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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2008

OR

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

For the transition period from _____ to _____

Commission file number 0-22823

QAD Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**77-0105228**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Innovation Place, Santa Barbara, California 93108
(Address of principal executive offices)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition 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 ☑.

The number of shares outstanding of the issuer's common stock as of November 30, 2008 was 30,711,860.

QAD INC.
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PART I

ITEM 1 — FINANCIAL STATEMENTS

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

	October 31, 2008	January 31, 2008
Assets		
Current assets:		
Cash and equivalents	$ 36,228	$ 45,613
Accounts receivable, net	53,660	83,027
Other current assets	23,851	22,742
Total current assets	113,739	151,382
Property and equipment, net	41,769	42,450
Capitalized software costs, net	6,722	8,783
Goodwill	20,472	22,591
Other assets, net	11,632	10,687
Total assets	$ 194,334	$ 235,893
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	$ 262	$ 274
Accounts payable	9,702	12,249
Deferred revenue	63,466	89,349
Other current liabilities	33,081	40,664
Total current liabilities	106,511	142,536
Long-term debt	16,789	16,998
Other liabilities	3,815	3,764
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value. Authorized 5,000,000 shares; none issued and outstanding	—	—
Common stock, $0.001 par value. Authorized 150,000,000 shares; issued 35,350,481 and 35,347,367 shares at October 31, 2008 and January 31, 2008, respectively	35	35
Additional paid-in capital	139,312	135,362
Treasury stock, at cost (4,675,229 and 4,596,476 shares at October 31, 2008 and January 31, 2008, respectively)	(37,187)	(36,336)
Accumulated deficit	(28,228)	(21,596)
Accumulated other comprehensive loss	(6,713)	(4,870)
Total stockholders' equity	67,219	72,595
Total liabilities and stockholders' equity	$ 194,334	$ 235,893

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2008	2007	2008	2007
Revenue:				
License fees	$ 13,055	$ 14,074	$ 36,448	$ 39,082
Maintenance and other	32,687	32,287	101,341	95,090
Services	22,025	20,247	66,329	53,277
Total revenue	67,767	66,608	204,118	187,449
Costs and expenses:				
Cost of license fees	2,689	2,294	7,474	6,217
Cost of maintenance, service and other revenue	28,548	25,820	86,200	73,531
Sales and marketing	17,825	17,167	55,938	51,154
Research and development	10,794	9,986	33,165	30,375
General and administrative	8,260	8,017	25,180	24,726
Amortization of intangibles from acquisitions	184	168	559	576
Total costs and expenses	68,300	63,452	208,516	186,579
Operating (loss) income	(533)	3,156	(4,398)	870
Other expense (income):				
Interest income	(366)	(550)	(1,213)	(1,713)
Interest expense	309	325	948	1,025
Other expense (income), net	20	506	456	431
Total other expense (income)	(37)	281	191	(257)
(Loss) income before income taxes	(496)	2,875	(4,589)	1,127
Income tax expense (benefit)	1,325	1,359	(605)	959
Net (loss) income	$ (1,821)	$ 1,516	$ (3,984)	$ 168
Basic net (loss) income per share	$ (0.06)	$ 0.05	$ (0.13)	$ 0.01
Diluted net (loss) income per share	$ (0.06)	$ 0.05	$ (0.13)	$ 0.01

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended October 31,	
	2008	2007
Cash flows from operating activities:		
Net (loss) income	$ (3,984)	$ 168
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	8,232	6,850
Provision for doubtful accounts and sales adjustments	562	496
Gain on disposal of property and equipment	—	(83)
Exit costs	206	24
Stock compensation expense	4,468	4,456
Other, net	(278)	(366)
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	26,410	18,310
Other assets	(2,180)	1,877
Accounts payable	95	(2,935)
Deferred revenue	(21,840)	(15,485)
Other liabilities	(2,085)	(1,838)
Net cash provided by operating activities	9,606	11,474
Cash flows from investing activities:		
Purchase of property and equipment	(4,810)	(3,969)
Capitalized software costs	(821)	(984)
Acquisition of businesses, net of cash acquired	(6,235)	(4,706)
Proceeds from sale of marketable securities	275	—
Proceeds from sale of property and equipment	3	100
Net cash used in investing activities	(11,588)	(9,559)
Cash flows from financing activities:		
Repayments of debt	(221)	(209)
Proceeds from issuance of common stock	456	2,579
Changes in cash overdraft	(1,015)	(1,359)
Dividends paid	(2,300)	(2,407)
Repurchase of common stock	(2,219)	(14,218)
Net cash used in financing activities	(5,299)	(15,614)
Effect of exchange rates on cash and equivalents	(2,104)	3,542
Net decrease in cash and equivalents	(9,385)	(10,157)
Cash and equivalents at beginning of period	45,613	54,192
Cash and equivalents at end of period	$ 36,228	$ 44,035

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements fairly present the financial information contained therein. These statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The Condensed Consolidated Financial Statements do not include all disclosures required by accounting principles generally accepted in the United States of America for annual financial statements and should be read in conjunction with the audited financial statements and related notes included in the Annual Report on Form 10-K for the year ended January 31, 2008 of QAD Inc. (QAD or the Company). The results of operations for the three and nine months ended October 31, 2008 are not necessarily indicative of the results to be expected for the year ending January 31, 2009.

