisitions	734	749	365
Goodwill impairment loss	14,406	—	—
Total costs and expenses	286,606	257,159	227,450
Operating (loss) income	(23,166)	5,588	8,137
Other (income) expense:			
Interest income	(1,433)	(2,243)	(2,533)
Interest expense	1,245	1,362	1,136
Other (income) expense, net	(244)	720	(1,874)
Total other income	(432)	(161)	(3,271)
(Loss) income before income taxes	(22,734)	5,749	11,408
Income tax expense	361	333	4,132
Net (loss) income	\$ (23,095)	\$ 5,416	\$ 7,276
Basic net (loss) income per share	\$ (0.75)	\$ 0.17	\$ 0.22
Diluted net (loss) income per share	\$ (0.75)	\$ 0.17	\$ 0.22

See accompanying notes to consolidated financial statements.

QAD INC.

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

(in thousands)

	Common Stock and Additional Paid-in Capital		Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income (Loss)
	Shares	Amount	Shares	Amount				
Balance, January 31, 2006	35,350	\$123,449	(2,814)	\$(20,752)	\$ (24,285)	\$ (6,253)	\$ 72,159	
Cumulative effect of adjustment resulting from the adoption of SAB No. 108	—	—	—	—	420	—	420	
Adjusted balance at January 31, 2006	35,350	123,449	(2,814)	(20,752)	(23,865)	(6,253)	72,579	
Comprehensive income:								
Net income	—	—	—	—	7,276	—	7,276	\$ 7,276
Foreign currency translation adjustments	—	—	—	—	—	(1,095)	(1,095)	(1,095)
Total comprehensive income								<u>\$ 6,181</u>
Stock award exercises	2	6	559	4,022	(2,308)	—	1,720	
Dividends declared (\$0.10 per share)	—	—	—	—	(3,245)	—	(3,245)	
Minority shareholder dividend	—	—	—	—	(165)	—	(165)	
Stock compensation expense	—	5,400	—	—	—	—	5,400	
Restricted stock	—	132	(12)	(132)	—	—	—	
Unearned compensation-restricted stock	—	110	—	—	—	—	110	
Repurchase of common stock	—	—	(794)	(6,008)	—	—	(6,008)	
Balance, January 31, 2007	35,352	129,097	(3,061)	(22,870)	(22,307)	(7,348)	76,572	
Cumulative effect of the adoption of FIN 48	—	—	—	—	681	—	681	
Adjusted balance at February 1, 2007	35,352	129,097	(3,061)	(22,870)	(21,626)	(7,348)	77,253	
Comprehensive income:								
Net income	—	—	—	—	5,416	—	5,416	\$ 5,416
Foreign currency translation adjustments	—	—	—	—	—	2,478	2,478	2,478
Total comprehensive income								<u>\$ 7,894</u>
Stock award exercises	7	10	689	5,125	(2,225)	—	2,910	
Tax benefit from stock options	—	216	—	—	—	—	216	
Dividends declared (\$0.10 per share)	—	—	—	—	(3,161)	—	(3,161)	
Stock compensation expense	—	6,162	—	—	—	—	6,162	
Restricted stock	(12)	(132)	12	132	—	—	—	
Unearned compensation-restricted stock	—	44	—	—	—	—	44	
Repurchase of common stock	—	—	(2,236)	(18,723)	—	—	(18,723)	
Balance, January 31, 2008	35,347	135,397	(4,596)	(36,336)	(21,596)	(4,870)	72,595	
Comprehensive loss:								
Net loss	—	—	—	—	(23,095)	—	(23,095)	\$ (23,095)
Foreign currency translation adjustments	—	—	—	—	—	(1,907)	(1,907)	(1,907)
Total comprehensive loss								<u>\$ (25,002)</u>
Stock award exercises	3	(1)	187	1,382	(798)	—	583	
Tax shortfall from stock options	—	(355)	—	—	—	—	(355)	
Stock compensation expense	—	5,505	—	—	—	—	5,505	
Dividends declared (\$0.10 per share)	—	—	—	—	(3,055)	—	(3,055)	
Restricted stock	—	(625)	75	559	66	—	—	
Unearned compensation-restricted stock	—	44	—	—	—	—	44	
Repurchase of common stock	—	—	(264)	(2,219)	—	—	(2,219)	
Balance, January 31, 2009	<u>35,350</u>	<u>\$139,965</u>	<u>(4,598)</u>	<u>\$(36,614)</u>	<u>\$ (48,478)</u>	<u>\$ (6,777)</u>	<u>\$ 48,096</u>	

See accompanying notes to consolidated financial statements.

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

	Years Ended January 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net (loss) income	\$ (23,095)	\$ 5,416	\$ 7,276
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	11,134	9,417	8,260
Provision for doubtful accounts and sales adjustments	1,665	690	629
Tax benefit from reversal of deferred tax valuation allowance	(658)	—	—
Loss (gain) on disposal of property and equipment	11	(73)	12
Goodwill impairment loss	14,406	—	—
Exit costs	385	59	739
Stock compensation expense	5,516	6,206	5,461
Excess tax benefits from stock awards	(75)	(216)	—
Other, net	(474)	(485)	(62)
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	7,593	(13,881)	(4,173)
Other assets	(3,888)	(849)	(516)
Accounts payable	1,496	(1,558)	1,087
Deferred revenue	(3,685)	8,943	(120)
Other liabilities	(3,078)	2,206	283
Net cash provided by operating activities	7,253	15,875	18,876
Cash flows from investing activities:			
Purchase of property and equipment	(6,338)	(5,165)	(4,631)
Proceeds from sale of intangible assets	—	—	906
Proceeds from sale of marketable securities	275	—	—
Capitalized software costs	(894)	(1,428)	(1,510)
Restricted cash	—	1,575	(2,612)
Acquisitions of businesses, net of cash acquired	(7,059)	(4,749)	(8,516)
Proceeds from sale of property and equipment	—	104	204
Net cash used in investing activities	(14,016)	(9,663)	(16,159)
Cash flows from financing activities:			
Repayments of debt	(288)	(277)	(310)
Dividends paid	(3,067)	(3,188)	(3,249)
Proceeds from issuance of common stock	583	2,910	1,720
Excess tax benefits from stock awards	75	216	—
Repurchase of common stock	(2,219)	(18,723)	(6,008)
Changes in cash overdraft	468	649	975
Minority shareholder payment	—	—	(389)
Net cash used in financing activities	(4,448)	(18,413)	(7,261)
Effect of exchange rates on cash and equivalents	(2,935)	3,622	(1,235)
Net decrease in cash and equivalents	(14,146)	(8,579)	(5,779)
Cash and equivalents at beginning of year	45,613	54,192	59,971
Cash and equivalents at end of year	<u>\$ 31,467</u>	<u>\$ 45,613</u>	<u>\$ 54,192</u>

See accompanying notes to consolidated financial statements.

QAD INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

	Years Ended January 31,		
	2009	2008	2007
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	\$ 1,184	\$ 1,292	\$ 1,218
Income taxes, net of refunds	3,942	2,244	1,176
Supplemental disclosure of non-cash activities:			
Obligations associated with dividend declaration	768	781	808
Obligations associated with acquisitions	—	1,210	8,632

See accompanying notes to consolidated financial statements.

QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

QAD Inc. is a global provider of enterprise software applications, professional services and application support for manufacturing companies. QAD software is used by manufacturing companies that operate mainly in six industries: automotive, consumer products, high technology, food and beverage, industrial products and life sciences. QAD Enterprise Applications, which includes modules formerly marketed as MFG/PRO, is QAD's core product suite. QAD Enterprise Applications provides a suite of capabilities designed to support customers' common business processes. QAD has a global services and application support capability to assist customers in both deployment and ongoing operation of QAD Enterprise Applications.

PRINCIPLES OF CONSOLIDATION

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

USE OF ESTIMATES

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

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

CASH AND EQUIVALENTS

Cash and equivalents consist of cash and short-term investments with remaining maturities of less than 90 days at the date of purchase. The Company considers all highly liquid investments purchased with an original maturity of 90 days or less to be cash equivalents. At January 31, 2009 and 2008, the Company's cash equivalents consist of Registered Money Market Funds and the Company has no investments in securities with an underlying exposure to sub-prime mortgages. Additionally, the Company has no holdings in auction rate notes or similar securities.

Restricted Cash

Restricted cash was held in escrow related to the acquisition of Precision Software Limited. The restrictions were released in fiscal 2008. For further discussion see note 3 "Business Combinations" within these Notes to Consolidated Financial Statements.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

REVENUE RECOGNITION

The Company derives its revenues from the sale or the license of software products and of support services, subscriptions, consulting, development, training, and other professional services. The majority of the Company's software is sold or licensed in multiple-element arrangements that include support services and often professional services or other elements. The Company licenses its software generally in multiple-element arrangements. For software license arrangements that do not require significant modification or customization of the underlying software, the Company recognizes revenue pursuant to the requirements of the American Institute of Certified Public Accountants ("AICPA") Statement of Position 97-2, Software Revenue Recognition ("SOP 97-2"), as amended, when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. A majority of the Company's license revenue is recognized in this manner. Revenue is presented net of sales, use and value-add taxes collected on behalf of its customers.

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

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

Multiple element arrangements for which VSOE does not exist for all undelivered elements typically occur when the Company introduces a new product or product bundles for which it has not established VSOE for maintenance or services under its VSOE policy. In these instances, revenue is deferred and recognized ratably over the longer of the maintenance term or services engagement or when delivery of all elements occurs. In the instances in which it has been determined that revenues on these bundled arrangements will not be recognized until VSOE has been established, at the time of recognition, the Company allocates these bundled arrangement fees to all of the non-license revenue categories based on VSOE of similar maintenance or consulting services. The remaining arrangement fees are then allocated to software license fee revenues using the residual method. The associated costs primarily consist of payroll and related costs to perform both the services work and provide support and royalty expense related to the license and maintenance revenue. These costs are included in cost of maintenance, services and other and cost of license based on the allocated revenue categories.

Revenue from product support and product updates, referred to as maintenance revenue, is recognized ratably over the term, which in most instances is one year. Software license updates provide customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support period on a when-and-if available basis. Product support includes Internet access to technical content, as well as Internet and telephone access to technical support personnel. A majority of the Company's customers purchase both product support and license updates when they acquire new software licenses. In addition, a majority of customers renew their product support contracts annually.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Although infrequent, when an arrangement does not qualify for separate accounting of the software license and consulting transactions, the software license revenue is recognized together with the consulting services based on contract accounting using either the percentage-of-completion or completed-contract method. Arrangements that do not qualify for separate accounting of the software license fee and consulting services typically occur when the Company is requested to customize software or where the Company views the installation of its software as high risk in the customer's environment. This requires the Company to make estimates about the total cost to complete the project and the stage of completion. The assumptions, estimates, and uncertainties inherent in determining the stage of completion affect the timing and amounts of revenues and expenses reported. Changes in estimates of progress toward completion and of contract revenues and contract costs are accounted for as cumulative catch-up adjustments to the reported revenues for the applicable contract. If the Company does not have a sufficient basis to measure the progress of completion or to estimate the total contract revenues and costs, revenue is recognized when the project is complete and, if applicable, final acceptance is received from the customer. The Company allocates these bundled arrangement fees to support and services revenues based on VSOE. The remaining arrangement fees are then allocated to software license fee revenues. The associated costs primarily consist of payroll and related costs to perform the services and royalty expense and are included in cost of maintenance, services and other and cost of license based on the allocated revenue categories.

The Company executes arrangements through indirect sales channels via sales agents and distributors in which the indirect sales channels are authorized to market its software products to end users. In arrangements with sales agents, revenue is recognized on a sell-through basis once an order is received from the end user, collectibility from the end user is probable, a signed license agreement from the end user has been received by the Company, delivery has been made to the end user and all other revenue recognition criteria have been satisfied in accordance with SOP 97-2. Sales agents are compensated on a commission basis. Distributor arrangements are those in which the resellers are authorized to market and distribute our software products to end users in specified territories and the distributor bears the risk of collection from the end user customer. The Company recognizes revenue from transactions with distributors when the distributor submits a written purchase commitment, collectibility from the distributor is probable, a signed license agreement is received from the distributor and delivery has occurred to the distributor, provided that all other revenue recognition criteria have been satisfied in accordance with SOP 97-2. Revenue for distributor transactions is recorded on a net basis (the amount actually received by the Company from the distributor). The Company does not offer rights of return, product rotation or price protection to any of its distributors.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

ACCOUNTS RECEIVABLE ALLOWANCES

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

LONG-LIVED ASSETS

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

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

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

Goodwill represents the excess of the purchase price over the fair value of net assets of purchased businesses. As required under SFAS 142, "Goodwill and Other Intangible Assets", goodwill is not amortized but is assessed on at least an annual basis for impairment at the reporting unit level by applying a fair value-based test. For further discussion related to SFAS 142, see note 5 within these Notes to Consolidated Financial Statements.

CAPITALIZED SOFTWARE COSTS

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

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

STOCK—BASED COMPENSATION

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

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

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

INCOME TAXES

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

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

COMPUTATION OF NET (LOSS) INCOME PER SHARE

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

	Years Ended January 31,		
	2009	2008	2007
	(in thousands, except per share data)		
Net (loss) income	<u>\$ (23,095)</u>	<u>\$ 5,416</u>	<u>\$ 7,276</u>
Weighted average shares of common stock outstanding— <i>basic</i>	30,675	31,617	32,425
Weighted average shares of common stock equivalents issued using the treasury stock method	<u>—</u>	<u>738</u>	<u>688</u>
Weighted average shares of common stock and common stock equivalents outstanding— <i>diluted</i>	<u>30,675</u>	<u>32,355</u>	<u>33,113</u>
Basic net (loss) income per share	<u>\$ (0.75)</u>	<u>\$ 0.17</u>	<u>\$ 0.22</u>
Diluted net (loss) income per share	<u>\$ (0.75)</u>	<u>\$ 0.17</u>	<u>\$ 0.22</u>

Common stock equivalent shares consist of the shares issuable upon the exercise of stock options and stock appreciation rights (SARs) and vesting of restricted stock using the treasury stock method. Shares of common stock equivalents of approximately 6.4 million, 3.4 million and 4.0 million for fiscal 2009, 2008 and 2007, respectively, were not included in the diluted calculation because they were anti-dilutive.

FOREIGN CURRENCY TRANSLATION

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

Gains and losses resulting from foreign currency transactions and remeasurement adjustments of monetary assets and liabilities not held in an entity's functional currency are included in earnings. Foreign currency transaction and remeasurement (gains) losses for fiscal 2009, 2008 and 2007 totaled \$(0.1) million, \$0.9 million and \$(1.7) million, respectively, and are included in "Other (income) expense, net" in the accompanying Consolidated Statements of Income.

FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK

The carrying amounts of cash and equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturities of these instruments. The Company's line of credit bears a variable market interest rate, subject to certain minimum interest rates. Therefore, should the Company have any amounts outstanding under the line of credit, the carrying value of the line of credit would reasonably approximate fair value. The Company's note payable bears a fixed rate of 6.5%. The estimated fair value of the note payable was approximately \$18.4 million at January 31, 2009 and the carrying value was \$17.0 million. The estimated fair value of the note payable is based primarily on expected market prices for bank loans with similar terms and maturities.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Concentration of credit risk with respect to trade receivables is limited due to the large number of customers comprising our customer base, and their dispersion across many different industries and locations throughout the world. No single customer accounted for 10% or more of the Company's total revenue in any of the last three fiscal years. In addition, no single customer accounted for 10% or more of accounts receivable at January 31, 2009 or January 31, 2008.

RESEARCH AND DEVELOPMENT

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

COMPREHENSIVE INCOME (LOSS)

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

RECENT ACCOUNTING STANDARDS

Determination of the Useful Life of Intangible Assets

In April 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 142-3, "Determination of the Useful Life of Intangible Assets." This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141 (Revised 2007), "Business Combinations," and other U.S. generally accepted accounting principles (GAAP). This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Early adoption is prohibited. The Company does not expect the adoption of this FSP to have a material effect on its financial position, results of operations or cash flows.

Business Combinations

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

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Minority Interests

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

2. FAIR VALUE MEASUREMENTS

Effective February 1, 2008, the Company adopted SFAS 157 "Fair Value Measurements" (SFAS 157), except as it applies to the non-financial assets and non-financial liabilities subject to FSP SFAS 157-2. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Accordingly, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value.

Level 1 — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — Includes other inputs that are directly or indirectly observable in the marketplace.

Level 3 — Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

In accordance with SFAS 157, the Company measures its cash equivalents at fair value. Cash equivalents are classified within Level 1. This is because cash equivalents are valued using quoted market prices. In the first quarter of fiscal 2009, the Company acquired auction rate securities through its acquisition of FullTilt. These securities were sold during the third quarter of fiscal 2009.

Assets measured at fair value are summarized below (in thousands):

Description	January 31, 2009	Fair value measurement at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:				
Money market mutual funds	\$ 18,586	\$ 18,586	\$ —	\$ —
Total	\$ 18,586	\$ 18,586	\$ —	\$ —

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. FAIR VALUE MEASUREMENTS (Continued)

Effective February 1, 2008, the Company also adopted SFAS 159, “The Fair Value Option for Financial Assets and Financial Liabilities — including an Amendment of FASB Statement No. 115,” which allows an entity to choose to measure certain financial instruments and liabilities at fair value on a contract-by-contract basis. Subsequent fair value measurement for the financial instruments and liabilities an entity chooses to measure will be recognized in earnings. The Company did not elect such option for its financial instruments and liabilities.

3. BUSINESS COMBINATIONS

Thailand Subsidiary Minority Interest

The minority shareholders of the Company’s subsidiary in Thailand exercised their put option in April 2007 to sell their shares, representing 25% ownership in the Thailand subsidiary, at fair value to the Company. Goodwill related to the transaction of \$0.7 million was allocated to the Asia Pacific reporting unit. During the first quarter of fiscal 2009, the execution of the put was finalized and \$1.2 million was paid to the minority shareholders.

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

FullTilt

On April 28, 2008, the Company acquired certain assets of FullTilt Solutions, Inc. (FullTilt), in a transaction that constitutes a business combination. FullTilt is a provider of enterprise product information management software solutions. The total purchase price including acquisition expenses was \$1.2 million. The purchase price was allocated to net tangible assets acquired of \$0.2 million, amortizable intangible assets comprised of intellectual property, trade name and customer relationships, totaling \$0.6 million and goodwill of \$0.4 million. Goodwill was allocated evenly among the North America and EMEA reporting units, where the Company’s two main product fulfillment centers are located.

FBO Systems, Inc.

On November 3, 2006, the Company acquired Atlanta, Georgia-based FBO Systems, Inc. (FBOS), a provider 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 succeeding three years based on revenue growth. A performance payment of \$0.8 million was made in the fourth quarter of fiscal 2009 and a final payment will be recorded when the consideration is issuable.

The purchase price of \$3.6 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 \$2.4 million. Goodwill was allocated evenly among the North America and EMEA reporting units, where the Company’s two main product fulfillment centers are located.

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, and operates as a division of the Company.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. BUSINESS COMBINATIONS (Continued)

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

The purchase price, which includes \$0.5 million of acquisition costs, was allocated to net tangible assets acquired of \$4.2 million, deferred tax liability of \$0.6 million, amortizable intangible assets comprised of intellectual property, trade name and customer relationships, totaling \$4.9 million and goodwill of \$5.8 million. Goodwill was allocated evenly among the North America and EMEA reporting units, where the Company's two main product fulfillment centers are located.

Bisgen Ltd.

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

The purchase price of \$1.1 million was allocated to goodwill, intellectual property, a restrictive covenant, customer relationships, deferred tax liability and assumed net liabilities. Goodwill was allocated evenly among the North America and EMEA reporting units, where the Company's two main product fulfillment centers are located.

Soft Cell N.V.

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

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

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

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. BUSINESS COMBINATIONS (Continued)

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. Goodwill was allocated evenly among the North America and EMEA reporting units, where the Company’s two main product fulfillment centers are located.

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

4. CAPITALIZED SOFTWARE COSTS

Capitalized software costs and accumulated amortization at January 31, 2009 and 2008 were as follows:

	January 31,	
	2009	2008
	(in thousands)	
Capitalized software costs:		
Acquired software technology	\$ 8,594	\$ 8,884
Capitalized software development costs	<u>3,808</u>	<u>3,103</u>
	12,402	11,987
Less accumulated amortization	<u>(6,703)</u>	<u>(3,204)</u>
Capitalized software costs, net	<u>\$ 5,699</u>	<u>\$ 8,783</u>

The acquired software technology costs primarily relate to technology purchased from the Company’s fiscal 2007 acquisitions of Precision and Soft Cell and from the FullTilt acquisition completed in fiscal 2009. In addition to the acquired software technology, the Company has capitalized internally developed software costs related to the Soft Cell technology and costs related to translations and localizations of QAD Enterprise Applications.

Amortization of capitalized software costs for fiscal 2009, 2008 and 2007 was \$4.2 million, \$2.7 million and \$1.7 million, respectively. Capitalized software costs are amortized on a straight-line basis over the product’s estimated useful life, which is typically three years. Amortization of capitalized software costs is included in “Cost of license fees” in the accompanying Consolidated Statements of Operations. The estimated remaining amortization expense related to capitalized software costs for the years ended January 31, 2010, 2011 and 2012 is \$3.6 million, \$1.9 million and \$0.2 million, respectively.

It is the Company’s policy to write-off capitalized software development costs once fully amortized. Accordingly, the corresponding \$0.2 million of costs and accumulated amortization was also removed from the balance sheet. These write-offs do not impact “Capitalized software costs, net.”