2. RECENT ACCOUNTING PRONOUNCEMENTS

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 is currently assessing the impact the adoption of this FSP will have 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.

Minority Interests

In December 2007, the FASB issued SFAS 160, “Accounting and Reporting of Noncontrolling Interests 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.

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

3. COMPUTATION OF NET (LOSS) INCOME PER SHARE

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2008	2007	2008	2007
	(in thousands, except per share data)			
Net (loss) income	$ (1,821)	$ 1,516	$ (3,984)	$ 168
Weighted average shares of common stock outstanding — *basic*	30,671	31,210	30,656	31,829
Weighted average shares of common stock equivalents issued using the treasury stock method	—	813	—	708
Weighted average shares of common stock and common stock equivalents outstanding — *diluted*	30,671	32,023	30,656	32,537
Basic net (loss) income per share	$ (0.06)	$ 0.05	$ (0.13)	$ 0.01
Diluted net (loss) income per share	$ (0.06)	$ 0.05	$ (0.13)	$ 0.01

Common stock equivalent shares consist of the shares issuable upon the vesting of restricted stock units (RSUs) and the exercise of stock options and stock-settled stock appreciation rights (SARs) using the treasury stock method. For the three and nine months ended October 31, 2008, shares of potential common stock of approximately 6.7 million and 5.4 million, respectively, were not included in the diluted calculation because the effect would be anti-dilutive. For the three and nine months ended October 31, 2007, shares of potential common stock of approximately 2.6 million and 3.7 million, respectively, were not included in the diluted calculation because the effect would be anti-dilutive.

4. COMPREHENSIVE (LOSS) INCOME

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2008	2007	2008	2007
	(in thousands)			
Net (loss) income	$ (1,821)	$ 1,516	$ (3,984)	$ 168
Foreign currency translation adjustments	(2,143)	1,460	(1,843)	3,188
Comprehensive (loss) income	$ (3,964)	$ 2,976	$ (5,827)	$ 3,356

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

5. 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. As such, 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):

		Fair value measurement at reporting date using		
Description	**October 31, 2008**	**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	$ 27,677	$ 27,677	$ —	$ —
Total	$ 27,677	$ 27,677	$ —	$ —

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.

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

6. BUSINESS COMBINATIONS

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 acquisition was an investment aimed at expanding the Company's product offering and driving revenue growth. 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 is allocated evenly among the North America and EMEA reporting units, where the Company's two main product fulfillment centers are located. The results of FullTilt operations are included in the Consolidated Financial Statements from the date of acquisition. The acquisition was not deemed material, thus pro forma supplemental information has not been provided.

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.

7. CAPITALIZED SOFTWARE COSTS

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

	October 31, 2008	January 31, 2008
	(in thousands)	
Capitalized software costs:		
Acquired software technology	$ 8,627	$ 8,884
Capitalized software development costs	3,840	3,103
	12,467	11,987
Less: accumulated amortization	(5,745)	(3,204)
Capitalized software costs, net	$ 6,722	$ 8,783

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

7. CAPITALIZED SOFTWARE COSTS (Continued)

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 was $1.1 million and $3.1 million for the three and nine months ended October 31, 2008, and $0.7 million and $1.7 million for the three and nine months ended October 31, 2007. 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 Condensed Consolidated Statements of Operations. The estimated remaining amortization expenses related to capitalized software costs for the years ended January 31, 2009, 2010, 2011 and 2012 are $1.0 million, $3.6 million, $1.9 million and $0.2 million, respectively.

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The changes in the carrying amounts of goodwill for the nine months ended October 31, 2008, by reporting unit, were as follows (reporting unit regions are defined in note 14 "Business Segment Information" within these Notes to Condensed Consolidated Financial Statements):

	North America	EMEA	Asia Pacific	Latin America	Total
			(in thousands)		
Balances, January 31, 2008	$ 4,133	$ 16,650	$ 991	$ 817	$ 22,591
Additions	429	428	—	—	857
Impact of foreign currency translation	—	(2,741)	(106)	(129)	(2,976)
Balances, October 31, 2008	$ 4,562	$ 14,337	$ 885	$ 688	$ 20,472

The increase in goodwill from January 31, 2008 to October 31, 2008 is partially due to $0.4 million in goodwill recorded in connection with the FullTilt acquisition due to the excess of purchase price over estimated fair value of acquired net assets. In addition, during the third quarter of fiscal 2009 the Company's goodwill increased by $0.5 million related to a performance payment issuable in connection with the fiscal 2007 acquisition of FBO Systems, Inc. For further explanation of acquisition-related transactions, see note 6 within these Notes to Condensed Consolidated Financial Statements.

The Company is required to analyze goodwill for impairment on at least an annual basis. Impairment is determined by estimating the fair value of the Company's reporting units and comparing that value to the net carrying value (or book value). The Company has chosen the fourth quarter of its fiscal year as its annual test period. The Company performed its annual impairment test of goodwill in the fourth quarter of fiscal 2008 and determined that goodwill was not impaired.

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

8. GOODWILL AND INTANGIBLE ASSETS (Continued)

Intangible Assets

	October 31, 2008	January 31, 2008
	(in thousands)	
Amortizable intangible assets:		
Customer relationships	$ 1,546	$ 1,528
Trade name	499	565
Covenant not to compete	150	185
	2,195	2,278
Less: accumulated amortization	(1,489)	(1,130)
Amortizable intangible assets, net	$ 706	$ 1,148

Intangible assets are included in "Other assets, net" in the accompanying Condensed Consolidated Balance Sheets. As of October 31, 2008 and January 31, 2008, all of the Company's intangible assets, excluding goodwill, were determined to have finite useful lives and were subject to amortization. The aggregate amortization expense related to amortizable intangible assets was $0.2 million and $0.6 million for the three and nine months ended October 31, 2008 and $0.2 million and $0.6 million for the three and nine months ended October 31, 2007. The estimated remaining amortization expense related to amortizable intangible assets for the years ended January 31, 2009 and 2010 is $0.2 million and $0.5 million, respectively. No additional amortization of these assets is estimated in fiscal 2011 and thereafter.

9. DEBT

	October 31, 2008	January 31, 2008
	(in thousands)	
Total debt:		
Notes payable	$ 17,051	$ 17,245
Capital lease obligations	—	27
	17,051	17,272
Less current maturities	(262)	(274)
Long-term debt	$ 16,789	$ 16,998

Notes Payable

In July 2004, the Company entered into a loan agreement with Mid-State Bank & Trust, 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 will 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 the ratio of funded debt to the 12-month trailing EBITDA.

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

9. DEBT (Continued)

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 October 31, 2008, a prime rate borrowing would have had an effective rate of 3.75% and a 30-day LIBOR borrowing would have had an effective rate of approximately 3.33%.

As of October 31, 2008, there were no borrowings under the Facility and the Company was in compliance with the financial covenants.

10. INCOME TAXES

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) on February 1, 2007. The total amount of gross unrecognized tax benefits as of the period ended October 31, 2008 was $2.4 million. The entire amount of unrecognized tax benefits will impact the effective tax rate if recognized. Under FIN 48, the liability for unrecognized tax benefits is classified as long-term unless the liability is expected to conclude within 12 months of the reporting date. The Company reasonably expects that the unrecognized long-term tax liabilities will not materially change during the next 12 months.

The Company's policy is to include interest and penalties related to unrecognized tax contingencies within the provision for taxes on the Condensed Consolidated Statements of Operations. Upon adoption of FIN 48, the Company accrued approximately $0.2 million for the payment of interest and penalties relating to unrecognized tax benefits. No other material adjustments have been made since adoption.

The Company files U.S. federal, state and foreign tax returns that are subject to audit by various tax authorities. The Company is currently under audit in the United Kingdom and India for the fiscal year ended 2006, France for the fiscal years ended 2005 through 2008, California for the fiscal years ended 2004 and 2005 and Michigan for the fiscal years ended 2004 thru 2007.

11. STOCK-BASED COMPENSATION

The Company's equity awards consist of options, stock-settled SARs and RSUs. For a description of the Company's stock-based compensation plans, see Note 11 "Stock-Based Compensation", in Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended January 31, 2008.

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

11. STOCK-BASED COMPENSATION (Continued)

The following table sets forth reported stock compensation expense for the three- and nine-month periods ended October 31, 2008 and 2007:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2008	2007	2008	2007
	(in thousands)			
Stock-based compensation expense:				
Cost of maintenance, service and other revenue	$ 271	$ 251	$ 884	$ 760
Sales and marketing	299	418	1,107	1,074
Research and development	207	247	667	579
General and administrative	494	540	1,810	2,043
Total stock-based compensation expense	$ 1,271	$ 1,456	$ 4,468	$ 4,456

Net cash received from options and SARs exercised for the nine months ended October 31, 2008 and 2007 was $0.5 million and $2.6 million, respectively. There were no excess tax benefits recorded for equity awards exercised in the nine months ended October 31, 2008 and 2007.

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

	Nine Months Ended October 31,	
	2008	2007
Expected life in years (1)	5.25	5.25
Risk free interest rate (2)	3.20%	4.58%
Volatility (3)	50%	59%
Dividend rate (4)	1.37%	1.05%

(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 SARs 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 SARs.

(4) The Company expects to continue paying quarterly dividends at the same rate as it has over the last year.