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. GOODWILL AND INTANGIBLE ASSETS

Goodwill

For the applicable reporting units, the changes in the carrying amount of goodwill were as follows (reporting units are defined in note 11 “Business Segment Information” within these Notes to Consolidated Financial Statements):

	<u>North America</u>	<u>EMEA</u>	<u>Asia Pacific</u> (in thousands)	<u>Latin America</u>	<u>Total</u>
Balances, January 31, 2007	\$ 3,563	\$ 14,151	\$ 316	\$ 804	\$ 18,834
Fiscal 2008 activity:					
Additions	570	570	665	—	1,805
Impact of foreign currency translation	—	1,929	10	13	1,952
Balances, January 31, 2008	4,133	16,650	991	817	22,591
Fiscal 2009 activity:					
Additions	601	602	—	—	1,203
Goodwill impairment loss	—	(14,406)	—	—	(14,406)
Impact of foreign currency translation	—	(2,846)	(104)	(201)	(3,151)
Balances, January 31, 2009	<u>\$ 4,734</u>	<u>\$ —</u>	<u>\$ 887</u>	<u>\$ 616</u>	<u>\$ 6,237</u>

The additions to goodwill in fiscal 2009 were due to the FullTilt and FBOS acquisitions. Goodwill of \$0.4 million was recorded in connection with the FullTilt acquisition due to the excess of purchase price over estimated fair value of acquired net assets. In addition, goodwill of \$0.8 million was recorded related to a performance payment made in connection with the fiscal 2007 acquisition of FBO Systems, Inc.

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

For further explanation of acquisition-related transactions, see note 3 “Business Combinations” within these Notes to Consolidated Financial Statements.

The Company is required to analyze goodwill for impairment on at least an annual basis. The Company performed the annual impairment assessments of the carrying value of goodwill as required under SFAS 142 in the fourth quarter of fiscal 2009, 2008 and 2007. In accordance with SFAS 142, the carrying value (or book value) of each reporting unit was compared to its estimated fair value. The fair values of the reporting units were estimated using 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.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. GOODWILL AND INTANGIBLE ASSETS (Continued)

Upon completion of the fiscal 2009 assessment, the Company determined that the carrying value of the EMEA reporting unit exceeded its estimated fair value. Because indicators of impairment existed for this reporting unit, the Company performed the second step of the test required under SFAS 142 to determine the fair value of the goodwill of the EMEA reporting unit.

In accordance with SFAS 142, the implied fair value of goodwill was determined in the same manner utilized to estimate the amount of goodwill recognized in a business combination. As part of the second step of the impairment test, the Company calculated the fair value of certain assets, including distribution network, developed technology, tradename and workforce. To determine the implied value of goodwill, fair values were allocated to the assets and liabilities of the EMEA reporting unit as of November 30, 2008. The implied fair value of goodwill was measured as the excess of the fair value of the EMEA reporting unit over the amounts assigned to its assets and liabilities. The impairment loss for the EMEA reporting unit was measured by the amount the carrying value of goodwill exceeded the implied fair value of the goodwill. Based on this assessment, the Company recorded a charge of \$14.4 million in the fourth quarter of fiscal 2009, which represented all of the goodwill related to the EMEA reporting unit.

The primary factor contributing to this impairment charge was the recent significant economic downturn in the fourth quarter of fiscal 2009, which caused a decline in revenue and cash flow projections.

Upon completion of the fiscal 2008 and 2007 annual impairment assessments, the Company determined no impairment was indicated as the estimated fair value of each reporting unit exceeded its respective carrying value.

Intangible Assets

	January 31,	
	2009	2008
	(in thousands)	
Amortizable intangible assets		
Customer relationships	\$ 1,534	\$ 1,528
Trade name	501	565
Covenant not to compete	135	185
	<u>2,170</u>	<u>2,278</u>
Less accumulated amortization	(1,638)	(1,130)
Net amortizable intangible assets	<u>\$ 532</u>	<u>\$ 1,148</u>

The Company's intangible assets as of January 31, 2009 and January 31, 2008 are related to the Bisgen, Precision and FBOS acquisitions completed in fiscal 2007 and the intangible assets as of January 31, 2009 also include assets from the FullTilt acquisition. Intangible assets are included in "Other assets, net" in the accompanying Consolidated Balance Sheets. The decrease in amortizable intangible assets from January 31, 2008 to January 31, 2009 was primarily due to the impact of foreign currency translation.

As of January 31, 2009 and January 31, 2008, excluding goodwill, all of the Company's intangible assets were determined to have definite useful lives, and therefore were subject to amortization. The aggregate amortization expense related to amortizable intangible assets was \$0.7 million, \$0.8 million and \$0.4 million for fiscal years 2009, 2008 and 2007, respectively.

The estimated remaining amortization expenses related to amortizable intangible assets for the years ended January 31, 2010 and 2011 are \$0.4 million and \$0.1 million, respectively.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS

	January 31,	
	2009	2008
	(in thousands)	
Accounts receivable, net		
Accounts receivable	\$ 74,527	\$ 86,684
Less allowance for:		
Doubtful accounts	(1,305)	(1,288)
Sales adjustments	(2,268)	(2,369)
	<u>\$ 70,954</u>	<u>\$ 83,027</u>
Other current assets		
Deferred cost of revenues	\$ 7,099	\$ 8,008
Deferred income taxes, net	4,372	7,262
Prepaid expenses	3,758	4,693
Other	3,863	2,779
	<u>\$ 19,092</u>	<u>\$ 22,742</u>
Property and equipment, net		
Buildings and building improvements	\$ 31,966	\$ 32,448
Computer equipment and software	29,140	28,068
Furniture and office equipment	14,786	15,644
Leasehold improvements	5,725	5,894
Land	3,850	3,850
Automobiles (including under capital lease)	245	552
	85,712	86,456
Less accumulated depreciation and amortization	(44,274)	(44,006)
	<u>\$ 41,438</u>	<u>\$ 42,450</u>
Other assets, net		
Deferred income taxes, net	\$ 16,219	\$ 7,681
Other	2,567	3,006
	<u>\$ 18,786</u>	<u>\$ 10,687</u>
Accounts payable		
VAT payable	\$ 3,420	\$ 4,054
Accrued cash overdraft	2,476	2,008
Other payables	6,598	6,187
	<u>\$ 12,494</u>	<u>\$ 12,249</u>
Deferred revenue		
Deferred maintenance revenue	\$ 70,621	\$ 81,417
Other deferred revenue	10,074	7,932
	<u>\$ 80,695</u>	<u>\$ 89,349</u>
Other current liabilities		
Accrued commissions and bonus	\$ 7,781	\$ 11,231
Accrued compensated absences	7,081	8,146
Accrued professional fees	2,884	2,509
Accrued severance	2,872	133
Other accrued payroll	2,340	2,503
Accrued royalties	940	4,675
Short term deferred payments related to acquisitions	—	3,503
Other current liabilities	7,183	7,964
	<u>\$ 31,081</u>	<u>\$ 40,664</u>

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. DEBT

	January 31,	
	2009	2008
	(in thousands)	
Total debt		
Notes payable	\$ 16,983	\$ 17,245
Capital lease obligations	—	27
	16,983	17,272
Less current maturities	(266)	(274)
Long-term debt	<u>\$ 16,717</u>	<u>\$ 16,998</u>

The aggregate maturities of long-term debt, for each of the next five fiscal years and thereafter are as follows: \$0.3 million in fiscal 2010; \$0.3 million in fiscal 2011; \$0.3 million in fiscal 2012; \$0.3 million in fiscal 2013; \$0.4 million in fiscal 2014; and \$15.4 million thereafter.

Notes Payable

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

Credit Facility

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

The Facility provides that the Company will maintain certain financial and operating covenants which include, among other provisions, a maximum total leverage ratio of 1.5 to 1.0, a minimum liquidity ratio of 1.3 to 1.0, a minimum 12-month trailing EBITDA of \$10 million and a minimum fixed charge coverage ratio of 2.00 to 1.00. Borrowings under the Facility bear interest at a floating rate based on LIBOR or prime plus the corresponding applicable margins, ranging from 0.75% to 1.75% for the LIBOR option or -0.25% to 0.25% for the prime option, depending on the Company's funded debt to 12-month trailing EBITDA ratio. At January 31, 2009, a prime rate borrowing would have had an effective rate of 3.0% and a 30-day LIBOR borrowing would have had an effective rate of approximately 1.17%.

As of January 31, 2009 the Company was not in compliance with two of the four financial covenants of the Facility; the 12-month trailing EBITDA and the minimum fixed charge ratio. Bank of America, N.A. agreed to waive compliance with these covenants for the period ended January 31, 2009.

Effective April 10, 2009, the Company executed an amendment to the Facility to amend the 12-month trailing EBITDA and fixed charge ratio covenants for future reporting periods. For the reporting period beginning February 1, 2009 through the expiration of the Facility, the minimum 12-month trailing EBITDA is reduced to \$5 million with the definition of EBITDA amended to exclude goodwill impairment charges which might arise under the provisions of Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets". The minimum fixed charge ratio was amended to 1.3 to 1.0 for the period February 1, 2009 through October 31, 2009 and thereafter 1.5 to 1.0.

As of January 31, 2009 there were no borrowings under the Facility.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. INCOME TAXES

Income tax expense is summarized as follows:

	Years Ended January 31,		
	2009	2008	2007
	(in thousands)		
Current:			
Federal	\$ 501	\$ 173	\$ 113
State	21	397	199
Foreign	3,402	2,277	2,898
Subtotal	3,924	2,847	3,210
Deferred:			
Federal	(1,965)	(1,059)	1,195
State	(440)	(1,229)	(302)
Foreign	(1,158)	(442)	29
Subtotal	(3,563)	(2,730)	922
Equity	—	216	—
Total	<u>\$ 361</u>	<u>\$ 333</u>	<u>\$ 4,132</u>

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

	Years Ended January 31,		
	2009	2008	2007
	(in thousands)		
Computed expected tax expense	\$ (7,730)	\$ 1,955	\$ 3,889
Benefit of state income taxes, net of federal income tax expense	(274)	(670)	111
Incremental tax benefit from foreign operations	3,202	(1,707)	(1,780)
Foreign withholding taxes	772	1,014	729
Net change in valuation allowance	(3,154)	(155)	293
Net change in contingency reserve	499	(64)	94
Non-deductible expenses	527	422	366
Benefit of tax credits	(361)	(438)	(256)
Subpart F Income	557	24	504
Non-deductible goodwill impairment	2,100	—	—
Rate change impact	2,635	(94)	(712)
Other	1,588	46	894
	<u>\$ 361</u>	<u>\$ 333</u>	<u>\$ 4,132</u>

Consolidated U.S. (loss) income before income taxes was \$(9.8) million, \$(0.8) million and \$2.3 million for the fiscal years ended January 31, 2009, 2008 and 2007, respectively. The corresponding (loss) income before income taxes for foreign operations was \$(12.9) million, \$6.5 million, and \$9.1 million for the fiscal years ended January 31, 2009, 2008 and 2007, respectively.

Withholding and U.S. income taxes have not been provided on approximately \$37 million of unremitted earnings of certain non-U.S. subsidiaries because such earnings are or will be reinvested in operations or will be offset by appropriate credits for foreign income taxes paid. Such earnings would become taxable upon the sale or liquidation of these non-U.S. subsidiaries or upon the remittance of dividends. Upon remittance, certain foreign countries impose withholding taxes that are then available, subject to certain limitations, for use as credits or deductions against our U.S. tax liability, if any.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. INCOME TAXES (Continued)

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

	January 31,	
	2009	2008
	(in thousands)	
Deferred tax assets:		
Allowance for doubtful accounts and sales adjustments	\$ 1,092	\$ 1,240
Accrued vacation	1,747	2,078
Accrued commissions	662	843
Alternative minimum tax (AMT) credits	784	608
Research and development credits	7,999	7,247
Foreign tax credits	209	209
Deferred revenue	3,071	3,101
Depreciation and amortization	140	174
Net operating loss carry forwards	16,052	15,399
Stock compensation	4,880	3,317
Other	716	2,179
Total deferred tax assets	37,352	36,395
Less valuation allowance	(10,590)	(13,744)
Deferred tax assets, net of valuation allowance	\$ 26,762	\$ 22,651
Deferred tax liabilities:		
Capitalized software development costs	\$ 924	\$ 950
Intangibles	—	1,372
State income taxes	2,681	2,397
Unrecognized capital gain	1,021	1,039
Other	1,545	1,950
Total deferred tax liabilities	6,171	7,708
Total net deferred tax asset	\$ 20,591	\$ 14,943
Current portion of deferred tax asset, net	4,372	7,262
Non-current portion of deferred tax asset, net	16,219	7,681
Total net deferred tax asset	\$ 20,591	\$ 14,943

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets in each jurisdiction is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management determined that certain tax benefits associated with previously valued net deferred tax assets were more likely than not realizable through future taxable income and future reversals of existing taxable temporary differences. As a result, the Company recorded a tax benefit of \$0.7 million during the year ended January 31, 2009, resulting from the reduction of previously recorded valuation allowances against net deferred tax assets. The Company continues to evaluate the realizability of its net deferred tax assets by jurisdiction and the need to record a valuation allowance. At January 31, 2009 and 2008, the valuation allowance attributable to deferred tax assets was \$10.6 million and \$13.7 million, respectively.

As a result of SFAS 123R, deferred tax assets at January 31, 2009 and 2008 do not include \$1.5 million and \$1.3 million, respectively, of excess tax benefits from employee stock exercises that are a component of research and development credits and net operating loss carryovers. Equity will be increased by \$1.5 million if and when such excess tax benefits are ultimately realized.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. INCOME TAXES (Continued)

The Company has net operating loss carry forwards of \$63.9 million and tax credit carryforwards of \$9 million as of January 31, 2009. The net operating loss carryforwards of \$63.9 million expire from fiscal year 2010 to unlimited carryover. The U.S. federal, state and foreign tax credit carryforwards of \$9 million expire at various expiration dates beginning in fiscal 2012 for federal and unlimited carryover for state.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) effective February 1, 2007. As a result of the adoption of FIN 48, the Company increased its reserves for uncertain tax positions by \$0.5 million. Interest and penalties on accrued but unpaid taxes are classified in the Consolidated Statements of Income as income tax expense. Under FIN 48, the liability for unrecognized tax benefits is classified as long-term in the Company's Consolidated Balance Sheet.

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

	Years Ended January 31,	
	2009	2008
	(in thousands)	
Unrecognized tax benefits at beginning of year	\$ 2,345	\$ 2,409
Increases as a result of tax positions taken in a prior period	499	4
Decreases as a result of tax positions taken in a prior period	—	(68)
Unrecognized tax benefit at end of year	<u>\$ 2,844</u>	<u>\$ 2,345</u>

All of the unrecognized tax benefits included in the balance sheet at January 31, 2009 would impact the effective tax rate on income from continuing operations, if recognized.

The total amount of interest expense recognized in the Consolidated Statements of Operations for unpaid taxes is immaterial for the year ended January 31, 2009. The total amount of interest and penalties recognized in the Consolidated Balance Sheet at January 31, 2009 is \$0.3 million.

Due to potential settlements with both foreign and domestic tax authorities in the next twelve months related to certain tax credits and deductions, an estimated \$1.3 million of gross unrecognized tax benefits may be recognized during the next twelve month period.

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

9. EMPLOYEE BENEFIT PLANS

The Company has a defined contribution 401(k) plan which is available to U.S. employees after 30 days of employment. Employees may contribute up to the maximum allowable by the Internal Revenue Code. The Company voluntarily matches 75% of the employees' contributions up to the first four percent of the employee's eligible contribution. In addition, the Company can make additional contributions at the discretion of the board of directors. Participants are immediately vested in their employee contributions. Employer contributions vest over a five-year period. The Company's contributions for fiscal 2009, 2008 and 2007 were \$1.3 million, \$1.2 million and \$1.0 million, respectively.

Various QAD foreign subsidiaries also contribute to what can be considered defined contribution pension plans. Employer contributions in these plans are generally based on employee salary and range from 3% to 23%. These plans are funded at various times throughout the year according to plan provisions, with aggregate employer contributions of \$3.8 million, \$2.7 million and \$2.2 million during fiscal 2009, 2008 and 2007, respectively.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. COMMITMENTS AND CONTINGENCIES

Lease Obligations

The Company leases certain office facilities, office equipment and automobiles under operating lease agreements. Total rent expense was \$8.6 million for fiscal 2009, \$7.8 million for fiscal 2008 and \$7.4 million for fiscal 2007. Future minimum rental payments under non-cancelable operating lease commitments with terms of more than one year as of January 31, 2009 are as follows: \$7.9 million in fiscal 2010; \$5.9 million in fiscal 2011; \$3.6 million in fiscal 2012; \$1.6 million in fiscal 2013; \$0.9 million in fiscal 2014 and \$1.8 million in total thereafter. Future minimum rentals to be received under non-cancelable subleases with terms more than one year as of January 31, 2009 are equal to \$0.6 million.

Exit Costs

In fiscal 2005, in connection with the move from leased office space to its new headquarters in Santa Barbara, California, the Company entered into a sublease agreement for approximately 60% of the previously leased office space in Carpinteria, California. In fiscal 2006, the Company vacated the remaining 40% of leased office space in Carpinteria, California. A sublease was not secured for 40% of the space.

In fiscal 2008, the sublease agreement with the original tenant was terminated and the Company entered into a sublease agreement with a new tenant for 100% of the leased office space. These activities resulted in exit costs, primarily due to declines in fair market value of estimated sublease income, of \$0.4 million, \$0.1 million and \$0.7 million in fiscal 2009, 2008 and 2007, respectively.

Indemnifications

The Company sells software licenses and services to its customers under written agreements. Each agreement contains the relevant terms of the contractual arrangement with the customer, and generally includes certain provisions for indemnifying the customer against losses, expenses and liabilities from damages that may be awarded against the customer in the event the Company's software is found to infringe upon certain intellectual property rights of a third party. The agreement generally limits the scope of and remedies for such indemnification obligations in a variety of industry-standard respects, including, but not limited to, certain time-based and geography-based scope limitations and a right to replace an infringing product.

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

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. COMMITMENTS AND CONTINGENCIES (Continued)

Legal Actions

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

11. BUSINESS SEGMENT INFORMATION

The Company operates in four 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. Corporate is a cost center providing research and development activities and other support functions primarily in the general and administrative and marketing areas.

The geographic business segments derive revenue from the sale of licenses, maintenance and services to third party customers. License revenue is assigned to the regions based on the proportion of commission earned by each region. Maintenance revenue is allocated to the region where the end user customer is located. Services revenue is assigned based on the region where the services are performed.

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

Property and equipment, net and capital expenditures are assigned by geographic region based on the location of each legal entity. This is in contrast to depreciation and amortization expense, which is allocated both to corporate and the geographic regions based on management's assignment of costs. As the Company's headquarters are located in the United States, a significant amount of corporate property and equipment are assigned to the North America region.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. BUSINESS SEGMENT INFORMATION (Continued)

	Years Ended January 31,		
	2009	2008	2007
	(in thousands)		
Revenue:			
North America (1)	\$ 114,447	\$ 115,924	\$ 101,983
EMEA	84,264	82,551	78,641
Asia Pacific	46,140	45,977	38,500
Latin America	18,589	18,295	16,463
	<u>\$ 263,440</u>	<u>\$ 262,747</u>	<u>\$ 235,587</u>
Operating income (loss):			
North America	\$ 10,308	\$ 17,011	\$ 18,974
EMEA	(17,524)	2,592	65
Asia Pacific	2,658	2,714	2,588
Latin America	(229)	295	(519)
Corporate	(18,379)	(17,024)	(12,971)
	<u>\$ (23,166)</u>	<u>\$ 5,588</u>	<u>\$ 8,137</u>
Depreciation and amortization:			
North America	\$ 569	\$ 574	\$ 486
EMEA	963	1,081	2,017
Asia Pacific	373	521	874
Latin America	237	201	390
Corporate	8,992	7,040	4,493
	<u>\$ 11,134</u>	<u>\$ 9,417</u>	<u>\$ 8,260</u>
Capital expenditures:			
North America	\$ 3,608	\$ 3,377	\$ 2,880
EMEA	971	1,141	784
Asia Pacific	1,504	396	816
Latin America	255	251	151
	<u>\$ 6,338</u>	<u>\$ 5,165</u>	<u>\$ 4,631</u>
		January 31,	
	2009	2008	
	(in thousands)		
Property and equipment, net:			
North America	\$ 34,580	\$ 34,682	
EMEA	4,731	6,082	
Asia Pacific	1,704	1,247	
Latin America	423	439	
	<u>\$ 41,438</u>	<u>\$ 42,450</u>	

(1) North America revenue includes sales into Canada, which accounted for 4% of total revenue in fiscal 2009 and 3% in both fiscal years 2008 and 2007.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. STOCK-BASED COMPENSATION

Stock Plans

On June 7, 2006, the shareholders approved the QAD Inc. 2006 Stock Incentive Program (2006 Program). The 2006 Program replaces the QAD 1997 Stock Incentive Program (1997 Program). Concurrently, the shareholders authorized a maximum of 5.3 million shares to be issued under the 2006 Program — 4 million newly authorized shares and 1.3 million shares previously authorized for use in the 1997 Program. The 2006 Program allows for incentive stock options, non-statutory stock options, restricted shares, rights to purchase stock, stock appreciation rights (SARs), and other stock rights. As of January 31, 2009, 1.1 million shares were available for issuance.

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

At January 31, 2009, there were 2.6 million non-statutory stock options outstanding under the 1997 Program. Effective with the adoption of the 2006 Program, no further awards were granted using the 1997 Program. Under the 1997 Program and the 2006 Program, non-statutory stock options and SARs (equity awards) have generally been granted for a term of eight years and equity awards granted to employees generally vest 25% after each year of service for four years and are contingent upon employment with the Company on the vesting date. RSUs granted to employees under the 2006 Program vest 25% after each year of service for four years and are contingent upon employment with the Company on the vesting date. Under the 2006 Program and 1997 Program, non-statutory stock options, SARs and RSUs to non-employee directors generally vest over three years and are contingent upon providing services to the Company.

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

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. STOCK-BASED COMPENSATION (Continued)

Stock-Based Compensation

The following table sets forth, for the periods indicated, reported stock compensation expense for the years ended January 31, 2009, 2008 and 2007.

	Years Ended January 31,		
	2009	2008	2007
	(in thousands)		
Stock-based compensation expense:			
Cost of maintenance, service and other revenue	\$ 1,042	\$ 1,104	\$ 990
Sales and marketing	1,330	1,458	1,290
Research and development	740	861	918
General and administrative	<u>2,404</u>	<u>2,783</u>	<u>2,263</u>
Total stock-based compensation expense	<u>\$ 5,516</u>	<u>\$ 6,206</u>	<u>\$ 5,461</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 Consolidated Statement of Cash Flows, rather than as cash flow from operating activities, as was prescribed under accounting rules applicable prior to the adoption of SFAS 123R. There were \$0.1 million and \$0.2 million excess tax benefits recorded for equity awards exercised in the years ended January 31, 2009 and 2008, respectively, and no such benefits in the year ended January 31, 2007, as those tax benefits were not realized as a reduction to income taxes payable.