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

11. STOCK-BASED COMPENSATION (Continued)

The following table summarizes the activity for outstanding options and SARs for the nine months ended October 31, 2008:

	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	1,220	7.45		
Exercised	(124)	3.91		
Expired	(92)	10.13		
Forfeited	(197)	8.02		
Outstanding at October 31, 2008	6,435	$ 7.92	5.1	$ 979
Vested and expected to vest at October 31, 2008 (1)	6,080	$ 7.93	5.0	$ 978
Vested and exercisable at October 31, 2008	3,432	$ 7.96	3.9	$ 977

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

The 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 October 31, 2008 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 October 31, 2008.

The total intrinsic value of options and SARs exercised in the three and nine months ended October 31, 2008, was $40,000 and $0.5 million, respectively. The total intrinsic value of options and SARs exercised in the three and nine months ended October 31, 2007 was $1.1 million and $3.1 million, respectively. The weighted average grant date fair value per share of SARs granted in the three and nine months ended October 31, 2008 was $2.25 and $3.18, respectively. The weighted average grant date fair value per share of SARs granted in the three and nine months ended October 31, 2007 was $4.08 and $4.65, respectively. At October 31, 2008, there was approximately $7.9 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 1.3 years.

The estimated fair value of the RSUs was calculated based on the closing 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 nine months ended October 31, 2008:

	RSUs (in thousands)	Weighted Average Grant Date Fair Value
Balance at January 31, 2008	334	$ 8.17
Granted	553	5.57
Vested	(74)	8.25
Forfeited	(27)	8.25
Balance at October 31, 2008	786	$ 5.99

Total unrecognized compensation cost related to RSUs was approximately $4.7 million as of October 31, 2008. This cost is expected to be recognized over a period of approximately 3.5 years.

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

12. STOCKHOLDERS' EQUITY

Stock Repurchase Program

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. As of January 31, 2008, 736,300 shares had been repurchased under the program at an average price of $8.75 per share, including fees. During the first quarter of fiscal 2009, the Company repurchased the remaining 263,700 shares authorized under the program at an average price of $8.42 per share, including fees, for total consideration of $2.2 million. This program was completed as of April 30, 2008.

13. COMMITMENTS AND CONTINGENCIES

Indemnifications

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

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.

14. BUSINESS SEGMENT INFORMATION

The Company operates in geographic business segments. The North America region includes the United States and Canada. The EMEA region includes Europe, the Middle East and Africa. The Asia Pacific region includes Asia and Australia. The Latin America region includes South America, Central America and Mexico.

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

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

14. BUSINESS SEGMENT INFORMATION (Continued)

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2008	2007	2008	2007
	(in thousands)			
Revenue:				
North America (1)	$ 30,504	$ 29,531	$ 88,803	$ 82,407
EMEA	21,487	21,329	64,790	60,916
Asia Pacific	11,308	11,146	36,647	31,512
Latin America	4,468	4,602	13,878	12,614
	$ 67,767	$ 66,608	$ 204,118	$ 187,449
Operating income (loss):				
North America	$ 2,958	$ 4,578	$ 8,698	$ 12,076
EMEA	(934)	1,997	(1,622)	2,271
Asia Pacific	268	204	2,450	979
Latin America	(125)	241	(383)	219
Corporate	(2,700)	(3,864)	(13,541)	(14,675)
	$ (533)	$ 3,156	$ (4,398)	$ 870

	October 31, 2008	January 31, 2008
	(in thousands)	
Property and equipment, net:		
North America	$ 34,905	$ 34,682
EMEA	5,156	6,082
Asia Pacific	1,287	1,247
Latin America	421	439
	$ 41,769	$ 42,450

(1) Sales into Canada accounted for 4% and 3% of North America total revenue in the three- and nine-month periods ended October 31, 2008, respectively, compared to 3% of North America total revenue for the three- and nine- month periods ended October 31, 2007.

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

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements. These statements typically are preceded or accompanied by words like "believe," "anticipate," "expect" and words of similar meaning. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Part I, Item 1A entitled "Risk Factors" within our Annual Report on Form 10-K for the year ended January 31, 2008. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or update or publicly release the results of any revision or update to these forward-looking statements. Readers should carefully review the risk factors and other information described in other documents we file from time to time with the Securities and Exchange Commission.

INTRODUCTION

The following discussion should be read in conjunction with the information included within our Annual Report on Form 10-K for the year ended January 31, 2008, and the Condensed Consolidated Financial Statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

OVERVIEW

The Business

QAD Inc. was founded in 1979 and is a provider of enterprise software applications, professional services and application support that address the requirements of manufacturing companies. QAD Enterprise Applications includes modules formerly marketed as MFG/PRO and is QAD's core product suite. QAD Enterprise Applications has been developed to address the needs of manufacturers in six principal industry segments: automotive, consumer products, high technology, food and beverage, industrial products and life sciences. We develop our products and services through consultation with customers and partners, ensuring that we are knowledgeable of requirements in the markets we serve. A key focus for QAD is addressing the needs of global manufacturers, enabling them to implement software applications to run their businesses almost anywhere in the world and meet local requirements while maintaining control of their business as a whole.

In addition to the delivery of QAD Enterprise Applications, QAD has developed a global services and application support capability with over 600 skilled personnel located throughout the world. QAD's services and support capabilities are critical in delivering the value of its solutions to customers.

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

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

License Revenue. Provided all other revenue recognition criteria have been met, we recognize license revenue on delivery using the residual method. When a license agreement includes one or more elements to be delivered at a future date, we recognize revenue in one of two ways. If vendor-specific objective evidence (VSOE) of the fair value of all undelivered elements exists, the revenue for the undelivered elements is deferred and the residual amount is allocated to the license revenue and recognized when the above criteria have been met. If VSOE for the fair value of the undelivered elements does not exist, revenue is deferred and recognized when VSOE for the fair value of the undelivered elements has been established or when delivery of all elements occurs. If VSOE does not exist for any of the undelivered elements and those undelivered elements relate to a separable services or maintenance, the entire arrangement fee is recognized ratably over the longer of the expected services term or the maintenance term. VSOE fair value is determined based on historical evidence of stand-alone sales of these elements to customers.

Revenue from our subscription product offerings, including our On Demand product, is recognized ratably over the contract period when the customer does not have the right to take possession of the software. For subscription arrangements where the customer has the right and ability to take possession of the software, revenue is recognized using the residual method.

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

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

Services Revenue. Revenue from technical and implementation services is recognized as services are performed for time-and-materials contracts. At times our license and support arrangements include consulting implementation services sold separately under consulting engagement contracts. Consulting revenues from these arrangements are generally accounted for separately from software license revenues, because the arrangements qualify as separate service transactions and we have VSOE for the fair value of services. When the services are determined not to have been sold separately from our license and support arrangements, we allocate revenue to services based on the VSOE determined value of the services. Revenues for consulting services are generally recognized as the services are performed based on time and materials incurred during each reporting period. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is resolved.

On occasion, we enter into fixed-price services arrangements. We recognize revenues based on an estimate of the proportional performance on contracts with fixed or "not to exceed" fees on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project.

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.

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. 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 and provisions for sales adjustments are recorded against revenue. The allowance for doubtful accounts relates to the customers' inability to pay existing accounts receivable balances and provisions for doubtful accounts are included in bad debt expense in general and administrative expenses. Actual results may differ from our estimates for a variety of reasons.

Goodwill and Intangible Assets. Goodwill and other intangible assets at October 31, 2008 were $20.5 million and $0.7 million, respectively, and accounted for 11% 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. In assessing the recoverability of goodwill and intangible assets, we estimate future revenue and cash flow attributable to our reporting units and other factors in determining the fair value of our reporting units. These estimates contain management's best estimates, using appropriate and customary assumptions available at the time. For further discussion of goodwill, see note 8 "Goodwill and Intangible Assets" within the Notes to Condensed Consolidated Financial Statements.

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 8 "Goodwill and Intangible Assets" within the Notes to Condensed Consolidated Financial Statements.

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". Capitalized software costs are amortized on a straight-line basis over the product's estimated useful life, which is typically three years. We periodically compare the unamortized capitalized software costs to the estimated net realizable value of the associated product. The amount by which the unamortized capitalized software costs of a particular software product exceed the estimated net realizable value of that asset is reported as a charge to the statement of operations. This review requires management judgment regarding future cash flows. If these estimates or their related assumptions require updating in the future, we may incur substantial losses due to the write-down or write-off of these assets.

Valuation of Deferred Tax Assets and Tax Contingency Reserves. 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 October 31, 2008, we had $21.5 million of deferred tax assets, net of valuation allowances, consisting of $34.2 million of gross deferred tax assets offset by valuation allowances of $12.7 million. In assessing the likelihood of realizing tax benefits associated with deferred tax assets and the need for a valuation allowance, we consider the weight of all available evidence, both positive and negative, including expected future taxable income and tax planning strategies that are both prudent and feasible. There was a net increase of valuation allowances recorded in the third quarter of fiscal 2009 of $0.2 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.

We adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109" (FIN 48) in fiscal 2008. 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 percent 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.

Stock-based Compensation Expense. Share-based payment transactions with employees are accounted for using a fair-value-based method and expensed ratably over the vesting period of the stock instrument.

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

Equity instruments issued to non-employees in exchange for services are recorded in accordance with the provisions of 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.