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

	Years Ended January 31,		
	2009	2008	2007
Expected life in years (1)	5.25	5.25	5.22
Risk free interest rate (2)	3.20%	4.58%	4.93%
Volatility (3)	50%	59%	71%
Dividend rate (4)	1.37%	1.05%	1.30%

- (1) The expected life of 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 CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. STOCK-BASED COMPENSATION (Continued)

The following table summarizes the activity for outstanding options and SARs for the twelve months ended January 31, 2009:

	Options/ SARs (in thousands)	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 31, 2008	5,628	\$ 7.98	5.4	\$ 7,273
Granted	1,229	7.43		
Exercised	(193)	3.17		
Expired	(338)	8.38		
Forfeited	(359)	8.02		
Outstanding at January 31, 2009	<u>5,967</u>	\$ 7.99	4.9	\$ 22
Vested and expected to vest at January 31, 2009 (1)	<u>5,682</u>	\$ 8.00	4.8	\$ 22
Vested and exercisable at January 31, 2009	<u>3,205</u>	\$ 8.11	3.8	\$ 22

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

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the aggregate difference between the closing stock price of the Company's common stock on January 31, 2009 and the exercise price for in-the-money options) that would have been received by the option holders if all options and SARs had been exercised on January 31, 2009. The total intrinsic value of options and SARs exercised in the years ended January 31, 2009, 2008 and 2007 was \$0.6 million, \$3.3 million and \$2.7 million respectively. The weighted average grant date fair value per share of SARs granted in the years ended January 31, 2009, 2008 and 2007 was \$3.17, \$4.65 and \$4.12, respectively.

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.

The following table summarizes the activity for RSUs for the twelve months ended January 31, 2009:

	RSUs (in thousands)	Weighted Average Grant Date Fair Value
Restricted stock at January 31, 2008	334	\$ 8.17
Granted	564	5.75
Vested (1)	(83)	8.30
Forfeited	(68)	7.49
Restricted stock at January 31, 2009	<u>747</u>	\$ 6.39
Restricted stock expected to vest as of January 31, 2009 (2)	<u>685</u>	\$ 6.46

- (1) The number of RSUs vested includes shares withheld on behalf of employees to satisfy statutory tax withholding requirements.
- (2) RSUs expected to vest are net of estimated future forfeitures.

The fair value of RSUs that vested in the year ended January 31, 2009 was \$0.7 million. No RSUs vested in the years ended January 31, 2008 and 2007. The weighted average grant date fair value per share of RSUs granted in the years ended January 31, 2009 and 2008 was \$5.75 and \$8.17, respectively. No RSUs were granted in the year ended January 31, 2007.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. STOCK-BASED COMPENSATION (Continued)

At January 31, 2009, there was approximately \$6.6 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 1.2 years. Total unrecognized compensation cost related to RSUs and restricted stock awards was approximately \$4.1 million as of January 31, 2009. This cost is expected to be recognized over a period of approximately 3.2 years.

Net cash received from option and SARs exercises for the years ended January 31, 2009, 2008 and 2007 was \$0.6 million, \$2.9 million and \$1.7 million, respectively.

13. STOCKHOLDERS' EQUITY

Stock Repurchase Programs

On September 6, 2007, the Company's Board of Directors approved a stock repurchase program which authorized management to purchase up to one million shares of the Company's common stock over the course of one year. This program was completed as of April 30, 2008.

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

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

Stock Repurchase Activity

In fiscal 2009, the Company repurchased 0.3 million shares of the Company's common stock for \$8.42 per share for total cash consideration of \$2.2 million including fees.

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

In fiscal 2007, the Company repurchased approximately 0.8 million 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.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. QUARTERLY INFORMATION (Unaudited)

	Quarter Ended			
	April 30	July 31	Oct. 31	Jan. 31 ⁽¹⁾
	(in thousands, except per share data)			
Fiscal 2009				
Total revenue	\$ 66,838	\$ 69,513	\$ 67,767	\$ 59,322
Gross profit	36,861	37,053	36,530	31,425
Operating loss	(963)	(2,902)	(533)	(18,768)
Net loss	(730)	(1,433)	(1,821)	(19,111)
Basic net loss per share	\$ (0.02)	\$ (0.05)	\$ (0.06)	\$ (0.62)
Diluted net loss per share	(0.02)	(0.05)	(0.06)	(0.62)
Fiscal 2008				
Total revenue	\$ 56,644	\$ 64,197	\$ 66,608	\$ 75,298
Gross profit	31,862	37,345	38,494	44,180
Operating (loss) income	(3,012)	726	3,156	4,718
Net (loss) income	(1,892)	544	1,516	5,248
Basic net (loss) income per share	\$ (0.06)	\$ 0.02	\$ 0.05	\$ 0.17
Diluted net (loss) income per share	(0.06)	0.02	0.05	0.16

(1) The results for the quarter ended January 31, 2009 include a \$14.4 million goodwill impairment charge.

SCHEDULE II
SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

	Balance at Beginning of Period	Charged (Credited) to Statements of Operations	Deletions	Acquisitions	Impact of Foreign Currency Translation	Balance at End of Period
Year ended January 31, 2007						
Allowance for doubtful accounts	1,136	365	(250)	—	1	1,252
Allowance for sales adjustments	1,980	264	(239)	520	26	2,551
Total allowances	<u>\$ 3,116</u>	<u>\$ 629</u>	<u>\$ (489)</u>	<u>\$ 520</u>	<u>\$ 27</u>	<u>\$ 3,803</u>
Year ended January 31, 2008						
Allowance for doubtful accounts	1,252	249	(160)	—	(53)	1,288
Allowance for sales adjustments	2,551	441	(484)	—	(139)	2,369
Total allowances	<u>\$ 3,803</u>	<u>\$ 690</u>	<u>\$ (644)</u>	<u>\$ —</u>	<u>\$ (192)</u>	<u>\$ 3,657</u>
Year ended January 31, 2009						
Allowance for doubtful accounts	1,288	989	(924)	—	(48)	1,305
Allowance for sales adjustments	2,369	676	(642)	—	(135)	2,268
Total allowances	<u>\$ 3,657</u>	<u>\$ 1,665</u>	<u>\$ (1,566)</u>	<u>\$ —</u>	<u>\$ (183)</u>	<u>\$ 3,573</u>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on April 14, 2008.

QAD Inc.

By: /s/ Daniel Lender

Daniel Lender
Chief Financial Officer

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Pamela M. Lopker</u> Pamela M. Lopker	Chairman of the Board, President	April 14, 2009
<u>/s/ Karl F. Lopker</u> Karl F. Lopker	Director, Chief Executive Officer (Principal Executive Officer)	April 14, 2009
<u>/s/ Daniel Lender</u> Daniel Lender	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	April 14, 2009
<u>/s/ Kara Bellamy</u> Kara Bellamy	Sr. Vice President, Corporate Controller (Chief Accounting Officer)	April 14, 2009
<u>/s/ Scott Adelson</u> Scott Adelson	Director	April 14, 2009
<u>/s/ Terry Cunningham</u> Terry Cunningham	Director	April 14, 2009
<u>/s/ Peter R. van Cuylenburg</u> Peter R. van Cuylenburg	Director	April 14, 2009
<u>/s/ Tom O'Malia</u> Tom O'Malia	Director	April 14, 2009
<u>/s/ Lee Roberts</u> Lee Roberts	Director	April 14, 2009

INDEX OF EXHIBITS

EXHIBIT NUMBER	EXHIBIT TITLE
3.1	Certificate of Incorporation of the Registrant, filed with the Delaware Secretary of State on May 15, 1997 (Incorporated by reference to Exhibit 3.5 of the Registrant's Registration Statement on Form S-1 (Commission File No. 333-28441))
3.1(a)	Certificate of Amendment of Certificate of Incorporation of the Registrant, filed with the Delaware Secretary of State on June 19, 1997 (Incorporated by reference to Exhibit 3.7 of the Registrant's Registration Statement on Form S-1 (Commission File No. 333-28441))
3.1(b)	Certificate of Amendment to Certificate of Incorporation of the Registrant, filed with the Delaware Secretary of State on July 29, 2005 (Incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2006)
3.2	Bylaws of the Registrant (Incorporated by reference to Exhibit 3.9 of the Registrant's Registration Statement on Form S-1 (Commission File No. 333-28441))
4.1	Specimen Stock Certificate (Incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form S-1 (Commission File No. 333-28441))
10.1	QAD Inc. 1997 Stock Incentive Program (Incorporated by reference to Exhibit 10.2 of the Registrant's Registration Statement on Form S-1 (Commission File No. 333-28441))
10.1(a)	Forms of Agreement for QAD Inc. 1997 Stock Incentive Program*
10.2	QAD Inc. 2006 Stock Incentive Program (Incorporated by reference to Exhibit 4.4 of the Registrant's Registration Statement on Form S-8 (Commission File No. 333-137417))
10.2(a)	Forms of Agreement for QAD Inc. 2006 Stock Incentive Program*
10.3	Form of Indemnification Agreement with Directors and Executive Officers (Incorporated by reference to Exhibit 10.3 of the Registrant's Registration Statement on Form S-1 (Commission File No. 333-28441))†
10.4	Executive Termination Policy†*
10.5	Change in Control Agreement for Karl Lopker†*
10.6	Change in Control Agreement for Pam Lopker†*
10.7	Offer letter between the Registrant and Daniel Lender dated October 10, 2008 (Incorporated by reference to Exhibit 10.72 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 2008)†
10.7(a)	Change in Control Agreement for Daniel Lender†*
10.8	Promissory Note between the Registrant and Mid-State Bank & Trust effective as of July 28, 2004 (Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2004)
10.9	Credit Agreement between the Registrant and Bank of America, N.A. effective as of April 10, 2008 (Incorporated by reference to Exhibit 10.71 to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2008)
10.9(a)	Amendment and Waiver to the Credit Agreement between the Registrant and Bank of America, N.A. effective as of April 10, 2009*

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EXHIBIT NUMBER	EXHIBIT TITLE
21.1	Subsidiaries of the Registrant*
23.1	Consent of Independent Registered Public Accounting Firm*
31.1	Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

(*) Indicates the document is filed herewith.

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

**QAD INC. NONQUALIFIED STOCK OPTION PLAN
OPTION AGREEMENT**

This Option Agreement is made and entered into this «Day»th day of «MMonth», «Year» (this “Agreement”), pursuant to the QAD Inc. Nonqualified Stock Option Plan and the QAD Inc. 1997 Stock Incentive Program (collectively, the “Plan”). The Program Administrators administering the Plan have selected «name» (the “Optionee”) to receive the following grant of a stock option (the “Option”) to purchase shares of the Common Stock of QAD Inc. (the “Company”), on the terms and conditions set forth below, which the Optionee accepts and to which the Optionee agrees. All capitalized terms that are used in this Agreement that are not defined herein have the meanings assigned to them in the Plan. In the event of a conflict between the terms of the Plan and the terms of this Agreement, the terms of the Plan shall prevail.

1. Option Granted:

Number of Shares Subject to Option	«Shares»
Grant Date	«MMonth» «Day», «Year»
Exercise Price Per Share (U.S. dollars)	«Price»
Expiration Date	«MMonth» «Day», «EYear»

2. The Option is granted pursuant to the Plan to purchase the number of shares of Common Stock of the Company specified in Section 1 hereof (the “Shares”). Except as herein otherwise stated, the Option, to the extent not theretofore exercised, shall terminate at 5:00 p.m. Pacific Time on «MMonth» «Day», «EYear», the date preceding the eighth (8th) anniversary of the issuance date hereof, except that the Option may expire earlier as provided elsewhere in this Agreement and/or in the Plan. The number of Shares subject to the Option granted hereunder shall be adjusted as provided in the Plan. The Option is intended by the Company and the Optionee to be a nonqualified stock option, which does not qualify as an incentive stock option under Section 422 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”).

3. The Option shall be exercisable in all respects in accordance with the terms of the Plan, which are incorporated herein by this reference. The Optionee acknowledges having received and read a copy of the Plan.

4. Shares of Common Stock shall not be issued with respect to any option granted under the Plan, unless the exercise of that option and the issuance and delivery of the shares pursuant thereto shall comply with all applicable provisions of the applicable laws.

Subject to this Agreement, the Optionee shall have the right to exercise the Option in accordance with the following schedule:

(a) The Option may not be exercised in whole or in part at any time prior to the first anniversary of the Grant Date.

(b) The Optionee may exercise the Option as to one fourth of the Shares on the first anniversary of the Grant Date and at each of the subsequent three anniversaries thereof.

(c) The right to exercise the Option shall be cumulative. The Optionee may buy all, or from time to time any part, of the maximum number of Shares, which are exercisable under the Option, but in no case may the Optionee exercise the Option with regard to a fraction of a Share, or for any Share for which the Option is not exercisable.

5. The Optionee agrees to comply with all applicable laws, rules, and regulations applicable to the grant and exercise of the Option and the sale or other disposition of the Shares received pursuant to the exercise of such Option. Exercise of the Option shall be conditioned on the Optionee's compliance with procedures established from time to time by the Program Administrators for exercise, including but not limited to submission of such forms and documents as the Program Administrators may require.

6. The Option shall not become exercisable unless and until the Company has determined that:

(a) it and the Optionee have taken all actions required to register such Shares under the Securities Act of 1933, or to perfect an exemption from the registration requirements thereof;

(b) it and the Optionee have taken all actions required for any applicable listing, registration or qualification requirement of the Shares upon any stock exchange or under any relevant laws, for any applicable consent or approval of any governmental or regulatory body, for any required disclosure of information, or for the satisfaction of any other condition that is necessary as a condition of or in connection with the issuance or purchase of Shares; and

(c) all other applicable provisions of applicable laws have been satisfied.

7. Termination of Employment or Service other than by Death or Disability. If the Optionee ceases to be an employee or to provide services to the Company or any subsidiary for any reason other than his or her death or total and permanent disability within the meaning of Section 22(e)(3) of the Code, as determined by the Program Administrators in their sole discretion, the Optionee shall have the right, subject to the provisions of the Plan and this Agreement, to exercise the Option at any time within sixty (60) days after the date that the Optionee ceases to be an employee or to provide services, but not beyond the otherwise applicable term of the Option and only to the extent that on such date that the Optionee ceases to be an employee or to provide services the Optionee's right to exercise such Option has vested.

8. For purposes of this Section 8, the employment or services relationship shall be treated as continuing intact while the Optionee is an active employee or provides services to the Company or any subsidiary, or other bona fide leave of absence to be determined in the sole discretion of the Program Administrators.

9. Disability of Optionee. If the Optionee ceases to be an employee or to provide services due to becoming totally and permanently disabled within the meaning of Section 22(e)(3) of the Code, as determined by the Program Administrators in their sole discretion, the Option may be exercised to the extent it had vested at the time of cessation of employment or services and, subject to the Plan, at any time one year after the Optionee's termination of employment or ceasing to provide services, but not beyond the otherwise applicable term of the Option.

10. Death of Optionee. If the Optionee dies while an employee or providing services, or after ceasing to be an employee or providing services but during the period while he or she could have exercised the Option under Section 7, the Option may be exercised in whole or in part, on all of the Shares, and subject to the Plan, at any time within one year after the Optionee's death, by the executors or administrators of his or her estate or by any person or persons who acquire the Option by will or the laws of descent and distribution, but not beyond the otherwise applicable term of the Option.

11. Payment of Purchase Price. Payment of the purchase price for Shares upon exercise of the Option shall be made by:

(a) funds transfer, certified or cashier's check payable to the order of the Optionee's account at the 3rd party administrator or the brokerage firm designated by Program Administrators; or

(b) shares of Common Stock if permitted by the Program Administrators, including a special sale and remittance procedure pursuant to which the Optionee provides irrevocable instructions to (i) a Company-designated brokerage firm to effect the immediate sale of the purchased Shares and remit to the Company, out of the sale proceeds available on settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased Shares plus all applicable taxes required to be withheld by the Company by reason of such exercise; and (ii) the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale; or

(c) any combination of the foregoing methods of payment.

12. Rights as a Shareholder. The Optionee, or a transferee of the Optionee, shall have no rights as a shareholder of the Company with respect to any Share for which his or her Option is exercisable until the date of the issuance of such Share. No adjustment shall be made for dividends, ordinary or extraordinary (whether in currency, securities, or other property), distributions, or other rights for which the record date is prior to the date such Share is issued, except as provided in the Plan.

13. Modification, Extension, and Renewal of Option. Within the limitations of the Plan, the Program Administrators may modify, extend or renew the Option or accept the cancellation of the Option for the grant of a new option in substitution therefore. Notwithstanding the preceding sentence, no modification of the Option shall, without the consent of the Optionee, alter or impair any rights or obligations under the Option.

14. In adopting and maintaining the Plan and granting options thereunder, neither the Company nor any subsidiary makes any representations or undertakings with respect to the initial qualification or treatment of the Option under applicable tax or securities laws. The Company and each subsidiary expressly disavows the creation of any rights in the Optionee, or the Optionee's beneficiaries, of any obligations on the part of the Company, any subsidiary or the Program Administrator, except as expressly provided in the Plan and this Agreement.

15. Tax Withholding and Payment Obligations. The Company will assess its requirements regarding tax, social insurance and any other payroll tax withholding and reporting in connection with the Option, including the grant, vesting or exercise of the Option or sale of Shares acquired pursuant to the exercise of the Option ("Tax-Related Items"). These requirements may change from time to time as laws or interpretations change. Regardless of the Company's actions in this regard, the Optionee hereby acknowledges and agrees that the ultimate liability for any and all Tax-Related Items is and remains his or her responsibility and liability and that the Company:

(a) makes no representations or undertaking regarding treatment of any Tax-Related Items in connection with any aspect of the Option, including the grant, vesting or exercise of the Option and the subsequent sale of Shares acquired pursuant to the exercise of the Option; and

(b) does not commit to structure the terms of the grant or any aspect of the Option to reduce or eliminate the Optionee's liability regarding tax-related items. In the event the Company determines that it and/or a subsidiary must withhold any Tax-Related Items as a result of the Optionee's participation in the Plan, the Optionee agrees as a condition of the grant of the Option to make arrangements satisfactory to the Company to enable it to satisfy all withholding requirements. The Optionee authorizes the Company and/or a subsidiary to withhold all applicable withholding taxes from the Optionee's wages or other cash compensation paid to the Optionee by the Company and/or a subsidiary. Alternatively, or in addition, if permissible under local law, the Company may sell or arrange for the sale of Shares that the Optionee is due to acquire to meet the minimum withholding obligation for the Tax-Related Items. Furthermore, the Optionee agrees to pay the Company and/or a subsidiary any amount of taxes the Company and/or a subsidiary may be required to withhold as a result of the Optionee's participation in the Plan that cannot be satisfied by the means described in this Section 15. The Optionee acknowledges that the Company's obligation to issue and/or deliver any certificate for Shares upon the exercise of the Option is subject to the satisfaction of all applicable Tax-Related Items.

16. This Agreement and the Option shall be governed by the laws of the State of California, and any dispute arising out of or in connection with the same shall be submitted to binding arbitration in Santa Barbara, California before a single arbitrator in accordance with the rules of arbitration of the American Arbitration Association.

17. Acknowledgment and Waiver. By entering into this Agreement and accepting the grant of an Option evidenced hereby, the Optionee acknowledges:

(a) that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time with or without notice;

(b) that the grant of the Option is a one-time benefit which does not create any contractual or other right to receive future grants of options, or benefits in lieu of options;

(c) that all determinations with respect to any such future grants, including, but not limited to, the times when options shall be granted, the number of shares subject to each option, the option price, and the time or times when each option shall be exercisable, will be at the sole discretion of the Company;

(d) that the Optionee's participation in the Plan shall not create a right to further employment with the Optionee's employer or an obligation on the Optionee's part to continue the Optionee's employment and shall not interfere with the ability of the Optionee's employer to terminate the Optionee's employment relationship at any time with or without cause;

(e) that participation in the Plan is offered and may only be accepted subject to the condition that cessation of the Option or entitlement to exercise the same under the Plan (or any loss or diminution in value of the same) resulting from termination of the Optionee's employment with the Participating Company Group (for any reason whatsoever and whether or not in breach of contract) shall not give rise to a claim for damages and, if (contrary to the foregoing) any such claim is found by a court of competent jurisdiction to have arisen, that the Optionee shall, by entering into this Agreement, be deemed irrevocably to have waived any such claim;

(f) that the Optionee's participation in the Plan is voluntary;

(g) that the value of the Option is an extraordinary item of compensation which is outside the scope of the Optionee's employment contract, if any;

(h) that the Option is not part of normal or expected compensation for purposes of calculating any termination, severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments;

(i) that the vesting of any Option ceases upon the earlier of (i) termination of employment or other services or (ii) receipt of notice of termination of employment or other services for any reason except as may otherwise be explicitly provided in the Plan or this Agreement;

(j) that the future value of the underlying Shares is unknown and cannot be predicted with certainty;

(k) that the Option has been granted to the Optionee in the Optionee's status as an employee of the Optionee's employer or in the Optionee's capacity as a service provider, and can in no event be understood or interpreted to mean that the Company is the Optionee's employer or that the Optionee has an employment relationship with the Company;

(l) that if the underlying Shares do not increase in value, the Option will have no value; and

(m) that nothing in the Option shall obligate the Company, its respective shareholders, Board of Directors, officers or employees to continue any relationship that the Optionee might have as a director or consultant for the Company.