RESULTS OF OPERATIONS

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2008	2007	2008	2007
Revenue:				
License fees	19%	21%	18%	21%
Maintenance and other	48	49	50	51
Services	33	30	32	28
Total revenue	100	100	100	100
Costs and expenses:				
Cost of license fees	4	3	4	3
Cost of maintenance, service and other revenue	42	39	42	40
Sales and marketing	27	26	28	27
Research and development	16	15	16	16
General and administrative	12	12	12	13
Amortization of intangibles from acquisitions	—	—	—	—
Total costs and expenses	101	95	102	99
Operating (loss) income	(1)	5	(2)	1
Other expense (income)	—	1	—	—
(Loss) income before income taxes	(1)	4	(2)	1
Income tax expense (benefit)	2	2	—	1
Net (loss) income	(3)%	2%	(2)%	—%

Total Revenue. Total revenue for the third quarter of fiscal 2009 was $67.8 million, an increase of $1.2 million, or 2%, from $66.6 million in the third quarter of fiscal 2008. Holding foreign currency exchange rates constant to those prevailing in the third quarter of fiscal 2008, total revenue for the current quarter would have been approximately $68.4 million, or $1.8 million higher when compared to the same period last year. When comparing categories within total revenue at constant rates, our current quarter 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 55% in the third quarter of fiscal 2009, as compared to 56% in the same period of the prior fiscal year. Revenue increased in the North America, Asia Pacific and the Europe, Middle East and Africa (EMEA) geographic regions during the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008 while total revenue attributable to the Latin America region decreased during the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008. The unfavorable currency impact of approximately $0.6 million for the third quarter of fiscal 2009 related mainly to fluctuations in the Australian Dollar and the British Pound.

Total revenue for the nine months ended October 31, 2008 was $204.1 million, an increase of $16.7 million, or 9%, from $187.4 million over the same period of fiscal 2008. Holding foreign currency exchange rates constant to those applicable in the same period of fiscal 2008, total revenue for the nine months ended October 31, 2008 would have been approximately $199.5 million, or $12.1 million higher when compared to the same period last year. When comparing categories within total revenue at constant rates, our current quarter results included an increase in revenue in the services and maintenance and other revenue categories offset by a decrease in the license revenue category. Revenue outside the North America region as a percent of total revenue was 57% and 56% for the nine months ended October 31, 2008 and 2007, respectively. When comparing the nine months ended October 31, 2008 to the same period ended October 31, 2007, revenue increased across all our geographic regions. The favorable currency impact of approximately $4.6 million for the nine months ended October 31, 2008 related mainly to fluctuations in the Euro, Polish Zloty, Australian Dollar, Japanese Yen, Brazilian Real and Chinese Yuan.

License Revenue. License revenue was $13.1 million for the third quarter of fiscal 2009, down $1.0 million, or 7%, from $14.1 million in the third quarter of fiscal 2008. Holding foreign currency exchange rates constant to those prevailing in the third quarter of fiscal 2008, license revenue for the current quarter would have been approximately $13.3 million, representing a $0.8 million, or 6%, decrease from the same period last year. We experienced decreases in license revenue in our North America, Latin America and Asia Pacific geographic regions, partially offset by an increase in 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 the third quarter of fiscal 2009, 10 customers placed license orders totaling more than $0.3 million, of which one order exceeded $1.0 million. This compared to the fiscal 2008 third quarter in which 12 customers placed license orders totaling more than $0.3 million, one of which exceeded $1.0 million. Discounts associated with license revenue were consistent when comparing the quarter ended October 31, 2008 to the same period in the previous year.

License revenue was $36.4 million for the nine months ended October 31, 2008, a decrease of $2.7 million, or 7%, from $39.1 million for the nine months ended October 31, 2007. Holding foreign currency exchange rates constant to fiscal 2008, license revenue for the current nine-month period would have been approximately $36.0 million, representing a $3.1 million, or 8%, decrease from the same period last year. When comparing the year-to-date results as of October 31, 2008 with the year-to-date results as of October 31, 2007, we experienced decreases in license revenue in the North America and Latin America geographic regions, partially offset by increases in license revenue in our EMEA and Asia Pacific regions. During the nine months ended October 31, 2008, 18 customers placed license orders totaling more than $0.3 million, three of which were greater than $1.0 million. This is compared to 26 customers who placed license orders totaling more than $0.3 million in the nine-month period ended October 31, 2007, two of which exceeded $1.0 million. Discounts associated with license revenue were consistent when compared to the same period in the prior year.

Maintenance and Other Revenue. Maintenance and other revenue was $32.7 million for the third quarter of fiscal 2009, representing an increase of $0.4 million, or 1%, from $32.3 million for the third quarter of fiscal 2008. Holding foreign currency exchange rates constant to those prevailing in the third quarter of fiscal 2008, the third quarter fiscal 2009 maintenance and other revenue would have been approximately $32.9 million, representing a $0.6 million, or 2%, increase when compared to the prior year. Maintenance and other revenue increased across all our geographic regions during the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008 except for maintenance and other revenue attributable to the EMEA region, which decreased for the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008.

Maintenance and other revenue was $101.3 million for the nine months ended October, 31 2008, representing an increase of $6.2 million, or 7%, from $95.1 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 the first nine months of fiscal 2009 would have been approximately $99.9 million, representing a $4.8 million, or 5%, increase when compared to the prior year. Maintenance and other revenue increased across all our geographic regions except maintenance and other revenue attributable to the EMEA region, which decreased for the first nine months of fiscal 2009 compared to the first nine months of 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 for the three- and nine-month periods ended October 31, 2008 and 2007 continues to be in excess of 90%.