18. Data Privacy. As a condition of participating in the Plan, the Optionee:

(a) consents to the collection, use, processing, and transfer, in electronic or other form, of personal data described in this Section by and among the Company and any subsidiary for the exclusive purpose of implementing, administering or managing his or her participation in the Plan;

(b) understands that the Company and/or any subsidiary may hold certain personal information about the Optionee, including but not limited to name, home address and telephone number, date of birth, social security number or other identification number, salary, nationality, job title, any shares or directorships held in the Company and/or any subsidiary, details of all options or any other entitlement to shares awarded, canceled, purchased, or outstanding in the Optionee's favor, for the purpose of implementing, administering and managing the Plan ("Data");

(c) understands that Data may be transferred to any third parties assisting the Company and/or any subsidiary in the administration of the Plan;

(d) understands that the recipients of Data may be located within or outside the Optionee's country of residence, or elsewhere, and that the recipient's country may have different data privacy laws and protections than the Optionee's country of residence;

(e) authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering or managing the Optionee's participation in the Plan, including any requisite transfer of such Data as may be required for the administration of the Plan and/or any subsequent holding of shares on the Optionee's behalf to a broker or other third party with whom the Optionee may elect to deposit any shares acquired pursuant to the Plan;

(f) understands that Data will be held only as long as necessary to implement, administer or manage the Optionee's participation in the Plan;

(g) understands that the Optionee may, at any time, review the Data, require any necessary amendments to Data or withdraw the consents herein in writing by contacting the Company or the relevant subsidiary; and

(h) understands that withdrawing the Optionee's consent may affect the Optionee's ability to participate in the Plan.

19. Translation. If this Agreement or any other document related to the Plan is translated into a language other than English, and if the translated version is different from the English language version, the English language version will take precedence.

IN WITNESS WHEREOF, each of the parties hereto has executed this Agreement, in the case of the Company by its duly authorized officer, as of the date and year written above.

OPTIONEE

QAD INC.

«name»

**QAD INC. 1997 STOCK INCENTIVE PROGRAM
STOCK APPRECIATION RIGHTS AGREEMENT**

This Stock Appreciation Rights Agreement is made and entered into by and between QAD Inc. (the "Company") and **Employee Name** as of the date of acceptance, pursuant to the QAD Inc. 1997 Stock Incentive Program (the "Program"). The Program Administrators administering the Program have selected the Grantee to receive the following grant of stock appreciation rights ("SAR"). This SAR entitles the Grantee to receive a payment in shares of the common stock of QAD Inc. (the "Common Stock") that reflects the appreciation over the Grant Price, as specified in Section 1 hereof, for the number of shares of the Common Stock for which this SAR was granted, as specified in Section 1 hereof, (the "Grant Shares"), on the terms and conditions of the Program and as set forth below, which Grantee accepts and to which the Grantee agrees:

1. SAR Granted:

Number of Shares Subject to SAR	_____
Grant Date	_____
Grant Price per Share (U.S. dollars)	_____
Expiration Date	_____

2. This SAR may be exercised in whole or in part until fully exercised. The payment due to Grantee upon exercise shall be equal to a number shares of Common Stock of the Company with an aggregate fair market value on the exercise date equal to (i) the difference between the fair market value of the Common Stock on the date of exercise and the Grant Price, multiplied by (ii) the number of Grant Shares being exercised. The payment shall be made in the form of shares of the Common Stock (the "Payment Shares"), rounded up to the nearest whole number, subject to applicable income and employment tax withholding. Except as herein otherwise stated, the SAR, to the extent not theretofore exercised, shall terminate on the day immediately preceding the eighth (8th) anniversary of the Grant Date, except that the SAR may expire earlier as provided elsewhere in this Agreement and/or in the Program. The number of shares subject to the SAR granted hereunder shall be adjusted as provided in the Program.

3. This SAR shall be exercisable in all respects in accordance with the terms of the Program, which are incorporated herein by this reference. Grantee acknowledges having received and read a copy of the Program.

4. Shares of Common Stock shall not be issued with respect to any SAR granted under the Program, unless the exercise of that SAR and the issuance and delivery of the shares pursuant thereto shall comply with all applicable provisions of federal, state, local and foreign laws.

5. Grantee shall have the right to exercise the SAR in accordance with the following schedule:

- (a) The SAR may not be exercised in whole or in part at any time prior to the first anniversary of the Grant Date.
- (b) Grantee may exercise the SAR as to one-fourth of the Grant Shares on the first anniversary of the Grant Date and an additional one-fourth at each of the subsequent three anniversaries thereof.
- (c) The right to exercise the SAR shall be cumulative. Grantee may exercise all, or from time to time any part, of the maximum number of Grant Shares which are exercisable under this SAR, but in no case may Grantee exercise the SAR with regard to a fraction of a Grant Share, or for any Grant Share for which the SAR is not exercisable.

6. Withholding Taxes. All SARs are subject to the condition that if at any time the Company shall determine, in its discretion, that the satisfaction of withholding tax or other withholding liabilities under any federal, state, local or foreign laws is necessary or desirable as a condition of, or in connection with, the grant, vesting or exercise of a SAR or the delivery or purchase of shares pursuant thereto, then such action shall not be effective unless such withholding shall have been effected or obtained in a manner acceptable to the Company. Such withholding liabilities shall be satisfied by reducing the number of shares that would otherwise be payable to Grantee on exercise of a SAR by an amount equal in value to the withholding liability, unless at the Company's sole and complete discretion, the Company determines to require or accept cash from Grantee.

7. Termination of Employment other than by Death or Disability. If the Grantee ceases to be an employee of the Company or any subsidiary (used herein as defined in the Program) (an "Employee") for any reason other than his or her death or disability, the SAR may be exercised, to the extent it had vested at the time of cessation of employment and subject to the Program, at any time within sixty (60) days after his or her termination of employment, but not beyond the otherwise applicable term of the SAR.

For purposes of this Section 7, the employment relationship shall be treated as continuing intact while the Grantee is an active employee of the Company or any subsidiary, or other bona fide leave of absence to be determined in the sole discretion of the Program Administrators.

8. Disability of Grantee. If the Grantee ceases to be an Employee due to becoming totally and permanently disabled within the meaning of Section 22(e)(3) of the Code, as determined by the Program Administrators in their sole discretion, the SAR may be exercised, to the extent it had vested at the time of cessation of employment and subject to the Program, at any time within one year after the Grantee's termination of employment, but not beyond the otherwise applicable term of the SAR.

9. Death of Grantee. If the Grantee dies while an Employee, or after ceasing to be an Employee but during the period while he or she could have exercised the SAR, the SAR may be exercised, to the extent it had vested at the time of death and subject to the Program, at any time within one year after the Grantee's death, by the executors or administrators of his or her estate or by any person or persons who acquire the SAR by will or the laws of descent and distribution, but not beyond the otherwise applicable term of the SAR.

10. Rights as a Shareholder. The Grantee, or a transferee of the Grantee, shall have no rights as a shareholder of the Company with respect to any Payment Share for which his or her SAR is exercisable until the date of the issuance of such Payment Share. No adjustment shall be made for dividends, ordinary or extraordinary (whether in currency, securities, or other property), distributions, or other rights for which the record date is prior to the date such stock is issued, except as provided in the Program.

11. Modification, Extension, and Renewal of SAR. Within the limitations of the Program, the Program Administrator may modify, extend or renew the SAR or accept the cancellation of the SAR for the granting of a new SAR in substitution therefor. Notwithstanding the preceding sentence, no modification of the SAR shall, without the consent of the Grantee, alter or impair any rights or obligations under the SAR.

12. Nontransferability. This SAR may not be sold, transferred, pledged, assigned, encumbered or otherwise alienated or hypothecated otherwise than by will or by the laws of descent and distribution.

13. Acknowledgements. Grantee acknowledges receipt of and understands and agrees to the terms of this SAR Agreement and the Program. In addition to the above terms, Grantee understands and agrees to the following:

(a) Grantee hereby acknowledges receipt of a copy of the Program and agrees to be bound by all of the terms and provisions thereof, including the terms and provisions adopted after the date of this Agreement but prior to the completion of the vesting period. If and to the extent that any provision contained in this Agreement is inconsistent with the Program, the Program shall govern.

(b) Grantee acknowledges that as of the date of this Agreement, the Agreement and the Program set forth the entire understanding between Grantee and the Company regarding the acquisition of shares of Common Stock underlying the SAR and supersedes all prior oral and written agreements pertaining to the SAR.

(c) Grantee understands that the Company and its subsidiaries hold certain personal information about Grantee, including but not limited to his or her name, home address, telephone number, date of birth, social security number, salary, nationality, job title and details of all SARs or other entitlement to shares of Common Stock awarded, canceled, exercised, vested, unvested or outstanding ("Personal Data"). Certain Personal Data may also constitute sensitive personal data within the meaning of applicable law. Such data include but are not limited to the information provided above and any changes thereto and other appropriate personal and financial data about Grantee. Grantee hereby gives explicit consent to the Company and any of its subsidiaries to process any such Personal Data and/or sensitive personal data. Grantee also hereby gives explicit consent to the Company to transfer any such Personal Data outside the country in which Grantee is employed, including, but not limited to the United States. The legal persons for whom such Personal Data are intended include, but are not limited to the Company, its subsidiaries and its agents. Grantee has been informed that he or she has the right to access and make corrections to his or her personal data by applying to the Chief People Officer of the Company, or such person's designees.

(d) Grantee understands that the Company has reserved the right to amend or terminate the Program at any time, and that the award of this SAR under the Program at one time does not in any way obligate the Company or its subsidiaries to grant additional SARs in any future year or in any given amount. Grantee acknowledges and understands that Grantee's participation in the Program is voluntary and that this SAR and any future SARs under the Program are wholly discretionary in nature, the value of which do not form part of any normal or expected compensation for any purposes, including, but not limited to, calculating any termination, severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments, other than to the extent required by local law.

14. No Right to Continued Employment. Neither this SAR nor any terms contained in this Agreement shall confer upon Grantee any expressed or implied right to be retained in the service of the Company or any of its subsidiaries for any period at all, nor restrict in any way the right of the Company or any such subsidiary, which right is hereby expressly reserved, to terminate his or her employment at any time with or without cause. Grantee acknowledges and agrees that any right to receive delivery of shares of Common Stock is earned only by continuing as an employee of the Company or its subsidiary at the will of Company or such subsidiary, or satisfaction of any other applicable terms and conditions contained in this Agreement and the Program, and not through the act of being hired, being granted this SAR or acquiring shares of Common Stock hereunder.

15. Compliance with Laws, Regulations and Program Rules. The award of this SAR to Grantee and the obligation of the Company to deliver shares of Common Stock hereunder and the sale or the disposition of the Payment Shares received pursuant to the exercise of such SAR shall be subject to (a) all applicable federal, state, local and foreign laws, rules and regulations, and (b) any registration, qualification, approvals or other requirements imposed by any government or regulatory agency or body which the Company shall, in its sole discretion, determine to be necessary or applicable. Moreover, shares of Common Stock shall not be delivered hereunder if such delivery would be contrary to applicable law or the rules of any stock exchange. Exercise of the SAR shall be conditioned on the Grantee's compliance with procedures established from time to time by the Program Administrators for exercise, including but not limited to submission of such forms and documents as the Program Administrators may require.

16. Definitions. All capitalized terms that are used in this Agreement that are not defined herein have the meanings defined in the Program. In the event of a conflict between the terms of the Program and the terms of this Agreement, the terms of the Program shall prevail.

17. Notices. Any notice or other communication required or permitted hereunder shall, if to the Company, be in accordance with the Program, and, if to Grantee, be in writing and delivered in person or by registered or certified mail or overnight courier, postage prepaid, addressed to Grantee at his or her last known address as set forth in the Company's records.

18. Severability. If any of the provisions of this Agreement should be deemed unenforceable, the remaining provisions shall remain in full force and effect.

19. This Agreement and this SAR shall be governed by the laws of the State of Delaware, and any dispute arising out of or in connection with the same shall be submitted to binding arbitration in Santa Barbara, California before a single arbitrator in accordance with the rules of arbitration of the American Arbitration Association.

IN WITNESS WHEREOF, each of the parties hereto has executed this SAR Agreement, in the case of the Company by its duly authorized officer, as of the date of acceptance.

GRANTEE

QAD INC.

(Signature)

By: _____

(Name)

Its: _____

(Date)

**QAD INC. 2006 STOCK INCENTIVE PROGRAM
STOCK APPRECIATION RIGHTS AGREEMENT**

This Stock Appreciation Rights Agreement is made and entered into by and between QAD Inc. (the “Company”) and **Employee Name** as of the date of acceptance, pursuant to the QAD Inc. 2006 Stock Incentive Program (the “Program”). The Program Administrators administering the Program have selected the Grantee to receive the following grant of stock appreciation rights (“SAR”). This SAR entitles the Grantee to receive a payment in shares of the common stock of QAD Inc. (the “Common Stock”) that reflects the appreciation over the Grant Price, as specified in Section 1 hereof, for the number of shares of the Common Stock for which this SAR was granted, as specified in Section 1 hereof, (the “Grant Shares”), on the terms and conditions of the Program and as set forth below, which Grantee accepts and to which the Grantee agrees:

1. SAR Granted:

Number of Shares Subject to SAR	_____
Grant Date	_____
Grant Price per Share (U.S. dollars)	_____
Expiration Date	_____

2. This SAR may be exercised in whole or in part until fully exercised. The payment due to Grantee upon exercise shall be equal to a number shares of Common Stock of the Company with an aggregate fair market value on the exercise date equal to (i) the difference between the fair market value of the Common Stock on the date of exercise and the Grant Price, multiplied by (ii) the number of Grant Shares being exercised. The payment shall be made in the form of shares of the Common Stock (the “Payment Shares”), rounded up to the nearest whole number, subject to applicable income and employment tax withholding. Except as herein otherwise stated, the SAR, to the extent not theretofore exercised, shall terminate on the day immediately preceding the eighth (8th) anniversary of the Grant Date, except that the SAR may expire earlier as provided elsewhere in this Agreement and/or in the Program. The number of shares subject to the SAR granted hereunder shall be adjusted as provided in the Program.

3. This SAR shall be exercisable in all respects in accordance with the terms of the Program, which are incorporated herein by this reference. Grantee acknowledges having received and read a copy of the Program.

4. Shares of Common Stock shall not be issued with respect to any SAR granted under the Program, unless the exercise of that SAR and the issuance and delivery of the shares pursuant thereto shall comply with all applicable provisions of federal, state, local and foreign laws.

5. Grantee shall have the right to exercise the SAR in accordance with the following schedule:

- (a) The SAR may not be exercised in whole or in part at any time prior to the first anniversary of the Grant Date.
- (b) Grantee may exercise the SAR as to one-fourth of the Grant Shares on the first anniversary of the Grant Date and an additional one-fourth at each of the subsequent three anniversaries thereof.
- (c) The right to exercise the SAR shall be cumulative. Grantee may exercise all, or from time to time any part, of the maximum number of Grant Shares which are exercisable under this SAR, but in no case may Grantee exercise the SAR with regard to a fraction of a Grant Share, or for any Grant Share for which the SAR is not exercisable.

6. Withholding Taxes. All SARs are subject to the condition that if at any time the Company shall determine, in its discretion, that the satisfaction of withholding tax or other withholding liabilities under any federal, state, local or foreign laws is necessary or desirable as a condition of, or in connection with, the grant, vesting or exercise of a SAR or the delivery or purchase of shares pursuant thereto, then such action shall not be effective unless such withholding shall have been effected or obtained in a manner acceptable to the Company. Such withholding liabilities shall be satisfied by reducing the number of shares that would otherwise be payable to Grantee on exercise of a SAR by an amount equal in value to the withholding liability, unless at the Company’s sole and complete discretion, the Company determines to require or accept cash from Grantee.

7. Termination of Employment other than by Death or Disability. If the Grantee ceases to be an employee of the Company or any subsidiary (used herein as defined in the Program) (an “Employee”) for any reason other than his or her death or disability, the SAR may be exercised, to the extent it had vested at the time of cessation of employment and subject to the Program, at any time within sixty (60) days after his or her termination of employment, but not beyond the otherwise applicable term of the SAR.

For purposes of this Section 7, the employment relationship shall be treated as continuing intact while the Grantee is an active employee of the Company or any subsidiary, or other bona fide leave of absence to be determined in the sole discretion of the Program Administrators.

8. Disability of Grantee. If the Grantee ceases to be an Employee due to becoming totally and permanently disabled within the meaning of Section 22(e)(3) of the Code, as determined by the Program Administrators in their sole discretion, the SAR may be exercised, to the extent it had vested at the time of cessation of employment and subject to the Program, at any time within one year after the Grantee's termination of employment, but not beyond the otherwise applicable term of the SAR.

9. Death of Grantee. If the Grantee dies while an Employee, or after ceasing to be an Employee but during the period while he or she could have exercised the SAR, the SAR may be exercised, to the extent it had vested at the time of death and subject to the Program, at any time within one year after the Grantee's death, by the executors or administrators of his or her estate or by any person or persons who acquire the SAR by will or the laws of descent and distribution, but not beyond the otherwise applicable term of the SAR.

10. Rights as a Shareholder. The Grantee, or a transferee of the Grantee, shall have no rights as a shareholder of the Company with respect to any Payment Share for which his or her SAR is exercisable until the date of the issuance of such Payment Share. No adjustment shall be made for dividends, ordinary or extraordinary (whether in currency, securities, or other property), distributions, or other rights for which the record date is prior to the date such stock is issued, except as provided in the Program.

11. Modification, Extension, and Renewal of SAR. Within the limitations of the Program, the Program Administrator may modify, extend or renew the SAR or accept the cancellation of the SAR for the granting of a new SAR in substitution therefor. Notwithstanding the preceding sentence, no modification of the SAR shall, without the consent of the Grantee, alter or impair any rights or obligations under the SAR.

12. Nontransferability. This SAR may not be sold, transferred, pledged, assigned, encumbered or otherwise alienated or hypothecated otherwise than by will or by the laws of descent and distribution.

13. Acknowledgements. Grantee acknowledges receipt of and understands and agrees to the terms of this SAR Agreement and the Program. In addition to the above terms, Grantee understands and agrees to the following:

(a) Grantee hereby acknowledges receipt of a copy of the Program and agrees to be bound by all of the terms and provisions thereof, including the terms and provisions adopted after the date of this Agreement but prior to the completion of the vesting period. If and to the extent that any provision contained in this Agreement is inconsistent with the Program, the Program shall govern.

(b) Grantee acknowledges that as of the date of this Agreement, the Agreement and the Program set forth the entire understanding between Grantee and the Company regarding the acquisition of shares of Common Stock underlying the SAR and supersedes all prior oral and written agreements pertaining to the SAR.

(c) Grantee understands that the Company and its subsidiaries hold certain personal information about Grantee, including but not limited to his or her name, home address, telephone number, date of birth, social security number, salary, nationality, job title and details of all SARs or other entitlement to shares of Common Stock awarded, canceled, exercised, vested, unvested or outstanding ("Personal Data"). Certain Personal Data may also constitute sensitive personal data within the meaning of applicable law. Such data include but are not limited to the information provided above and any changes thereto and other appropriate personal and financial data about Grantee. Grantee hereby gives explicit consent to the Company and any of its subsidiaries to process any such Personal Data and/or sensitive personal data. Grantee also hereby gives explicit consent to the Company to transfer any such Personal Data outside the country in which Grantee is employed, including, but not limited to the United States. The legal persons for whom such Personal Data are intended include, but are not limited to the Company, its subsidiaries and its agents. Grantee has been informed that he or she has the right to access and make corrections to his or her personal data by applying to the Chief People Officer of the Company, or such person's designees.

(d) Grantee understands that the Company has reserved the right to amend or terminate the Program at any time, and that the award of this SAR under the Program at one time does not in any way obligate the Company or its subsidiaries to grant additional SARs in any future year or in any given amount. Grantee acknowledges and understands that Grantee's participation in the Program is voluntary and that this SAR and any future SARs under the Program are wholly discretionary in nature, the value of which do not form part of any normal or expected compensation for any purposes, including, but not limited to, calculating any termination, severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments, other than to the extent required by local law.

14. No Right to Continued Employment. Neither this SAR nor any terms contained in this Agreement shall confer upon Grantee any expressed or implied right to be retained in the service of the Company or any of its subsidiaries for any period at all, nor restrict in any way the right of the Company or any such subsidiary, which right is hereby expressly reserved, to terminate his or her employment at any time with or without cause. Grantee acknowledges and agrees that any right to receive delivery of shares of Common Stock is earned only by continuing as an employee of the Company or its subsidiary at the will of Company or such subsidiary, or satisfaction of any other applicable terms and conditions contained in this Agreement and the Program, and not through the act of being hired, being granted this SAR or acquiring shares of Common Stock hereunder.

15. Compliance with Laws, Regulations and Program Rules. The award of this SAR to Grantee and the obligation of the Company to deliver shares of Common Stock hereunder and the sale or the disposition of the Payment Shares received pursuant to the exercise of such SAR shall be subject to (a) all applicable federal, state, local and foreign laws, rules and regulations, and (b) any registration, qualification, approvals or other requirements imposed by any government or regulatory agency or body which the Company shall, in its sole discretion, determine to be necessary or applicable. Moreover, shares of Common Stock shall not be delivered hereunder if such delivery would be contrary to applicable law or the rules of any stock exchange. Exercise of the SAR shall be conditioned on the Grantee's compliance with procedures established from time to time by the Program Administrators for exercise, including but not limited to submission of such forms and documents as the Program Administrators may require.

16. Definitions. All capitalized terms that are used in this Agreement that are not defined herein have the meanings defined in the Program. In the event of a conflict between the terms of the Program and the terms of this Agreement, the terms of the Program shall prevail.

17. Notices. Any notice or other communication required or permitted hereunder shall, if to the Company, be in accordance with the Program, and, if to Grantee, be in writing and delivered in person or by registered or certified mail or overnight courier, postage prepaid, addressed to Grantee at his or her last known address as set forth in the Company's records.

18. Severability. If any of the provisions of this Agreement should be deemed unenforceable, the remaining provisions shall remain in full force and effect.

19. This Agreement and this SAR shall be governed by the laws of the State of Delaware, and any dispute arising out of or in connection with the same shall be submitted to binding arbitration in Santa Barbara, California before a single arbitrator in accordance with the rules of arbitration of the American Arbitration Association.

IN WITNESS WHEREOF, each of the parties hereto has executed this SAR Agreement, in the case of the Company by its duly authorized officer, as of the date of acceptance.

GRANTEE

QAD INC.

(Signature)

By: _____

(Name)

Its: _____

(Date)

**QAD INC. 2006 STOCK INCENTIVE PROGRAM
RESTRICTED STOCK UNIT AGREEMENT**

This Restricted Stock Unit Agreement is made and entered into by and between QAD Inc. (the “Company”) and **Employee Name** as of the date of acceptance, pursuant to the QAD Inc. 2006 Stock Incentive Program (the “Program”). The Program Administrators administering the Program have selected the Grantee to receive the following grant of restricted stock units (“RSUs”). This grant of RSUs entitles the Grantee to receive a payment in shares of the common stock of QAD Inc. (the “Common Stock”) for the number of shares of the Common Stock for which these RSUs were granted, as specified in Section 1 hereof, on the terms and conditions of the Program, including the Vesting Period, and as set forth below, which Grantee accepts and to which the Grantee agrees:

1. RSUs Granted:

Number of Shares Subject to RSUs	Shares #
Grant Date	Date

2. Vesting Period. The Vesting Period shall commence on the date of this Agreement and shall end on the dates set forth below as to that percentage of the total shares of Common Stock subject to this Agreement set forth opposite each such date:

Date	Percentage Vested
1 st Anniversary of Grant Date	25%
2 nd Anniversary of Grant Date	25%
3 rd Anniversary of Grant Date	25%
4 th Anniversary of Grant Date	25%

Immediately upon vesting, RSUs shall be converted to Common Stock on a one-unit for one-share basis and such Common Stock shall be delivered to Grantee as soon as reasonably practicable, subject to the applicable tax withholding.

3. Termination of Service. If Grantee ceases to provide continuous service in a role that is eligible to receive RSUs under Article 4 of the Program (as determined in the sole and absolute discretion of the Program Administrators), to the Company and/or a subsidiary (used herein as defined in the Program) prior to completion of the Vesting Period, Grantee agrees that the RSUs awarded will be immediately and unconditionally forfeited without any action required by Grantee or the Company, to the extent that the Vesting Period had not ended in accordance with Section 2 as of the date of such cessation of employment.

4. No Ownership Rights Prior to Issuance of Common Stock. Grantee shall not have any rights as a shareholder of the Company with respect to the shares of Common Stock underlying the RSUs, including but not limited to the right to vote or receive dividends with respect to such shares of Common Stock, until and after the RSUs have vested.

5. Withholding Taxes. Upon vesting pursuant to the Vesting Period, Grantee shall be entitled to receive the shares of Common Stock, less an amount of shares of Common Stock with a Fair Market Value, used herein as defined in the Program, on the date of vesting equal to the minimum required withholding obligation taking into account all applicable federal, state, local and foreign taxes, resulting in Grantee being entitled to receive the net number of shares of Common Stock after withholding of shares for taxes. Notwithstanding the foregoing, prior to the delivery of any shares of Common Stock and at the sole and absolute discretion of the Program Administrators, Grantee may make adequate arrangements with the Company to pay the applicable withholding taxes with cash or other payroll withholding.

6. Delivery of Shares of Common Stock. As soon as reasonably practicable following the date of vesting pursuant to the Vesting Period, but in no event later than the 15th day of the third month following the later of the Company's or the Grantee's tax year end of the year in which vesting occurs, the Company shall cause to be delivered to Grantee a stock certificate representing the number of shares of Common Stock (net of tax withholding as provided in Section 5) deliverable to Grantee in accordance with the provisions of this Agreement.

7. Nontransferability of RSUs. Prior to their conversion into Common Stock, the RSUs may not be sold, transferred, pledged, assigned, encumbered or otherwise alienated or hypothecated otherwise than by will or by the laws of descent and distribution, prior to such time as the shares of Common Stock have actually been issued and delivered to Grantee.

8. Acknowledgements. Grantee acknowledges receipt of, and understands and agrees to the terms of, the RSUs award and the Program. In addition to the above terms, Grantee understands and agrees to the following:

(a) Grantee hereby acknowledges receipt of a copy of the Program and agrees to be bound by all of the terms and provisions thereof, including the terms and provisions adopted after the date of this Agreement, but prior to the completion of the Vesting Period. If and to the extent that any provision contained in this Agreement is inconsistent with the Program, the Program shall govern.

(b) Grantee acknowledges that as of the date of this Agreement, the Agreement and the Program set forth the entire understanding between Grantee and the Company regarding the acquisition of shares of Common Stock underlying the RSUs in the Company and supersedes all prior oral and written agreements pertaining to the RSUs.

(c) Grantee understands that his or her employer, the Company and its subsidiaries hold certain personal information about Grantee, including but not limited to his or her name, home address, telephone number, date of birth, social security number, salary, nationality, job title and details of all RSUs or other entitlement to shares of Common Stock awarded, canceled, exercised, vested, unvested or outstanding ("Personal Data"). Certain Personal Data may also constitute sensitive personal data within the meaning of applicable law. Such data include, but are not limited to, the information provided above and any changes thereto and other appropriate personal and financial data about Grantee. Grantee hereby gives explicit consent to the Company and any of its subsidiaries to process any such Personal Data and/or sensitive personal data. Grantee also hereby gives explicit consent to the Company to transfer any such Personal Data outside the country in which Grantee is employed, including, but not limited to the United States. The legal persons for whom such Personal Data are intended include, but are not limited to, the Company and its agents. Grantee has been informed that he or she has the right to access and make corrections to his or her personal data by applying to the Chief People Officer of the Company, or such person's designees.

(d) Grantee understands that the Company has reserved the right to amend or terminate the Program at any time, and that the award of RSUs under the Program at one time does not in any way obligate the Company or its subsidiaries to grant additional RSUs in any future year or in any given amount. Grantee acknowledges and understands that Grantee's participation in the Program is voluntary and that the RSUs and any future RSUs under the Program are wholly discretionary in nature, the value of which do not form part of any normal or expected compensation for any purposes related to termination of employment, including, but not limited to, calculating any termination, severance, resignation, redundancy, end of service payments, or similar payments, other than to the extent required by local law.

(e) Grantee acknowledges and understands that the future value of the shares of Common Stock acquired by Grantee under the Program is unknown and cannot be predicted with certainty and that no claim or entitlement to compensation or damages arises from the forfeiture of the RSUs or termination of the Program or the diminution in value of any shares of Common Stock acquired under the Program.

9. No Right to Continued Employment. Neither the RSUs nor any terms contained in this Agreement shall confer upon Grantee any expressed or implied right to be retained in the service of Company or any subsidiary for any period at all, nor restrict in any way the right of Company or any such subsidiary, which right is hereby expressly reserved, to terminate his or her employment at any time with or without cause.

10. Compliance with Laws and Regulations. The award of the RSUs to Grantee and the obligation of the Company to deliver shares of Common Stock hereunder shall be subject to (a) all applicable federal, state, local and foreign laws, rules and regulations, and (b) any registration, qualification, approvals or other requirements imposed by any government or regulatory agency or body which the Company shall, in its sole discretion, determine to be necessary or applicable. Moreover, shares of Common Stock shall not be delivered hereunder if such delivery would be contrary to applicable law or the rules of any applicable stock exchange.

11. Definitions. All capitalized terms that are used in this Agreement that are not defined herein have the meanings defined in the Program. In the event of a conflict between the terms of the Program and the terms of this Agreement, the terms of the Program shall prevail.

12. Notices. Any notice or other communication required or permitted hereunder shall, if to the Company, be in accordance with the Program, and, if to Grantee, be in writing and delivered in person or by registered or certified mail or overnight courier, postage prepaid, addressed to Grantee at his or her last known address as set forth in the Company's records.

13. Severability. If any of the provisions of this Agreement should be deemed unenforceable, the remaining provisions shall remain in full force and effect.

14. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, and any dispute arising out of or in connection with the same shall be submitted to binding arbitration in Santa Barbara, California before a single arbitrator in accordance with the rules of arbitration of the American Arbitration Association.

15. Transferability of Agreement. This Agreement may not be transferred, assigned, pledged or hypothecated by either party hereto, other than by operation of law. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns, including, in the case of Grantee, his or her estate, heirs, executors, legatees, administrators, designated beneficiary and personal representatives.

16. Counterparts. This Agreement has been executed in two counterparts, each of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties hereto has executed this RSU Agreement, in the case of the Company by its duly authorized officer, as of the date of acceptance.

GRANTEE

QAD INC.

(Signature)

By: _____

(Name)

(Date)

Executive Termination Policy

Scope

This policy is designed to cover a limited number of QAD Inc. (Company) Executives (Executives) whose positions and titles are defined as Company President, Chief Executive Officer, Chief Financial Officer, and Executive Vice President; and for those Vice Presidents and other individuals as are specifically approved by the Corporate Compensation Committee (Committee) as eligible for inclusion under this policy. Only those Executives who are specifically selected by the Committee shall be eligible for benefits under this policy.

All Executive terminations will follow the conditions set forth in this Policy, except for terms and conditions in individually negotiated, written agreements as approved by the Board.

For newly hired Executives, there is a six (6) month waiting period from date of hire to receive benefits under this policy.

Purpose

The Board of Directors of the Company (the “Board”) has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the continued dedication of the Company’s Executives, notwithstanding the possibility, threat or occurrence of Termination of Employment (Termination) for reasons other than for Cause or Change in Control. Therefore, this policy is intended to provide a structured and predefined approach to the treatment of a limited number of Executives in connection with the Termination of an Executive.

Key Objectives

- Keep the Executive Management team focused on the business rather than on their personal financial security
- Bridge the unemployment gap

Requirements

Participation in the Termination Benefits (Benefits) of this Policy is strictly regulated by approval of the Executive’s inclusion under this Policy, as noted within Committee minutes.

Benefits become payable to an Executive after an Executive is Terminated and Company receives, not later than 45 days following such Termination, a signed Separation Agreement and Release of All Claims (Agreement) by the Executive Terminated from Company employment.

Definitions:**“Agreement” — Separation Agreement and Release of All Claims**

Shall mean a formal document approved by QAD’s General Counsel. The Agreement shall be approved and signed by the Vice President of Human Resources or designated Company Officer.

Termination of Employment

Shall mean any termination or purported termination of the employment of Executive that is initiated by the Company which is not effected according to the requirements of a Notice of Termination for “Cause” and does not occur within 18 months following a “Change in Control” as defined for purposes of the Company’s Change in Control Policy. For purposes of this Policy, the effective date of any Termination (as defined herein) shall be the date on which the Executive has a “separation from service” as defined for purposes of Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (“Section 409A”).

Terminated for “Cause”

“Cause” shall mean (a) the Executive is convicted of a felony involving property of the Company, or (b) the Executive, in carrying out the Executive’s duties under any and all Company Policies, is guilty of willful refusal to perform, or willful neglect of, the Executive’s duties. In the event that Executive’s employment with the Company is terminated for Cause, Executive shall receive Executive’s full base salary as earned through the Date of Termination at the rate in effect at the time Notice of Termination is given. Following payment of the salary amount, the Company shall have no further obligations to Executive.

Two (2) Tiered Benefits Structure for Executive Termination

The Company will make a lump sum payment based on the Compensation Base as defined below, to Executive 60 days after the date of Termination, provided that the Company has timely received a signed Agreement within 45 days of the Executive’s date of Termination.

- **Compensation Base** is defined as an Executive’s highest fiscal year base salary in effect within two years prior to the Executive’s Termination

Tier #1 Benefits Structure:

- **Participation:** Included in this Tier are the following Company Executives
 1. Chief Executive Officer
 2. President
 3. Chief Financial Officer
 4. Executives with Position Title of Executive Vice President
- **Benefits:**
 - Six (6) months of Compensation Base
 - Six (6) months of COBRA payments or similar regional health coverage

Tier #2 Benefits Structure:

- **Participation:** All employees not identified and included in the Tier 1 structure above, must be expressly approved by the Committee in order to receive Benefits under this Policy, as noted within Committee minutes.
- **Benefits:**
 - Six (6) months of Compensation Base
 - Six (6) months of COBRA payments or similar regional health coverage

Compliance with Section 409A

- It is intended that lump sum payments to be made under this Policy will, be paid within the “short-term deferral period” (as defined for purposes of Section 409A), and each such payment shall be treated as a short-term deferral within the meaning of Treasury Regulation Section 1.409A-1(b)(4) to the maximum extent permissible under Section 409A. It is intended that COBRA payments and other health coverage provided under this Policy qualify as separation pay plan medical benefits within the meaning of Treasury Regulation Section 1.409A-1(b)(9)(v)(B), and this Policy shall be interpreted and administered accordingly.
- If a payment under this policy is made to an Executive upon his or her separation from service while he or she is a “specified employee” (as defined under Section 409A of the Code and determined in good faith by the Compensation Committee of the Board), any payment of “deferred compensation” (as defined under Treasury Regulation Section 1.409A-1(b)(1) after giving effect to the exemptions in Treasury Regulation Sections 1.409A-1(b)(3) through (b)(12) that is scheduled to be paid within six (6) months after such separation from service shall accrue with interest and shall be paid within 30 days after the end of the six-month period beginning on the date of such separation from service or, if earlier, within 30 days after the appointment of the personal representative or executor of the Executive’s estate following his death. During the 6-month delay period, interest shall accrue at the prime rate of interest published in the northeast edition of The Wall Street Journal on the date of Executive’s separation from service. Accordingly, subject to the requirements of Section 409A of the Code, an Executive may not receive his or her Change in Control Benefits payment until 6 months after separation from service.
- This Policy is intended to comply with the provisions of Section 409A, and, to the extent practicable, this Policy shall be construed in accordance therewith. However, the Company does not guarantee any particular tax effect to Executive. The Company shall not be liable to Executive for any payment made under this Agreement that is determined to result in an additional tax, penalty, or interest under Section 409A of the Code, nor for reporting in good faith any payment made under this Agreement as an amount includible in gross income under Section 409A of the Code.

Right to Terminate Employment

Nothing in this Policy shall confer upon Executive any right to continue in the employ of the Company or shall interfere with or restrict in any way the rights of the Company, which are hereby expressly reserved, to discharge Executive at any time for any reason whatsoever with or without Cause.

CHANGE IN CONTROL AGREEMENT

This change in control agreement (this "Agreement"), is made and entered into as of December 18, 2008 (the "Effective Date"), by and between QAD Inc., a Delaware corporation, with its principal offices located at 100 Innovation Place, Santa Barbara, California 93108 (together with its successors and assigns permitted under this Agreement, the "Company"), and Karl F. Lopker who resides at 305 Woodley Road, Montecito, California 93108 (the "Employee").

WITNESSETH:

Whereas the Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication of the Employee, notwithstanding the possibility, threat or occurrence of a Change in Control (as defined below) of the Company;

Whereas the Board believes it is imperative to diminish the inevitable distraction of the Employee by virtue of the personal uncertainties and risks created by a pending or threatened Change in Control, to encourage the Employee's full attention and dedication to the Company currently and in the event of any threatened or pending Change in Control, and to provide the Employee with compensation arrangements upon a Change in Control which provide the Employee with individual financial security and which are competitive with those of other corporations; and

Whereas in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

Now, Therefore, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the Company and the Employee (individually a "Party" and together the "Parties") agree as follows.

1. Term of Agreement. This Agreement shall commence as of the Effective Date and shall continue in effect until June 30, 2010, PROVIDED, HOWEVER, that commencing on June 30, 2010 and on each June 30 thereafter, the term of this Agreement shall automatically be extended for one (1) additional year (e.g., on June 30, 2010 through June 30, 2011), unless either the Company or the Employee shall have given written notice to the other, at least one (1) year prior thereto, that the term of this Agreement shall not be so extended; and PROVIDED, FURTHER, HOWEVER, that notwithstanding any such notice by the Company not to extend, the term of this Agreement shall not terminate prior to the expiration of eighteen (18) months after the occurrence of a Change in Control during the term of this Agreement.

2. Definitions.

2.1 "Base Monthly Salary" shall mean the monthly base compensation of the Employee.

2.2 "Cause" shall mean (a) the Employee is convicted of a felony involving property of the Company, or (b) the Employee, in carrying out the Employee's duties under this Agreement, is guilty of willful refusal to perform, or willful neglect of, the Employee's duties.

2.3 “Change in Control” shall mean the first occurrence of any of the following events:

(a) Any person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) or persons acting as a group, other than Pamela M. Lopker and Karl F. Lopker as joint holders, or either of them (the “Lopkers”) or a living trust for their benefit over which they maintain control of the assets of the trust and the voting rights for shares in the trust is or becomes the “beneficial owner” (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company’s then outstanding voting securities.

(b) A merger or consolidation of the Company with any other corporation, other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company, or such surviving entity, outstanding immediately after such merger or consolidation; or

(c) The sale or other disposition by the Company of all, or substantially all, of the Company’s assets, other than a transfer to (i) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock, (ii) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (iii) a person, or persons acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power represented by the Company’s then outstanding voting securities, or (iv) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by a person described in clause (iii).

Each of the foregoing events is intended to qualify as a change in ownership or effective control for purposes of Section 409A(a)(2)(A)(v) of the Internal Revenue Code of 1986, as amended (the “Code”), and the provisions of this Section 2.3 shall be interpreted accordingly.

2.4 “Disability” shall mean that the Employee has been unable to perform their duties under this Agreement as a result of the Employee’s incapacity due to physical or mental illness with or without reasonable accommodation, and such inability, at least twenty-six (26) weeks after its commencement, is determined to be total and permanent by a physician selected by the Company, or its insurers, and acceptable to the Employee or the Employee’s legal representative (such statement of acceptability not to be unreasonably withheld).

2.5 “Division” shall mean a business unit or other substantial business operation within the Company that is operated as a separate profit center, but that is not maintained by the Company as a separate legal entity.

2.6 “Equity Compensation” shall mean any equity compensation granted under the QAD Inc. 2006 Stock Incentive Program.

3. Change in Control Severance Benefits. In the event there occurs a Change in Control and the Employee's employment with the Company is terminated on or before eighteen (18) months after the date of the Change in Control, then the following shall apply:

3.1 Voluntary Resignation; Termination for Cause. If the Employee's employment terminates in a voluntary resignation, or if the Employee is terminated for Cause, or if the Employee voluntarily accepts a position at the time of a Change in Control below the level currently held by the Employee, and such acceptance occurs at, or proximate to, the time of a Change in Control, then the Employee shall not be entitled to receive severance benefits except for those (if any) as may be available under the Company's severance and benefits plans and policies existing at the time of such termination.

3.2 Constructive Termination; Termination Without Cause. If the Employee suffers Constructive Termination (as defined below) or Termination without Cause, then the Employee shall be entitled to the following:

(a) payment, within thirty (30) days following the termination of the Employee's employment, of a lump sum cash amount equal to twenty-four (24) months times the greater of (x) the Employee's Base Monthly Salary at the time of the Change in Control or (y) the Employee's Base Monthly Salary at the time of the termination of the Employee's employment; and

(b) payment, within thirty (30) days following the termination of the Employee's employment, of a lump sum cash amount equal to two (2) multiplied by the greater of (x) the average annual bonus received by the Employee during the two (2) fiscal years immediately prior to the termination of the Employee's employment or (y) the annual bonus that would be due for the fiscal year in progress at the time of the termination of the Employee's employment if the Employee and the Company met the on target goals to receive such bonus; and

(c) immediate vesting of any Equity Compensation granted to the Employee; and

(d) payment, within thirty (30) days following termination of the Employee's employment, of a lump sum cash amount equivalent to the present value of the projected cost (based upon the Company's programs in effect immediately prior to the Change in Control) of continuation of all employee benefits and perquisites, including life insurance, health benefits, disability insurance, cars and expense reimbursement, and 401(k) matching payments for a period following such termination of employment for twenty-four (24) months plus an amount equal to the portion of the Employee's unvested account balance (as of the date of termination of employment) under the Company's 401(k) plan that would vest if the Employee had twenty-four (24) additional months of service for vesting purposes under the Company's 401(k) plan (subject to applicable taxes and withholding); and

(e) all benefits pursuant to the Consolidated Omnibus Reconciliation Act of 1986 ("COBRA") and the Company 401(k) Plan upon termination.

3.3 Effect on Existing Plans. This Agreement and the payments provided hereunder supersede the Company's existing severance and benefit plans, policies and agreements existing now and at the time of termination with respect to severance or termination benefits provided to Employee in the event of termination of employment during the eighteen (18) month period following a Change in Control, and are not in addition thereto.

3.4 Death; Disability. If the Employee's employment terminates due to the Employee's Disability or death, then such termination shall be treated as if it were a termination without Cause and severance and other benefits shall be provided in accordance with Section 3.2 above.

3.5 Payment to Specified Employee. If a payment obligation under this Agreement arises on account of the Employee's separation from service while the Employee is a "specified employee" (as defined under Section 409A of the Code and determined in good faith by the Compensation Committee of the Board), any payment of "deferred compensation" (as defined under Treasury Regulation Section 1.409A-1(b)(1), after giving effect to the exemptions in Treasury Regulation Sections 1.409A-1(b)(3) through (b)(12)) that is scheduled to be paid within six (6) months after such separation from service shall accrue with interest and shall be paid within 30 days after the end of the six-month period beginning on the date of such separation from service or, if earlier, within 30 days after the appointment of the personal representative or executor of the Employee's estate following his death. For purposes of the preceding sentence, interest shall accrue at the prime rate of interest published in the northeast edition of The Wall Street Journal on the date of Employee's separation from service.

3.6 Termination of Employment. For all purposes under this Agreement, references to "termination of employment," "employment terminates" and similar terms shall mean "separation from service" as defined for purposes of Section 409A of the Code and the regulations promulgated thereunder.