Services Revenue. Services revenue was $22.0 million for the third quarter of fiscal 2009, representing an increase of $1.8 million, or 9%, when compared to the same period last year at $20.2 million. Holding foreign currency exchange rates constant to those prevailing in the third quarter of fiscal 2008, services revenue for the third quarter of fiscal 2009 would have been approximately $22.2 million, reflecting a $2.0 million, or 10%, increase from the same period last year. The increase in services revenue quarter over quarter was primarily due to global services implementations related to a small number of large, multi-national customers. Services revenue increased across all our geographic regions quarter over quarter except services revenue attributable to the Latin America region, which decreased quarter over quarter.

Services revenue was $66.3 million for the nine months ended October 31, 2008. This represents an increase of $13.0 million, or 24%, when compared to services revenue of $53.3 million earned in the same period last year. Holding exchange rates constant to those prevailing during the prior year period, services revenue for the first nine months of fiscal 2009 would have been approximately $63.7 million, reflecting a $10.4 million, or 20%, increase from the same period last year. 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. When comparing the first nine months of fiscal 2009 to the same period in fiscal 2008, services revenue increased across all our geographic regions.

Total Cost of Revenue. Total cost of revenue, the combination of costs for license fees, maintenance and other, and service revenue, was $31.2 million for the third quarter of fiscal 2009 and $28.1 million for the third quarter of fiscal 2008, and as a percentage of total revenue was 46% for the third quarter of fiscal 2009 and 42% for the third quarter of fiscal 2008. Holding foreign currency exchange rates constant to those prevailing during the third quarter of fiscal 2008, total cost of revenue for the third quarter of fiscal 2009 would have been approximately $3.3 million higher at $31.4 million and the cost of revenue percentage would have been the same at 46%. Changes in the cost of revenue as a percentage of total revenue were due to the decrease in license revenue and the 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. Additionally, for the third quarter of fiscal 2009, the cost of maintenance, service and other revenue has increased as a percentage of maintenance, service and other revenue when compared to the same period in the prior year due primarily to an increase in salaries and related expenses. The increase in the salaries and related expenses was primarily attributable to an increase in headcount.

Total cost of revenue for the nine months ended October 31, 2008 increased $14.0 million to $93.7 million from $79.7 million for the nine months ended October 31, 2007. As a percentage of total revenue, total cost of revenue increased to 46% for the first nine months of fiscal 2009 from 43% in the same period of fiscal 2008. Holding exchange rates constant to those prevailing during the same period last year, total cost of revenue for the nine months ended October 31, 2008 would have been approximately $11.0 million higher at $90.7 million, and as a percent of revenue would have been 45%, reflecting a 1% negative foreign exchange effect on our margin. The remaining 2% increase in cost of revenues for the first nine months of fiscal 2009 when compared to the same period in fiscal 2008 was due to the decrease in license revenue and the 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.

Sales and Marketing. Sales and marketing expense increased $0.6 million, or 3%, to $17.8 million for the third quarter of fiscal 2009 from $17.2 million in the comparable prior year period. Holding foreign currency exchange rates constant to those prevailing in the third quarter of fiscal 2008, current quarter expense would have increased approximately $0.8 million to $18.0 million when compared with the same period last year. The increase in sales and marketing expense was primarily due to an increase in salaries and related expenses amounting to $1.6 million. The increase in sales and marketing salaries and related expenses was primarily attributable to increased headcount as we invested in our sales support infrastructure to support a more complex sales effort associated with our broadening product line. The increase in sales and marketing salaries and related expenses was partially offset by decreases of $0.7 million in third-party sales agent fees, marketing related consulting fees and travel-related expenses.

Sales and marketing expense increased $4.7 million, or 9%, to $55.9 million in the nine months ended October 31, 2008 from $51.2 million in the same period of the previous year. Holding exchange rates constant to the first nine months of the prior year, sales and marketing expense would have been approximately $3.2 million higher at $54.4 million. The increase in sales and marketing expense in the nine months ended October 31, 2008 compared to the same period of last year was primarily due to an increase in salaries and related expenses amounting to $3.9 million. The increase in sales and marketing salaries and related expenses was primarily attributable to increased headcount as we invested in our sales support infrastructure to support a more complex sales effort associated with our broadening product line.

Research and Development. Research and development expense increased $0.8 million, or 8%, to $10.8 million for the third quarter of fiscal 2009, when compared to the same quarter last year at $10.0 million. Holding foreign currency exchange rates constant to those prevailing in the third quarter of fiscal 2008, current quarter expense would have been unchanged at approximately $10.8 million. The increase in research and development expense when comparing the third quarter of fiscal 2009 to the same quarter of the previous year was primarily due to a $0.7 million increase in salaries and related expenses.

For the nine months ended October 31, 2008, research and development expense increased $2.8 million, or 9%, to $33.2 million from $30.4 million during the same period last year. Holding exchange rates constant to those prevailing in the same period of fiscal 2008, research and development expense would have been approximately $1.8 million higher at $32.2 million. The increase in research and development expense when comparing the first nine months of fiscal 2009 to the same period of the previous year was primarily due to a $1.7 million increase in salaries and related expenses.