4. Constructive Termination of Employment. "Constructive Termination" shall mean and exist if, without the Employee's prior written consent, one or more of the following events occurs and the Employee shall elect to terminate the Employee's employment with the Company:

(a) the assignment to Employee of duties which are wholly and clearly inconsistent with the position and status of an executive of the Company, or a substantial alteration in the nature, status or prestige of Employee's official position resulting in a decrease in authority or responsibilities from those in effect immediately prior to a Change in Control;

(b) The Employee's Base Monthly Salary is decreased by the Company, or the Employee's benefits or opportunities under any employee benefit or incentive plan or program of the Company is or are materially reduced other than in connection with a reduction in salary or benefits generally applicable to all employees of the Company;

(c) The Employee's own office location, as provided for in this Agreement, is relocated to a location more than twenty-five (25) miles from the Employee's then present location without the Employee's written consent;

(d) The Company fails to pay the Employee any deferred payments under any bonus or incentive plans in a timely manner;

(e) The Company fails to reimburse the Employee for business expenses in accordance with the Company's policies, procedures or practices;

(f) The Company fails to agree to or actually indemnify the Employee for the Employee's actions and/or inactions, as either a director or officer of the Company, to the fullest extent permitted by Delaware law, and the Company fails to maintain reasonable levels of directors and officers liability insurance coverage for the Employee when such insurance is available;

(g) The Company fails to obtain a written agreement from any successor or assign of the Company to assume and perform Employee's employment agreement as then in effect and this Agreement; or

(h) The Company purports to terminate the Employee's employment for Cause and such purported termination of employment is not effected in accordance with the procedures required by this Agreement, and for purposes of this Agreement, such purported termination of employment shall be invalid and of no force and effect.

5. Equity Compensation Acceleration.

5.1 Equity Compensation Acceleration upon Change of Control. If the Employee does not terminate employment in the event of a Change of Control, fifty percent (50%) of the then unvested portion of any Equity Compensation held by the Employee under the Company's equity compensation plans and outstanding at the time of the Change in Control shall become vested and the Employee shall automatically have the right to exercise all, or any portion, of such Equity Compensation to the extent so vested in addition to any portion of the Equity Compensation exercisable prior to the Change in Control. Where the Change in Control results from a merger or consolidation of the Company with any other corporation, such vesting shall occur immediately prior to consummation of such merger or consolidation, and is contingent upon the consummation of such merger or consolidation.

5.2 Equity Compensation Acceleration Following Change in Control. Subject to the continued employment of the Employee, after acceleration of vesting under Section 5.1 above, the remaining unvested portion of any Equity Compensation granted to Employee prior to the Change in Control shall become fully vested upon the first anniversary of the Change in Control (or the vesting date of such Equity Compensation, if earlier). If, however, the Employee's employment terminates within the twelve (12) month period following the Change of Control, then the vesting of such Equity Compensation shall be handled in accordance with the Change in Control Severance Benefits set forth above in Section 3.1.

6. No Mitigation; No Offset. In the event of any termination of employment covered by this Agreement, the Employee shall be under no obligation to seek other employment and there shall be no offset against amounts due the Employee under this Agreement on account of any remuneration attributable to any subsequent employment that the Employee may obtain. Any amounts due under this Agreement are in the nature of severance payments, or liquidated damages, or both, and are not in the nature of a penalty.

7. Severance Pay and Benefits. The severance pay and benefits provided for in this Agreement shall be in lieu of any other severance or termination pay to which the Employee otherwise may be entitled as a result of termination of employment during the eighteen (18) month period following a Change in Control under any Company severance or termination plan, program, practice, agreement or arrangement, including any agreement relating to the Employee's employment with the Company. If the Employee receives severance or termination benefits or payments under this Agreement, the Employee may not receive severance or termination benefits under any other Company policy, plan, agreement or arrangement. The Employee's entitlement to any other compensation or benefits shall be determined in accordance with the Company's employee benefit plans and other applicable programs, policies and practices then in effect, provided such other compensation or benefits have not been addressed in this Agreement.

8. Certain Additional Payments.

8.1 Gross-Up Payment Amount. Notwithstanding anything in this Agreement to the contrary, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Employee, whether paid, payable, distributed or distributable pursuant to this Agreement or otherwise (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision) or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are collectively referred to in this Agreement as the "Excise Tax"), then the Employee shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after the payment by the Employee of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, the Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

8.2 Determinations. Subject to the provisions of Section 8.3, all determinations required to be made under this Section 8, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by an accounting firm of national standing reasonably selected by the Company (the "Accounting Firm"), which shall provide detailed supporting calculations to both the Company and the Employee within fifteen (15) business days of the receipt of written notice from the Employee that there has been a Payment, or such earlier time as is requested by the Company. Any Gross-Up Payment, as determined pursuant to this Section 8, shall be paid by the Company to the Employee within fifteen (15) days of the receipt of the Accounting Firm's determination. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and the Employee. As a result of the possible uncertainty in application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments will not have been made by the Company that should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 8.3 and the Employee thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Employee.

8.3 IRS Claims. The Employee shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten (10) business days after the Employee is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is to be paid. The Employee shall not pay such claim prior to the expiration of the thirty (30) -day period following the date on which the Employee gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Employee in writing prior to the expiration of such period that it desires to contest such claim, the Employee shall:

(a) give the Company any information reasonably requested by the Company relating to such claim,

(b) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Company and reasonably acceptable to the Employee,

(c) cooperate with the Company in good faith in order effectively to contest such claim, and

(d) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Employee harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section, the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Employee to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Employee agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Employee to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Employee, on an interest-free basis and shall indemnify and hold the Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Employee with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Employee shall be entitled in his sole discretion to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

8.4 Refunds. If, after receipt by the Employee of an amount advanced by the Company pursuant to Section 8.3, the Employee becomes entitled to receive any refund with respect to such claim, the Employee shall (subject to the Company's complying with the requirements of such Section) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after receipt by the Employee of an amount advanced by the Company pursuant to Section 8.3, a determination is made that the Employee shall not be entitled to any refund with respect to such claim and the Company does not notify the Employee in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

8.5 409A Payment Deadline. In all events, the Gross-Up Payment, if any, including any Underpayment, shall not be made later than the December 31 following Employee's taxable year in which Employee remits the Excise Tax.

9. Divestiture. Notwithstanding any other provision of this Agreement to the contrary, the termination of the Employee's employment with the Company in connection with the sale, divestiture or other disposition of a subsidiary or Division shall not be deemed to be a termination of employment of the Employee for purposes of this Agreement provided the Employee accepts employment offered by the purchaser or acquirer of such subsidiary or Division and provided the Company obtains an agreement from such purchaser or acquirer to honor the terms of this Agreement.

10. Confidentiality and Non-Compete.

10.1 Non-Disclosure of this Agreement. Employee agrees that the terms of this Agreement are a private matter, which shall not be divulged in any form to others. Accordingly, Employee hereby agrees that Employee will not disclose, disseminate and/or publicize or cause to be disclosed, disseminated and/or publicized any of the terms of this Agreement or the discussions which have led up to this Agreement to anyone, with the exception of Employee's attorney, any financial or tax advisors, and immediate family members, who shall not divulge its contents to any third party.

10.2 Confidential Information. Employee acknowledges that Employee may be in receipt of confidential information concerning the Company, agrees that any confidential information concerning the Company and its affiliates will be maintained in strict confidence and not be disclosed to any other person, including but not limited to, and past, present or prospective customers of the Company. The parties agree that money damages would not be a sufficient remedy for breach of this Section 10.2 and that, in addition to all other remedies which any party hereto may have, each party will be entitled to specific performance and injunctive or other equitable relief as a remedy for such breach. This Section 10.2 shall not supersede any other confidentiality agreement entered into between the parties.

10.3 Non-Compete. In the event of any termination covered by Section 3.2 and in return for the payment and benefits provided under this Agreement, the Employee agrees that, for a period of one (1) year after the last day of employment with the Company, Employee shall not:

- (a) compete with the Company, or assist any other party to compete with the Company, in any manner;
- (b) attempt to solicit or recruit the Company employees or otherwise interfere with the Company's relationship with its employees or customers;
- (c) make any comment, remark or statement that disparages the Company or portrays the Company in a negative manner.

11. At-Will Employment. The Company and the Employee acknowledge that the Employee's employment is at will and may be terminated at any time and for any reason, with or without notice. On termination of the Employee's employment, the Employee shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement, or as may otherwise be available in accordance with the Company's established employee plans and policies at the time of termination.

12. Miscellaneous.

12.1 Governing Law. This Agreement shall be governed in all respects by the laws of the State of California.

12.2 Successors and Assigns. Except as otherwise provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

12.3 Entire Agreement: Amendment. This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subject hereof and thereof. Neither this Agreement nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument signed by the Company and the Employee.

12.4 Notices. Except as may be otherwise provided herein, all notices and other communications required or permitted hereunder shall be in writing and shall be hand delivered or delivered via next day delivery, (a) if to the Employee, to such address as the Employee, or any of the Employee's successors or assigns, shall have furnished to the Company in writing or (b) if to the Company, to such address as the Company shall have furnished to the Employee or the Employee's successors or assignees in writing. Notices via next day delivery will be effective three (3) business days after delivery to the delivery firm, charges prepaid.

12.5 Delays or Omissions. No delay or omission to exercise any right, power or remedy accruing to the Employee, upon any breach or default of Company under this Agreement, shall impair any such right, power or remedy of the Employee, nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any holder of any breach or default under this Agreement, or any waiver on the part of any holder of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under the Agreement, or by law or otherwise afforded to any holder shall be cumulative and not alternative.

12.6 Expenses. The Company and the Employee shall each bear their own expenses and legal fees incurred on their behalf with respect to this Agreement and the transactions contemplated hereby.

12.7 Counterparts. This Agreement may be executed in any number of counterparts, all of which together shall constitute one instrument.

12.8 Severability. In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue to full force and effect without said provision; provided that no such severability shall be effective if it materially changes the economic benefit of this Agreement to any party.

12.9 Survival. The provisions of the sections entitled "Excise Tax Reduction", "Confidentiality and Non-Compete", "At-Will Employment" and "Miscellaneous" shall survive the expiration or termination of this Agreement.

12.10 Section 409A Compliance. This Agreement is intended not to result in the imposition of any tax, interest charge or other assessment, penalty or addition under Section 409A of the Code. In addition to any specific references to Section 409A of the Code in this Agreement, all terms and conditions of this Agreement are intended, and shall be interpreted and applied to the greatest extent possible in such manner as may be necessary, to comply with the provisions of Section 409A of the Code and any rules, regulations or other regulatory guidance issued under Section 409A of the Code. If any modification of this Agreement is necessary to comply with the provisions of Section 409A of the Code, and the making of such modification itself does not fail to comply with any requirement of Section 409A of the Code, then the Company and the Employee agree to modify this Agreement in the least restrictive manner necessary to accomplish such result without causing any diminution in the value of the payments to the Employee. With respect to any reimbursement of expenses of, or any provision of in-kind benefits to, the Employee, as specified under this Agreement, such reimbursement of expenses or provision of in-kind benefits shall be subject to the following conditions: (1) the expenses eligible for reimbursement or the amount of in-kind benefits provided in one taxable year shall not affect the expenses eligible for reimbursement or the amount of in-kind benefits provided in any other taxable year, except for any medical reimbursement arrangement providing for the reimbursement of expenses referred to in Section 105(b) of the Code; (2) the reimbursement of an eligible expense shall be made no later than the end of the year after the year in which such expense was incurred; and (3) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit. The preceding provisions, however, shall not be construed as a guarantee by the Company of any particular tax effect to Employee under this Agreement. The Company shall not be liable to Employee for any payment made under this Agreement that is determined to result in an additional tax, penalty, or interest under Section 409A of the Code, nor for reporting in good faith any payment made under this Agreement as an amount includible in gross income under Section 409A of the Code.

12.11 Arbitration. Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration before one (1) arbitrator, in Santa Barbara, California, administered by the American Arbitration Association under its Employment Dispute Resolution Rules, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Unless otherwise provided for by law, the Company and the Employee shall each pay half of the costs and expenses of such arbitration.

EMPLOYEE HAS READ AND UNDERSTANDS THIS SECTION, WHICH PROVIDES FOR ARBITRATION. EMPLOYEE UNDERSTANDS THAT BY SIGNING THIS AGREEMENT, EMPLOYEE AGREES TO SUBMIT ANY CLAIMS ARISING OUT OF, OR RELATING TO, OR IN CONNECTION WITH THIS AGREEMENT, OR THE INTERPRETATION, VALIDITY, CONSTRUCTION, PERFORMANCE, BREACH OR TERMINATION OF THIS AGREEMENT TO BINDING ARBITRATION, AND THAT THIS ARBITRATION CLAUSE CONSTITUTES A WAIVER OF EMPLOYEE'S RIGHT TO A JURY TRIAL AND RELATES TO THE RESOLUTION OF ALL DISPUTES RELATING TO ALL ASPECTS OF THIS AGREEMENT.

12.12 Cancellation of Agreement. Both parties agree that upon execution of this Agreement, the Employee Retention Agreement by and between QAD Inc. and Karl Lopker dated March 1, 2000 shall be duly cancelled.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

QAD INC., a Delaware corporation

By: <u>/s/ MURRAY RAY</u>	12/18/08
Murray Ray	Date
CPO & EVP, Human Resources	

EMPLOYEE:

<u>/s/ KARL LOPKER</u>	12/18/08
Karl F. Lopker	Date

CHANGE IN CONTROL AGREEMENT

This change in control agreement (this "Agreement"), is made and entered into as of December 18, 2008 (the "Effective Date"), by and between QAD Inc., a Delaware corporation, with its principal offices located at 100 Innovation Place, Santa Barbara, California 93108 (together with its successors and assigns permitted under this Agreement, the "Company"), and Pamela M. Lopker who resides at 305 Woodley Road, Montecito, California 93108 (the "Employee").

WITNESSETH:

Whereas the Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication of the Employee, notwithstanding the possibility, threat or occurrence of a Change in Control (as defined below) of the Company;

Whereas the Board believes it is imperative to diminish the inevitable distraction of the Employee by virtue of the personal uncertainties and risks created by a pending or threatened Change in Control, to encourage the Employee's full attention and dedication to the Company currently and in the event of any threatened or pending Change in Control, and to provide the Employee with compensation arrangements upon a Change in Control which provide the Employee with individual financial security and which are competitive with those of other corporations; and

Whereas in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

Now, Therefore, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the Company and the Employee (individually a "Party" and together the "Parties") agree as follows.

1. Term of Agreement. This Agreement shall commence as of the Effective Date and shall continue in effect until June 30, 2010, PROVIDED, HOWEVER, that commencing on June 30, 2010 and on each June 30 thereafter, the term of this Agreement shall automatically be extended for one (1) additional year (e.g., on June 30, 2010 through June 30, 2011), unless either the Company or the Employee shall have given written notice to the other, at least one (1) year prior thereto, that the term of this Agreement shall not be so extended; and PROVIDED, FURTHER, HOWEVER, that notwithstanding any such notice by the Company not to extend, the term of this Agreement shall not terminate prior to the expiration of eighteen (18) months after the occurrence of a Change in Control during the term of this Agreement.

2. Definitions.

2.1 "Base Monthly Salary" shall mean the monthly base compensation of the Employee.

2.2 "Cause" shall mean (a) the Employee is convicted of a felony involving property of the Company, or (b) the Employee, in carrying out the Employee's duties under this Agreement, is guilty of willful refusal to perform, or willful neglect of, the Employee's duties.

2.3 “Change in Control” shall mean the first occurrence of any of the following events:

(a) Any person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) or persons acting as a group, other than Pamela M. Lopker and Karl F. Lopker as joint holders, or either of them (the “Lopkers”) or a living trust for their benefit over which they maintain control of the assets of the trust and the voting rights for shares in the trust is or becomes the “beneficial owner” (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company’s then outstanding voting securities.

(b) A merger or consolidation of the Company with any other corporation, other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company, or such surviving entity, outstanding immediately after such merger or consolidation; or

(c) The sale or other disposition by the Company of all, or substantially all, of the Company’s assets, other than a transfer to (i) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock, (ii) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (iii) a person, or persons acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power represented by the Company’s then outstanding voting securities, or (iv) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by a person described in clause (iii).

Each of the foregoing events is intended to qualify as a change in ownership or effective control for purposes of Section 409A(a)(2)(A)(v) of the Internal Revenue Code of 1986, as amended (the “Code”), and the provisions of this Section 2.3 shall be interpreted accordingly.

2.4 “Disability” shall mean that the Employee has been unable to perform their duties under this Agreement as a result of the Employee’s incapacity due to physical or mental illness with or without reasonable accommodation, and such inability, at least twenty-six (26) weeks after its commencement, is determined to be total and permanent by a physician selected by the Company, or its insurers, and acceptable to the Employee or the Employee’s legal representative (such statement of acceptability not to be unreasonably withheld).

2.5 “Division” shall mean a business unit or other substantial business operation within the Company that is operated as a separate profit center, but that is not maintained by the Company as a separate legal entity.

2.6 “Equity Compensation” shall mean any equity compensation granted under the QAD Inc. 2006 Stock Incentive Program.

3. Change in Control Severance Benefits. In the event there occurs a Change in Control and the Employee's employment with the Company is terminated on or before eighteen (18) months after the date of the Change in Control, then the following shall apply:

3.1 Voluntary Resignation; Termination for Cause. If the Employee's employment terminates in a voluntary resignation, or if the Employee is terminated for Cause, or if the Employee voluntarily accepts a position at the time of a Change in Control below the level currently held by the Employee, and such acceptance occurs at, or proximate to, the time of a Change in Control, then the Employee shall not be entitled to receive severance benefits except for those (if any) as may be available under the Company's severance and benefits plans and policies existing at the time of such termination.

3.2 Constructive Termination; Termination Without Cause. If the Employee suffers Constructive Termination (as defined below) or Termination without Cause, then the Employee shall be entitled to the following:

(a) payment, within thirty (30) days following the termination of the Employee's employment, of a lump sum cash amount equal to eighteen (18) months times the greater of (x) the Employee's Base Monthly Salary at the time of the Change in Control or (y) the Employee's Base Monthly Salary at the time of the termination of the Employee's employment; and

(b) payment, within thirty (30) days following the termination of the Employee's employment, of a lump sum cash amount equal to one point five (1.5) multiplied by the greater of (x) the average annual bonus received by the Employee during the two (2) fiscal years immediately prior to the termination of the Employee's employment or (y) the annual bonus that would be due for the fiscal year in progress at the time of the termination of the Employee's employment if the Employee and the Company met the on target goals to receive such bonus; and

(c) immediate vesting of any Equity Compensation granted to the Employee; and

(d) payment, within thirty (30) days following termination of the Employee's employment, of a lump sum cash amount equivalent to the present value of the projected cost (based upon the Company's programs in effect immediately prior to the Change in Control) of continuation of all employee benefits and perquisites, including life insurance, health benefits, disability insurance, cars and expense reimbursement, and 401(k) matching payments for a period following such termination of employment for eighteen (18) months plus an amount equal to the portion of the Employee's unvested account balance (as of the date of termination of employment) under the Company's 401(k) plan that would vest if the Employee had eighteen (18) additional months of service for vesting purposes under the Company's 401(k) plan (subject to applicable taxes and withholding); and

(e) all benefits pursuant to the Consolidated Omnibus Reconciliation Act of 1986 ("COBRA") and the Company 401(k) Plan upon termination.

3.3 Effect on Existing Plans. This Agreement and the payments provided hereunder supersede the Company's existing severance and benefit plans, policies and agreements existing now and at the time of termination with respect to severance or termination benefits provided to Employee in the event of termination of employment during the eighteen (18) month period following a Change in Control, and are not in addition thereto.

3.4 Death; Disability. If the Employee's employment terminates due to the Employee's Disability or death, then such termination shall be treated as if it were a termination without Cause and severance and other benefits shall be provided in accordance with Section 3.2 above.

3.5 Payment to Specified Employee. If a payment obligation under this Agreement arises on account of the Employee's separation from service while the Employee is a "specified employee" (as defined under Section 409A of the Code and determined in good faith by the Compensation Committee of the Board), any payment of "deferred compensation" (as defined under Treasury Regulation Section 1.409A-1(b)(1), after giving effect to the exemptions in Treasury Regulation Sections 1.409A-1(b)(3) through (b)(12)) that is scheduled to be paid within six (6) months after such separation from service shall accrue with interest and shall be paid within 30 days after the end of the six-month period beginning on the date of such separation from service or, if earlier, within 30 days after the appointment of the personal representative or executor of the Employee's estate following his death. For purposes of the preceding sentence, interest shall accrue at the prime rate of interest published in the northeast edition of The Wall Street Journal on the date of Employee's separation from service.

3.6 Termination of Employment. For all purposes under this Agreement, references to "termination of employment," "employment terminates" and similar terms shall mean "separation from service" as defined for purposes of Section 409A of the Code and the regulations promulgated thereunder.

4. Constructive Termination of Employment. "Constructive Termination" shall mean and exist if, without the Employee's prior written consent, one or more of the following events occurs and the Employee shall elect to terminate the Employee's employment with the Company:

(a) the assignment to Employee of duties which are wholly and clearly inconsistent with the position and status of an executive of the Company, or a substantial alteration in the nature, status or prestige of Employee's official position resulting in a decrease in authority or responsibilities from those in effect immediately prior to a Change in Control;

(b) The Employee's Base Monthly Salary is decreased by the Company, or the Employee's benefits or opportunities under any employee benefit or incentive plan or program of the Company is or are materially reduced other than in connection with a reduction in salary or benefits generally applicable to all employees of the Company;

(c) The Employee's own office location, as provided for in this Agreement, is relocated to a location more than twenty-five (25) miles from the Employee's then present location without the Employee's written consent;

(d) The Company fails to pay the Employee any deferred payments under any bonus or incentive plans in a timely manner;

(e) The Company fails to reimburse the Employee for business expenses in accordance with the Company's policies, procedures or practices;

(f) The Company fails to agree to or actually indemnify the Employee for the Employee's actions and/or inactions, as either a director or officer of the Company, to the fullest extent permitted by Delaware law, and the Company fails to maintain reasonable levels of directors and officers liability insurance coverage for the Employee when such insurance is available;

(g) The Company fails to obtain a written agreement from any successor or assign of the Company to assume and perform Employee's employment agreement as then in effect and this Agreement; or

(h) The Company purports to terminate the Employee's employment for Cause and such purported termination of employment is not effected in accordance with the procedures required by this Agreement, and for purposes of this Agreement, such purported termination of employment shall be invalid and of no force and effect.

5. Equity Compensation Acceleration.

5.1 Equity Compensation Acceleration upon Change of Control. If the Employee does not terminate employment in the event of a Change of Control, fifty percent (50%) of the then unvested portion of any Equity Compensation held by the Employee under the Company's equity compensation plans and outstanding at the time of the Change in Control shall become vested and the Employee shall automatically have the right to exercise all, or any portion, of such Equity Compensation to the extent so vested in addition to any portion of the Equity Compensation exercisable prior to the Change in Control. Where the Change in Control results from a merger or consolidation of the Company with any other corporation, such vesting shall occur immediately prior to consummation of such merger or consolidation, and is contingent upon the consummation of such merger or consolidation.

5.2 Equity Compensation Acceleration Following Change in Control. Subject to the continued employment of the Employee, after acceleration of vesting under Section 5.1 above, the remaining unvested portion of any Equity Compensation granted to Employee prior to the Change in Control shall become fully vested upon the first anniversary of the Change in Control (or the vesting date of such Equity Compensation, if earlier). If, however, the Employee's employment terminates within the twelve (12) month period following the Change of Control, then the vesting of such Equity Compensation shall be handled in accordance with the Change in Control Severance Benefits set forth above in Section 3.1.

6. No Mitigation; No Offset. In the event of any termination of employment covered by this Agreement, the Employee shall be under no obligation to seek other employment and there shall be no offset against amounts due the Employee under this Agreement on account of any remuneration attributable to any subsequent employment that the Employee may obtain. Any amounts due under this Agreement are in the nature of severance payments, or liquidated damages, or both, and are not in the nature of a penalty.

7. Severance Pay and Benefits. The severance pay and benefits provided for in this Agreement shall be in lieu of any other severance or termination pay to which the Employee otherwise may be entitled as a result of termination of employment during the eighteen (18) month period following a Change in Control under any Company severance or termination plan, program, practice, agreement or arrangement, including any agreement relating to the Employee's employment with the Company. If the Employee receives severance or termination benefits or payments under this Agreement, the Employee may not receive severance or termination benefits under any other Company policy, plan, agreement or arrangement. The Employee's entitlement to any other compensation or benefits shall be determined in accordance with the Company's employee benefit plans and other applicable programs, policies and practices then in effect, provided such other compensation or benefits have not been addressed in this Agreement.

8. Certain Additional Payments.

8.1 Gross-Up Payment Amount. Notwithstanding anything in this Agreement to the contrary, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Employee, whether paid, payable, distributed or distributable pursuant to this Agreement or otherwise (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision) or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are collectively referred to in this Agreement as the "Excise Tax"), then the Employee shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after the payment by the Employee of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, the Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

8.2 Determinations. Subject to the provisions of Section 8.3, all determinations required to be made under this Section 8, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by an accounting firm of national standing reasonably selected by the Company (the "Accounting Firm"), which shall provide detailed supporting calculations to both the Company and the Employee within fifteen (15) business days of the receipt of written notice from the Employee that there has been a Payment, or such earlier time as is requested by the Company. Any Gross-Up Payment, as determined pursuant to this Section 8, shall be paid by the Company to the Employee within fifteen (15) days of the receipt of the Accounting Firm's determination. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and the Employee. As a result of the possible uncertainty in application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments will not have been made by the Company that should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 8.3 and the Employee thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Employee.

8.3 IRS Claims. The Employee shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten (10) business days after the Employee is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is to be paid. The Employee shall not pay such claim prior to the expiration of the thirty (30) -day period following the date on which the Employee gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Employee in writing prior to the expiration of such period that it desires to contest such claim, the Employee shall:

(a) give the Company any information reasonably requested by the Company relating to such claim,

(b) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Company and reasonably acceptable to the Employee,

(c) cooperate with the Company in good faith in order effectively to contest such claim, and

(d) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Employee harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section, the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Employee to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Employee agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Employee to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Employee, on an interest-free basis and shall indemnify and hold the Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Employee with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Employee shall be entitled in his sole discretion to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

8.4 Refunds. If, after receipt by the Employee of an amount advanced by the Company pursuant to Section 8.3, the Employee becomes entitled to receive any refund with respect to such claim, the Employee shall (subject to the Company's complying with the requirements of such Section) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after receipt by the Employee of an amount advanced by the Company pursuant to Section 8.3, a determination is made that the Employee shall not be entitled to any refund with respect to such claim and the Company does not notify the Employee in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

8.5 409A Payment Deadline. In all events, the Gross-Up Payment, if any, including any Underpayment, shall not be made later than the December 31 following Employee's taxable year in which Employee remits the Excise Tax.

9. Divestiture. Notwithstanding any other provision of this Agreement to the contrary, the termination of the Employee's employment with the Company in connection with the sale, divestiture or other disposition of a subsidiary or Division shall not be deemed to be a termination of employment of the Employee for purposes of this Agreement provided the Employee accepts employment offered by the purchaser or acquirer of such subsidiary or Division and provided the Company obtains an agreement from such purchaser or acquirer to honor the terms of this Agreement.

10. Confidentiality and Non-Compete.

10.1 Non-Disclosure of this Agreement. Employee agrees that the terms of this Agreement are a private matter, which shall not be divulged in any form to others. Accordingly, Employee hereby agrees that Employee will not disclose, disseminate and/or publicize or cause to be disclosed, disseminated and/or publicized any of the terms of this Agreement or the discussions which have led up to this Agreement to anyone, with the exception of Employee's attorney, any financial or tax advisors, and immediate family members, who shall not divulge its contents to any third party.

10.2 Confidential Information. Employee acknowledges that Employee may be in receipt of confidential information concerning the Company, agrees that any confidential information concerning the Company and its affiliates will be maintained in strict confidence and not be disclosed to any other person, including but not limited to, and past, present or prospective customers of the Company. The parties agree that money damages would not be a sufficient remedy for breach of this Section 10.2 and that, in addition to all other remedies which any party hereto may have, each party will be entitled to specific performance and injunctive or other equitable relief as a remedy for such breach. This Section 10.2 shall not supersede any other confidentiality agreement entered into between the parties.

10.3 Non-Compete. In the event of any termination covered by Section 3.2 and in return for the payment and benefits provided under this Agreement, the Employee agrees that, for a period of one (1) year after the last day of employment with the Company, Employee shall not:

- (a) compete with the Company, or assist any other party to compete with the Company, in any manner;
- (b) attempt to solicit or recruit the Company employees or otherwise interfere with the Company's relationship with its employees or customers;
- (c) make any comment, remark or statement that disparages the Company or portrays the Company in a negative manner.

11. At-Will Employment. The Company and the Employee acknowledge that the Employee's employment is at will and may be terminated at any time and for any reason, with or without notice. On termination of the Employee's employment, the Employee shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement, or as may otherwise be available in accordance with the Company's established employee plans and policies at the time of termination.

12. Miscellaneous.

12.1 Governing Law. This Agreement shall be governed in all respects by the laws of the State of California.

12.2 Successors and Assigns. Except as otherwise provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

12.3 Entire Agreement: Amendment. This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subject hereof and thereof. Neither this Agreement nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument signed by the Company and the Employee.

12.4 Notices. Except as may be otherwise provided herein, all notices and other communications required or permitted hereunder shall be in writing and shall be hand delivered or delivered via next day delivery, (a) if to the Employee, to such address as the Employee, or any of the Employee's successors or assigns, shall have furnished to the Company in writing or (b) if to the Company, to such address as the Company shall have furnished to the Employee or the Employee's successors or assignees in writing. Notices via next day delivery will be effective three (3) business days after delivery to the delivery firm, charges prepaid.

12.5 Delays or Omissions. No delay or omission to exercise any right, power or remedy accruing to the Employee, upon any breach or default of Company under this Agreement, shall impair any such right, power or remedy of the Employee, nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any holder of any breach or default under this Agreement, or any waiver on the part of any holder of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under the Agreement, or by law or otherwise afforded to any holder shall be cumulative and not alternative.

12.6 Expenses. The Company and the Employee shall each bear their own expenses and legal fees incurred on their behalf with respect to this Agreement and the transactions contemplated hereby.

12.7 Counterparts. This Agreement may be executed in any number of counterparts, all of which together shall constitute one instrument.

12.8 Severability. In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue to full force and effect without said provision; provided that no such severability shall be effective if it materially changes the economic benefit of this Agreement to any party.

12.9 Survival. The provisions of the sections entitled "Excise Tax Reduction", "Confidentiality and Non-Compete", "At-Will Employment" and "Miscellaneous" shall survive the expiration or termination of this Agreement.

12.10 Section 409A Compliance. This Agreement is intended not to result in the imposition of any tax, interest charge or other assessment, penalty or addition under Section 409A of the Code. In addition to any specific references to Section 409A of the Code in this Agreement, all terms and conditions of this Agreement are intended, and shall be interpreted and applied to the greatest extent possible in such manner as may be necessary, to comply with the provisions of Section 409A of the Code and any rules, regulations or other regulatory guidance issued under Section 409A of the Code. If any modification of this Agreement is necessary to comply with the provisions of Section 409A of the Code, and the making of such modification itself does not fail to comply with any requirement of Section 409A of the Code, then the Company and the Employee agree to modify this Agreement in the least restrictive manner necessary to accomplish such result without causing any diminution in the value of the payments to the Employee. With respect to any reimbursement of expenses of, or any provision of in-kind benefits to, the Employee, as specified under this Agreement, such reimbursement of expenses or provision of in-kind benefits shall be subject to the following conditions: (1) the expenses eligible for reimbursement or the amount of in-kind benefits provided in one taxable year shall not affect the expenses eligible for reimbursement or the amount of in-kind benefits provided in any other taxable year, except for any medical reimbursement arrangement providing for the reimbursement of expenses referred to in Section 105(b) of the Code; (2) the reimbursement of an eligible expense shall be made no later than the end of the year after the year in which such expense was incurred; and (3) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit. The preceding provisions, however, shall not be construed as a guarantee by the Company of any particular tax effect to Employee under this Agreement. The Company shall not be liable to Employee for any payment made under this Agreement that is determined to result in an additional tax, penalty, or interest under Section 409A of the Code, nor for reporting in good faith any payment made under this Agreement as an amount includible in gross income under Section 409A of the Code.

12.11 Arbitration. Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration before one (1) arbitrator, in Santa Barbara, California, administered by the American Arbitration Association under its Employment Dispute Resolution Rules, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Unless otherwise provided for by law, the Company and the Employee shall each pay half of the costs and expenses of such arbitration.

EMPLOYEE HAS READ AND UNDERSTANDS THIS SECTION, WHICH PROVIDES FOR ARBITRATION. EMPLOYEE UNDERSTANDS THAT BY SIGNING THIS AGREEMENT, EMPLOYEE AGREES TO SUBMIT ANY CLAIMS ARISING OUT OF, OR RELATING TO, OR IN CONNECTION WITH THIS AGREEMENT, OR THE INTERPRETATION, VALIDITY, CONSTRUCTION, PERFORMANCE, BREACH OR TERMINATION OF THIS AGREEMENT TO BINDING ARBITRATION, AND THAT THIS ARBITRATION CLAUSE CONSTITUTES A WAIVER OF EMPLOYEE'S RIGHT TO A JURY TRIAL AND RELATES TO THE RESOLUTION OF ALL DISPUTES RELATING TO ALL ASPECTS OF THIS AGREEMENT.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

QAD INC., a Delaware corporation

By: <u>/s/ MURRAY RAY</u>	12/18/08
Murray Ray	Date
CPO & EVP, Human Resources	

EMPLOYEE:

<u>/s/ PAMELA LOPKER</u>	12/18/08
Pamela M. Lopker	Date

CHANGE IN CONTROL AGREEMENT

This change in control agreement (this "Agreement"), is made and entered into as of December 18, 2008 (the "Effective Date"), by and between QAD Inc., a Delaware corporation, with its principal offices located at 100 Innovation Place, Santa Barbara, California 93108 (together with its successors and assigns permitted under this Agreement, the "Company"), and Daniel Lender who resides at 40 Alston Place, Santa Barbara, California 93108 (the "Employee").

WITNESSETH:

Whereas the Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication of the Employee, notwithstanding the possibility, threat or occurrence of a Change in Control (as defined below) of the Company;

Whereas the Board believes it is imperative to diminish the inevitable distraction of the Employee by virtue of the personal uncertainties and risks created by a pending or threatened Change in Control, to encourage the Employee's full attention and dedication to the Company currently and in the event of any threatened or pending Change in Control, and to provide the Employee with compensation arrangements upon a Change in Control which provide the Employee with individual financial security and which are competitive with those of other corporations; and

Whereas in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

Now, Therefore, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the Company and the Employee (individually a "Party" and together the "Parties") agree as follows.

1. Term of Agreement. This Agreement shall commence as of the Effective Date and shall continue in effect until June 30, 2010, PROVIDED, HOWEVER, that commencing on June 30, 2010 and on each June 30 thereafter, the term of this Agreement shall automatically be extended for one (1) additional year (e.g., on June 30, 2010 through June 30, 2011), unless either the Company or the Employee shall have given written notice to the other, at least one (1) year prior thereto, that the term of this Agreement shall not be so extended; and PROVIDED, FURTHER, HOWEVER, that notwithstanding any such notice by the Company not to extend, the term of this Agreement shall not terminate prior to the expiration of eighteen (18) months after the occurrence of a Change in Control during the term of this Agreement.

2. Definitions.

2.1 "Base Monthly Salary" shall mean the monthly base compensation of the Employee.

2.2 "Cause" shall mean (a) the Employee is convicted of a felony involving property of the Company, or (b) the Employee, in carrying out the Employee's duties under this Agreement, is guilty of willful refusal to perform, or willful neglect of, the Employee's duties.

2.3 “Change in Control” shall mean the first occurrence of any of the following events:

(a) Any person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) or persons acting as a group, other than Pamela M. Lopker and Karl F. Lopker as joint holders, or either of them (the “Lopkers”) or a living trust for their benefit over which they maintain control of the assets of the trust and the voting rights for shares in the trust is or becomes the “beneficial owner” (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company’s then outstanding voting securities.

(b) A merger or consolidation of the Company with any other corporation, other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company, or such surviving entity, outstanding immediately after such merger or consolidation; or

(c) The sale or other disposition by the Company of all, or substantially all, of the Company’s assets, other than a transfer to (i) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock, (ii) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (iii) a person, or persons acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power represented by the Company’s then outstanding voting securities, or (iv) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by a person described in clause (iii).

Each of the foregoing events is intended to qualify as a change in ownership or effective control for purposes of Section 409A(a)(2)(A)(v) of the Internal Revenue Code of 1986, as amended (the “Code”), and the provisions of this Section 2.3 shall be interpreted accordingly.

2.4 “Disability” shall mean that the Employee has been unable to perform their duties under this Agreement as a result of the Employee’s incapacity due to physical or mental illness with or without reasonable accommodation, and such inability, at least twenty-six (26) weeks after its commencement, is determined to be total and permanent by a physician selected by the Company, or its insurers, and acceptable to the Employee or the Employee’s legal representative (such statement of acceptability not to be unreasonably withheld).

2.5 “Division” shall mean a business unit or other substantial business operation within the Company that is operated as a separate profit center, but that is not maintained by the Company as a separate legal entity.

2.6 “Equity Compensation” shall mean any equity compensation granted under the QAD Inc. 2006 Stock Incentive Program.

3. Change in Control Severance Benefits. In the event there occurs a Change in Control and the Employee's employment with the Company is terminated on or before eighteen (18) months after the date of the Change in Control, then the following shall apply:

3.1 Voluntary Resignation; Termination for Cause. If the Employee's employment terminates in a voluntary resignation, or if the Employee is terminated for Cause, or if the Employee voluntarily accepts a position at the time of a Change in Control below the level currently held by the Employee, and such acceptance occurs at, or proximate to, the time of a Change in Control, then the Employee shall not be entitled to receive severance benefits except for those (if any) as may be available under the Company's severance and benefits plans and policies existing at the time of such termination.

3.2 Constructive Termination; Termination Without Cause. If the Employee suffers Constructive Termination (as defined below) or Termination without Cause, then the Employee shall be entitled to the following:

(a) payment, within thirty (30) days following the termination of the Employee's employment, of a lump sum cash amount equal to eighteen (18) months times the greater of (x) the Employee's Base Monthly Salary at the time of the Change in Control or (y) the Employee's Base Monthly Salary at the time of the termination of the Employee's employment; and

(b) payment, within thirty (30) days following the termination of the Employee's employment, of a lump sum cash amount equal to one point five (1.5) multiplied by the greater of (x) the average annual bonus received by the Employee during the two (2) fiscal years immediately prior to the termination of the Employee's employment or (y) the annual bonus that would be due for the fiscal year in progress at the time of the termination of the Employee's employment if the Employee and the Company met the on target goals to receive such bonus; and

(c) immediate vesting of any Equity Compensation granted to the Employee; and

(d) payment, within thirty (30) days following termination of the Employee's employment, of a lump sum cash amount equivalent to the present value of the projected cost (based upon the Company's programs in effect immediately prior to the Change in Control) of continuation of all employee benefits and perquisites, including life insurance, health benefits, disability insurance, cars and expense reimbursement, and 401(k) matching payments for a period following such termination of employment for eighteen (18) months plus an amount equal to the portion of the Employee's unvested account balance (as of the date of termination of employment) under the Company's 401(k) plan that would vest if the Employee had eighteen (18) additional months of service for vesting purposes under the Company's 401(k) plan (subject to applicable taxes and withholding); and

(e) all benefits pursuant to the Consolidated Omnibus Reconciliation Act of 1986 ("COBRA") and the Company 401(k) Plan upon termination.

3.3 Effect on Existing Plans. This Agreement and the payments provided hereunder supersede the Company's existing severance and benefit plans, policies and agreements existing now and at the time of termination with respect to severance or termination benefits provided to Employee in the event of termination of employment during the eighteen (18) month period following a Change in Control, and are not in addition thereto.

3.4 Death; Disability. If the Employee's employment terminates due to the Employee's Disability or death, then such termination shall be treated as if it were a termination without Cause and severance and other benefits shall be provided in accordance with Section 3.2 above.

3.5 Payment to Specified Employee. If a payment obligation under this Agreement arises on account of the Employee's separation from service while the Employee is a "specified employee" (as defined under Section 409A of the Code and determined in good faith by the Compensation Committee of the Board), any payment of "deferred compensation" (as defined under Treasury Regulation Section 1.409A-1(b)(1), after giving effect to the exemptions in Treasury Regulation Sections 1.409A-1(b)(3) through (b)(12)) that is scheduled to be paid within six (6) months after such separation from service shall accrue with interest and shall be paid within 30 days after the end of the six-month period beginning on the date of such separation from service or, if earlier, within 30 days after the appointment of the personal representative or executor of the Employee's estate following his death. For purposes of the preceding sentence, interest shall accrue at the prime rate of interest published in the northeast edition of The Wall Street Journal on the date of Employee's separation from service.

3.6 Termination of Employment. For all purposes under this Agreement, references to "termination of employment," "employment terminates" and similar terms shall mean "separation from service" as defined for purposes of Section 409A of the Code and the regulations promulgated thereunder.

4. Constructive Termination of Employment. "Constructive Termination" shall mean and exist if, without the Employee's prior written consent, one or more of the following events occurs and the Employee shall elect to terminate the Employee's employment with the Company:

(a) the assignment to Employee of duties which are wholly and clearly inconsistent with the position and status of an executive of the Company, or a substantial alteration in the nature, status or prestige of Employee's official position resulting in a decrease in authority or responsibilities from those in effect immediately prior to a Change in Control;

(b) The Employee's Base Monthly Salary is decreased by the Company, or the Employee's benefits or opportunities under any employee benefit or incentive plan or program of the Company is or are materially reduced other than in connection with a reduction in salary or benefits generally applicable to all employees of the Company;

(c) The Employee's own office location, as provided for in this Agreement, is relocated to a location more than twenty-five (25) miles from the Employee's then present location without the Employee's written consent;

(d) The Company fails to pay the Employee any deferred payments under any bonus or incentive plans in a timely manner;

(e) The Company fails to reimburse the Employee for business expenses in accordance with the Company's policies, procedures or practices;

(f) The Company fails to agree to or actually indemnify the Employee for the Employee's actions and/or inactions, as either a director or officer of the Company, to the fullest extent permitted by Delaware law, and the Company fails to maintain reasonable levels of directors and officers liability insurance coverage for the Employee when such insurance is available;

(g) The Company fails to obtain a written agreement from any successor or assign of the Company to assume and perform Employee's employment agreement as then in effect and this Agreement; or

(h) The Company purports to terminate the Employee's employment for Cause and such purported termination of employment is not effected in accordance with the procedures required by this Agreement, and for purposes of this Agreement, such purported termination of employment shall be invalid and of no force and effect.

5. Equity Compensation Acceleration.

5.1 Equity Compensation Acceleration upon Change of Control. If the Employee does not terminate employment in the event of a Change of Control, fifty percent (50%) of the then unvested portion of any Equity Compensation held by the Employee under the Company's equity compensation plans and outstanding at the time of the Change in Control shall become vested and the Employee shall automatically have the right to exercise all, or any portion, of such Equity Compensation to the extent so vested in addition to any portion of the Equity Compensation exercisable prior to the Change in Control. Where the Change in Control results from a merger or consolidation of the Company with any other corporation, such vesting shall occur immediately prior to consummation of such merger or consolidation, and is contingent upon the consummation of such merger or consolidation.

5.2 Equity Compensation Acceleration Following Change in Control. Subject to the continued employment of the Employee, after acceleration of vesting under Section 5.1 above, the remaining unvested portion of any Equity Compensation granted to Employee prior to the Change in Control shall become fully vested upon the first anniversary of the Change in Control (or the vesting date of such Equity Compensation, if earlier). If, however, the Employee's employment terminates within the twelve (12) month period following the Change of Control, then the vesting of such Equity Compensation shall be handled in accordance with the Change in Control Severance Benefits set forth above in Section 3.1.

6. No Mitigation; No Offset. In the event of any termination of employment covered by this Agreement, the Employee shall be under no obligation to seek other employment and there shall be no offset against amounts due the Employee under this Agreement on account of any remuneration attributable to any subsequent employment that the Employee may obtain. Any amounts due under this Agreement are in the nature of severance payments, or liquidated damages, or both, and are not in the nature of a penalty.

7. Severance Pay and Benefits. The severance pay and benefits provided for in this Agreement shall be in lieu of any other severance or termination pay to which the Employee otherwise may be entitled as a result of termination of employment during the eighteen (18) month period following a Change in Control under any Company severance or termination plan, program, practice, agreement or arrangement, including any agreement relating to the Employee's employment with the Company. If the Employee receives severance or termination benefits or payments under this Agreement, the Employee may not receive severance or termination benefits under any other Company policy, plan, agreement or arrangement. The Employee's entitlement to any other compensation or benefits shall be determined in accordance with the Company's employee benefit plans and other applicable programs, policies and practices then in effect, provided such other compensation or benefits have not been addressed in this Agreement.

8. Certain Additional Payments.

8.1 Gross-Up Payment Amount. Notwithstanding anything in this Agreement to the contrary, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Employee, whether paid, payable, distributed or distributable pursuant to this Agreement or otherwise (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision) or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are collectively referred to in this Agreement as the "Excise Tax"), then the Employee shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after the payment by the Employee of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, the Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

8.2 Determinations. Subject to the provisions of Section 8.3, all determinations required to be made under this Section 8, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by an accounting firm of national standing reasonably selected by the Company (the "Accounting Firm"), which shall provide detailed supporting calculations to both the Company and the Employee within fifteen (15) business days of the receipt of written notice from the Employee that there has been a Payment, or such earlier time as is requested by the Company. Any Gross-Up Payment, as determined pursuant to this Section 8, shall be paid by the Company to the Employee within fifteen (15) days of the receipt of the Accounting Firm's determination. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and the Employee. As a result of the possible uncertainty in application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments will not have been made by the Company that should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 8.3 and the Employee thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Employee.

8.3 IRS Claims. The Employee shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten (10) business days after the Employee is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is to be paid. The Employee shall not pay such claim prior to the expiration of the thirty (30) -day period following the date on which the Employee gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Employee in writing prior to the expiration of such period that it desires to contest such claim, the Employee shall:

(a) give the Company any information reasonably requested by the Company relating to such claim,

(b) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Company and reasonably acceptable to the Employee,

(c) cooperate with the Company in good faith in order effectively to contest such claim, and

(d) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Employee harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section, the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Employee to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Employee agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Employee to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Employee, on an interest-free basis and shall indemnify and hold the Employee harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Employee with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Employee shall be entitled in his sole discretion to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

8.4 Refunds. If, after receipt by the Employee of an amount advanced by the Company pursuant to Section 8.3, the Employee becomes entitled to receive any refund with respect to such claim, the Employee shall (subject to the Company's complying with the requirements of such Section) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after receipt by the Employee of an amount advanced by the Company pursuant to Section 8.3, a determination is made that the Employee shall not be entitled to any refund with respect to such claim and the Company does not notify the Employee in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

8.5 409A Payment Deadline. In all events, the Gross-Up Payment, if any, including any Underpayment, shall not be made later than the December 31 following Employee's taxable year in which Employee remits the Excise Tax.

9. Divestiture. Notwithstanding any other provision of this Agreement to the contrary, the termination of the Employee's employment with the Company in connection with the sale, divestiture or other disposition of a subsidiary or Division shall not be deemed to be a termination of employment of the Employee for purposes of this Agreement provided the Employee accepts employment offered by the purchaser or acquirer of such subsidiary or Division and provided the Company obtains an agreement from such purchaser or acquirer to honor the terms of this Agreement.

10. Confidentiality and Non-Compete.

10.1 Non-Disclosure of this Agreement. Employee agrees that the terms of this Agreement are a private matter, which shall not be divulged in any form to others. Accordingly, Employee hereby agrees that Employee will not disclose, disseminate and/or publicize or cause to be disclosed, disseminated and/or publicized any of the terms of this Agreement or the discussions which have led up to this Agreement to anyone, with the exception of Employee's attorney, any financial or tax advisors, and immediate family members, who shall not divulge its contents to any third party.

10.2 Confidential Information. Employee acknowledges that Employee may be in receipt of confidential information concerning the Company, agrees that any confidential information concerning the Company and its affiliates will be maintained in strict confidence and not be disclosed to any other person, including but not limited to, and past, present or prospective customers of the Company. The parties agree that money damages would not be a sufficient remedy for breach of this Section 10.2 and that, in addition to all other remedies which any party hereto may have, each party will be entitled to specific performance and injunctive or other equitable relief as a remedy for such breach. This Section 10.2 shall not supersede any other confidentiality agreement entered into between the parties.

10.3 Non-Compete. In the event of any termination covered by Section 3.2 and in return for the payment and benefits provided under this Agreement, the Employee agrees that, for a period of one (1) year after the last day of employment with the Company, Employee shall not:

- (a) compete with the Company, or assist any other party to compete with the Company, in any manner;
- (b) attempt to solicit or recruit the Company employees or otherwise interfere with the Company's relationship with its employees or customers;
- (c) make any comment, remark or statement that disparages the Company or portrays the Company in a negative manner.

11. At-Will Employment. The Company and the Employee acknowledge that the Employee's employment is at will and may be terminated at any time and for any reason, with or without notice. On termination of the Employee's employment, the Employee shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement, or as may otherwise be available in accordance with the Company's established employee plans and policies at the time of termination.

12. Miscellaneous.

12.1 Governing Law. This Agreement shall be governed in all respects by the laws of the State of California.

12.2 Successors and Assigns. Except as otherwise provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

12.3 Entire Agreement: Amendment. This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subject hereof and thereof. Neither this Agreement nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument signed by the Company and the Employee.

12.4 Notices. Except as may be otherwise provided herein, all notices and other communications required or permitted hereunder shall be in writing and shall be hand delivered or delivered via next day delivery, (a) if to the Employee, to such address as the Employee, or any of the Employee's successors or assigns, shall have furnished to the Company in writing or (b) if to the Company, to such address as the Company shall have furnished to the Employee or the Employee's successors or assignees in writing. Notices via next day delivery will be effective three (3) business days after delivery to the delivery firm, charges prepaid.

12.5 Delays or Omissions. No delay or omission to exercise any right, power or remedy accruing to the Employee, upon any breach or default of Company under this Agreement, shall impair any such right, power or remedy of the Employee, nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any holder of any breach or default under this Agreement, or any waiver on the part of any holder of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under the Agreement, or by law or otherwise afforded to any holder shall be cumulative and not alternative.

12.6 Expenses. The Company and the Employee shall each bear their own expenses and legal fees incurred on their behalf with respect to this Agreement and the transactions contemplated hereby.

12.7 Counterparts. This Agreement may be executed in any number of counterparts, all of which together shall constitute one instrument.

12.8 Severability. In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue to full force and effect without said provision; provided that no such severability shall be effective if it materially changes the economic benefit of this Agreement to any party.

12.9 Survival. The provisions of the sections entitled "Excise Tax Reduction", "Confidentiality and Non-Compete", "At-Will Employment" and "Miscellaneous" shall survive the expiration or termination of this Agreement.

12.10 Section 409A Compliance. This Agreement is intended not to result in the imposition of any tax, interest charge or other assessment, penalty or addition under Section 409A of the Code. In addition to any specific references to Section 409A of the Code in this Agreement, all terms and conditions of this Agreement are intended, and shall be interpreted and applied to the greatest extent possible in such manner as may be necessary, to comply with the provisions of Section 409A of the Code and any rules, regulations or other regulatory guidance issued under Section 409A of the Code. If any modification of this Agreement is necessary to comply with the provisions of Section 409A of the Code, and the making of such modification itself does not fail to comply with any requirement of Section 409A of the Code, then the Company and the Employee agree to modify this Agreement in the least restrictive manner necessary to accomplish such result without causing any diminution in the value of the payments to the Employee. With respect to any reimbursement of expenses of, or any provision of in-kind benefits to, the Employee, as specified under this Agreement, such reimbursement of expenses or provision of in-kind benefits shall be subject to the following conditions: (1) the expenses eligible for reimbursement or the amount of in-kind benefits provided in one taxable year shall not affect the expenses eligible for reimbursement or the amount of in-kind benefits provided in any other taxable year, except for any medical reimbursement arrangement providing for the reimbursement of expenses referred to in Section 105(b) of the Code; (2) the reimbursement of an eligible expense shall be made no later than the end of the year after the year in which such expense was incurred; and (3) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit. The preceding provisions, however, shall not be construed as a guarantee by the Company of any particular tax effect to Employee under this Agreement. The Company shall not be liable to Employee for any payment made under this Agreement that is determined to result in an additional tax, penalty, or interest under Section 409A of the Code, nor for reporting in good faith any payment made under this Agreement as an amount includible in gross income under Section 409A of the Code.

12.11 Arbitration. Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration before one (1) arbitrator, in Santa Barbara, California, administered by the American Arbitration Association under its Employment Dispute Resolution Rules, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Unless otherwise provided for by law, the Company and the Employee shall each pay half of the costs and expenses of such arbitration.

EMPLOYEE HAS READ AND UNDERSTANDS THIS SECTION, WHICH PROVIDES FOR ARBITRATION. EMPLOYEE UNDERSTANDS THAT BY SIGNING THIS AGREEMENT, EMPLOYEE AGREES TO SUBMIT ANY CLAIMS ARISING OUT OF, OR RELATING TO, OR IN CONNECTION WITH THIS AGREEMENT, OR THE INTERPRETATION, VALIDITY, CONSTRUCTION, PERFORMANCE, BREACH OR TERMINATION OF THIS AGREEMENT TO BINDING ARBITRATION, AND THAT THIS ARBITRATION CLAUSE CONSTITUTES A WAIVER OF EMPLOYEE'S RIGHT TO A JURY TRIAL AND RELATES TO THE RESOLUTION OF ALL DISPUTES RELATING TO ALL ASPECTS OF THIS AGREEMENT.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

QAD INC., a Delaware corporation

By: <u>/s/ MURRAY RAY</u>	12/18/08
Murray Ray	Date
CPO & EVP, Human Resources	

EMPLOYEE:

<u>/s/ DANIEL LENDER</u>	12/18/08
Daniel Lender	Date

AMENDMENT AND WAIVER TO CREDIT AGREEMENT

This AMENDMENT AND WAIVER TO CREDIT AGREEMENT (this "Amendment"), dated as of April 10, 2009, is entered into by and between QAD INC., a Delaware corporation (the "Borrower"), and BANK OF AMERICA, N.A. (the "Lender").

RECITALS

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

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

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

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein shall have the meanings, if any, assigned to such terms in the Credit Agreement. As used herein, "Amendment Documents" means this Amendment, the Credit Agreement (as amended by this Amendment), and each certificate and other document executed and delivered by the Borrower pursuant to Section 5 hereof.

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

(a) Section 1.01 of the Credit Agreement shall be amended at the definition of "Consolidated EBITDA" by deleting the phrase "(iv) charges incurred during such period under Financial Accounting Standard 123R which do not represent a cash item in such period or any future period;" and inserting in its place the following:

"(iv) charges incurred during such period under (1) Financial Accounting Standard 123R and (2) Financial Accounting Standard 142 to the extent comprising goodwill impairment charges, in either case (1) or (2) that do not represent a cash item in such period or any future period;"

(b) Section 7.11(b) of the Credit Agreement shall be amended and restated to read in full as follows:

(b) Consolidated Fixed Charge Coverage Ratio. Permit the Consolidated Fixed Charge Coverage Ratio as of the last day of any fiscal quarter of the Borrower to be less than the amount set forth below in respect of such date:

<u>Fiscal Quarter Ending:</u>	<u>Minimum Ratio:</u>
January 31, 2008 through January 31, 2009	2.00:1.00
February 1, 2009 through October 31, 2009	1.30:1.00
Thereafter	1.50:1.00

(c) Section 7.11(d) of the Credit Agreement shall be amended by deleting "\$10,000,000" and inserting in its place "\$5,000,000".

(d) Exhibit C of the Credit Agreement shall be amended by deleting Schedule 2 and Schedule 3 thereof and inserting in its place that Schedule 2 and Schedule 3 attached hereto as Annex I.

3. Default and Waiver.

(a) For purposes of this Amendment, the "Existing Default" shall mean any Default that may exist on the Effective Date under Section 8.01(b) of the Credit Agreement solely to the extent arising by reason of breach of Sections 7.11(b) and 7.11(d) as of January 31, 2009.

(b) Subject to and upon the terms and conditions hereof and with effect on the Effective Date, the Lender hereby waives the Existing Default.

(c) Nothing contained herein shall be deemed a waiver of (or otherwise affect the Lender's ability to enforce) any other default or event of default under the Credit Agreement, including without limitation, (i) any default or event of default as may now or hereafter exist and arise from or otherwise be related to (but not otherwise constituting) the Existing Default (including without limitation any cross-default arising under the Credit Agreement by virtue of any matters resulting from the Existing Default), and (ii) any default or event of default arising at any time after the Effective Date and which is the same as or similar to any of the Existing Default.

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

(a) After giving effect to this Amendment, no Default or Event of Default has occurred and is continuing.

(b) The execution, delivery and performance by the Borrower of this Amendment and the other Amendment Documents have been duly authorized by all necessary corporate and other action and do not and will not require any registration with, consent or approval of, or notice to or action by, any Person (including any Governmental Authority) in order to be effective and enforceable.

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

(d) The Borrower is entering into this Amendment on the basis of its own investigation and for its own reasons, without reliance upon the Lender or any other Person.

(e) The obligations of the Borrower under the Credit Agreement and each other Loan Document are not subject to any defense, counterclaim, set-off, right of recoupment, abatement or other claim.

5. Effective Date. This Amendment will become effective when each of the conditions precedent set forth in this Section 5 has been satisfied (the "Effective Date"):

(i) The Lender shall have received from the Borrower a duly executed original (or, if elected by the Lender, an executed facsimile copy) counterpart to this Amendment.

(ii) The Lender shall have received from the Borrower a certificate signed by the secretary or assistant secretary of the Borrower, dated the Effective Date, in form and substance satisfactory to the Lender, and certifying evidence of the authorization of the execution, delivery and performance by the Borrower of this Amendment.

(iii) The Borrower shall have paid to the Lender all reasonable and documented costs and attorneys' fees incurred by the Lender in connection with this Amendment and the other Amendment Documents, to the extent invoiced prior to the Effective Date.

(iv) The Lender shall have received, in form and substance satisfactory to it, such additional approvals, consents, documents and other information as the Lender shall reasonably request.

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

7. Miscellaneous.

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

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

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

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

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

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

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

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

[Remainder of this page intentionally left blank]

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

QAD INC., as the Borrower

By: /s/ JOHN NEALE

Name: John Neale

Title: Sr. VP Finance & Treasurer

Signature Page 1 to Amendment and Waiver to Credit Agreement

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

By: /s/ SUGEET MANCHANDA MADAN

Name: Sugeet Manchanda Madan

Title: Senior Vice President

Signature Page 2 to Amendment and Waiver to Credit Agreement

[See attached]

ANNEX I to Amendment and Waiver

For the Quarter/Year ended _____ (“Statement Date”)

SCHEDULE 2
to the Compliance Certificate
(\$ in 000’s)

I. Section 7.11 (a) — Consolidated Total Leverage Ratio.

A. Consolidated Funded Indebtedness at Statement Date: \$ _____

B. Consolidated EBITDA for four consecutive fiscal quarters ending on above date (“Subject Period”): \$ _____

1. Consolidated Net Income for Subject Period: \$ _____

2. Consolidated Interest Charges for Subject Period: \$ _____

3. Provision for income taxes (net of credits) for Subject Period: \$ _____

4. Depreciation expenses for Subject Period: \$ _____

5. Amortization expenses for Subject Period: \$ _____

6. Financial Accounting Standard 123R and 142 goodwill impairment charges incurred for Subject Period not representing cash items in Subject Period or future period: \$ _____

7. Consolidated EBITDA (Lines I.B.1 + 2 + 3 + 4 + 5 + 6): \$ _____

C. Consolidated Total Leverage Ratio (Line I.A ÷ Line I.B.7): _____ to 1

Maximum Permitted: 1.50:1.00

II. Section 7.11 (b) — Consolidated Fixed Charge Coverage Ratio.

A. Consolidated EBITDA for Subject Period (Line I.B.7): \$ _____

B. Capital Expenditures for Subject Period: \$ _____

C. Consolidated Interest Charges for Subject Period: \$ _____

D. Scheduled principal and interest payments for Indebtedness for Subject Period: \$ _____

E. Current portion of long term debt (excluding Obligations) at Statement Date: \$ _____

F. Consolidated Fixed Charge Coverage Ratio ((Lines II.A - B) ÷ (Lines II.C + D + E)): _____ to 1

Minimum Permitted:

Fiscal Quarter Ending:	Minimum Ratio:
-------------------------------	-----------------------

January 31, 2008 through January 31, 2009	2.00:1.00
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February 1, 2009 through October 31, 2009	1.30:1.00
---	-----------

Thereafter	1.50:1.00
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III. Section 7.11 (c) — Consolidated Liquidity Ratio.

A. Cash and cash equivalents at Statement Date:	\$ _____
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B. Trade accounts receivable net of doubtful or uncollectible accounts at Statement Date:	\$ _____
---	----------

C. Current liabilities (excluding deferred revenues) at Statement Date:	\$ _____
---	----------

D. Total Outstandings (excluding current liabilities) at Statement Date:	\$ _____
--	----------

E. Consolidated Liquidity Ratio ((Lines III.A + B) ÷ (Lines III.C + D)):	_____ to 1
--	------------

<i>Minimum Permitted:</i>	1.30:1.00
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IV. Section 7.11 (d) — Minimum Consolidated EBITDA.

A. Consolidated EBITDA for Subject Period (Line I.B.7):	\$ _____
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<i>Minimum Permitted:</i>	\$ 5,000,000.
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For the Quarter/Year ended _____ (“Statement Date”)

SCHEDULE 3
to the Compliance Certificate
(\$ in 000’s)

Consolidated EBITDA
(in accordance with the definition of Consolidated EBITDA
as set forth in the Agreement)

Consolidated EBITDA	Quarter Ended	Quarter Ended	Quarter Ended	Quarter Ended	Twelve Months Ended
Consolidated Net Income					
+ Consolidated Interest Charges					
+ income taxes (net of credits)					
+ depreciation expense					
+ amortization expense					
+ Financial Accounting Standard 123R and 142 goodwill impairment charges (non-cash items)					
= Consolidated EBITDA					

Exhibit 21.1

QAD Inc.

LIST OF REGISTRANT'S SUBSIDIARIES

<i>Percentage Owned by QAD Inc.</i>	<i>Country of Organization</i>
QAD Australia Pty. Limited — 100%	Australia
QAD Europe NV/SA — 100%	Belgium
QAD Brasil Ltda. — 100%	Brazil
QAD (Bermuda) Ltd. — 100%	Bermuda
QAD Canada ULC — 100%	Canada
QAD China Ltd. — 100%	China
QAD Europe s.r.o. — 100%	Czech Republic
QAD Europe SAS — 100%	France
QAD Europe GmbH — 100%	Germany
QAD Asia Limited — 100%	Hong Kong
QAD India Private Limited — 100%	India
Precision Software Limited — 100%	Ireland
QAD Ireland Limited — 100%	Ireland
QAD Italy S.r.l. — 100%	Italy
QAD Japan k.k. — 100%	Japan
QAD Kenya Limited — 100%	Kenya
QAD Korea Limited — 100%	Korea
QAD Mexicana, S.A. de C.V. — 100%	Mexico
QAD Sistemas Integrados Servicios de Consultoria, S.A. de C.V. — 100%	Mexico
QAD EMEA Holdings B.V. — 100%	Netherlands
QAD Europe B.V. — 100%	Netherlands
QAD Holland Holdings B.V. — 100%	Netherlands
QAD Netherlands B.V. — 100%	Netherlands
QAD NZ Limited — 100%	New Zealand
QAD Polska Sp. zo.o. — 100%	Poland
QAD Lusitana Europe — Software e Servicos, Unipessoal, Limitada — 100%	Portugal
QAD Romania S.R.L. — 100%	Romania
QAD Singapore Private Limited — 100%	Singapore
QAD Software South Africa (Pty) Ltd. — 100%	South Africa
QAD Europe S.I. — 100%	Spain
QAD Europe A.G. — 100%	Switzerland
QAD I&I Company Limited — 100%	Thailand
QAD Bilgisayar Yazilim Ltd. Sirketi — 100%	Turkey
Bisgen Ltd. — 100%	United Kingdom
Precision Distribution Systems Limited — 100%	United Kingdom
Precision Solutions Limited — 100%	United Kingdom
QAD EMEA Limited — 100%	United Kingdom
QAD Europe Limited — 100%	United Kingdom
QAD Holding Limited — 100%	United Kingdom
QAD Ltd. — 100%	United Kingdom
QAD United Kingdom Ltd. — 100%	United Kingdom
Enterprise Engines, Inc. — 100%	USA
FBO Systems, Inc. — 100%	USA
QAD Brazil Inc. — 100%	USA
QAD Holdings Inc. — 100%	USA
QAD Japan Inc. — 100%	USA
QAD Ortega Hill, LLC — 100%	USA

Consent of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
QAD Inc.:

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-137417, 333-66610, 333-48381, and 333-35367) of QAD Inc. (the Company) of our reports dated April 14, 2009, with respect to the consolidated balance sheets of QAD Inc. and subsidiaries as of January 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended January 31, 2009, and the related financial statement schedule, and the effectiveness of internal control over financial reporting as of January 31, 2009, which reports appear in the January 31, 2009 Annual Report on Form 10-K of QAD Inc.

Our report dated April 14, 2009 refers to an accounting change upon the Company's adoption of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109*, on February 1, 2007.

/s/ KPMG LLP

Los Angeles, California
April 14, 2009

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

I, Karl F. Lopker, certify that:

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

Date: April 14, 2009

/s/ KARL F. LOPKER

Karl F. Lopker
Chief Executive Officer
QAD Inc.

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

I, Daniel Lender, certify that:

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

Date: April 14, 2009

/s/ DANIEL LENDER

Daniel Lender
Chief Financial Officer
QAD Inc.

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

In connection with the Annual Report of QAD Inc. (the "Company") on Form 10-K for the period ending January 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karl F. Lopker, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: April 14, 2009

/s/ KARL F. LOPKER

Karl F. Lopker
Chief Executive Officer
QAD Inc.

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

In connection with the Annual Report of QAD Inc. (the "Company") on Form 10-K for the period ending January 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel Lender, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: April 14, 2009

/s/ DANIEL LENDER

Daniel Lender
Chief Financial Officer
QAD Inc.