General and Administrative. General and administrative expense increased $0.3 million, or 4%, to $8.3 million for the third quarter of fiscal 2009, when compared to the same quarter last year at $8.0 million. Holding exchange rates constant to those prevailing in the third quarter of fiscal 2008, current quarter expense would have been unchanged at approximately $8.3 million. The increase in general and administrative expense when comparing the third quarter of fiscal 2009 to the same quarter of the previous year was primarily due to a $0.6 million increase in salaries and related expenses and a $0.3 million increase in the provision for doubtful accounts partially offset by a decrease of $0.3 million in professional fees primarily related to tax consulting fees.

For the nine months ended October 31, 2008, general and administrative expense increased $0.5 million, or 2%, to $25.2 million from $24.7 million during the same period last year. Holding exchange rates constant to those prevailing in the same period of fiscal 2008, general and administrative expense would have been approximately $24.8 million, or $0.1 million higher than the same period last year. The increase in general and administrative expense when comparing the first nine months of fiscal 2009 to the same period in fiscal 2008 was primarily due to a $1.2 million increase in salaries and related expenses partially offset by a decrease of $0.8 million in professional fees primarily related to tax consulting fees.

Amortization of Intangibles from Acquisitions. Amortization of intangibles from acquisitions was consistent quarter over quarter at $0.2 million for the current quarter compared to $0.2 million in the same quarter last year and primarily related to intangible assets acquired from our fiscal 2007 acquisitions.

For the nine months ended October 31, 2008, amortization of intangible assets from acquisitions was consistent at $0.6 million compared to $0.6 million for the same period in the prior year and primarily related to intangible assets acquired from our fiscal 2007 acquisitions.

Other Expense (Income). Net other expense (income) was approximately breakeven and $0.3 million for the third quarter of fiscal 2009 and 2008, respectively. The $0.3 million favorable change primarily related to a decrease in foreign currency exchange losses of $0.4 million partially offset by a decrease in interest income of $0.2 million in the third quarter of fiscal 2009. The decrease in interest income was primarily attributable to lower interest rates earned on our cash and equivalents balances available for investment.

Net other expense (income) declined $0.5 million to $0.2 million of expense during the nine-month period ended October 31, 2008 from $(0.3) million of income for the same period last year related primarily to a decrease in interest income of $0.5 million. The decrease in interest income was primarily attributable to lower average cash and equivalents balances available for investment mainly due to share repurchases made in fiscal 2008.

Income Tax Expense (Benefit). For the quarter ended October 31, 2008, we recorded an income tax expense of $1.3 million compared to income tax expense of $1.4 million for the quarter ended October 31, 2007. Our effective income tax rate is -267% for the third quarter of fiscal 2009 compared to 47% for the same period in the prior year. Projected full year pre-tax income at October 31, 2008 for the fiscal year was near breakeven causing items such as withholding tax to become more significant relative to the projected income. As a result, we believe the best estimate of our annual effective tax rate would be derived by using actual pre-tax income for the nine month period ended October 31, 2008. The components used to calculate the rate are consistent with prior quarters.

For the nine months ended October 31, 2008, we recorded an income tax benefit of $(0.6) million compared to an income tax expense of $1.0 million for the nine months ended October 31, 2007. Our year-to-date effective tax rate decreased due to a significant decline in our pre-tax income.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our operations and met our capital expenditure requirements through cash flows from operations, sale of equity securities and borrowings. Our principal sources of liquidity are cash flows generated from operations and our cash and equivalents balances. Cash and equivalents were $36.2 million at October 31, 2008, and $45.6 million at January 31, 2008.

Working Capital

Our working capital was $7.2 million and $8.8 million as of October 31, 2008 and January 31, 2008, respectively. The $1.6 million decrease in working capital was primarily due to a $37.6 million decrease in current assets, partially offset by a $36.0 million decrease in current liabilities. The primary reason for the decrease in working capital was a larger decrease in the accounts receivable balance compared to the decrease in the deferred revenue balance.

The $37.6 million decrease in current assets related to a $29.3 million decrease in accounts receivable, net and a $9.4 million decrease in cash and equivalents partially offset by a $1.1 million increase in other current assets. The decrease in accounts receivable related primarily to seasonal declines following high year-end maintenance renewal billings. Other current assets increased primarily due to higher income tax receivables and deferred tax assets partially offset by lower deferred royalties due to seasonal declines following high year-end maintenance renewal billings. Cash and equivalents decreased from $45.6 million at January 31, 2008 to $36.2 million as of October 31, 2008. The decrease in cash and equivalents was mainly due to acquisition-related payments made during the first nine months of fiscal 2009, purchases of property and equipment, dividend payments and stock repurchases. These cash expenditures were partially offset by cash flow from operations and more specifically from cash collected from our accounts receivable balances. For additional explanation of cash changes, see the “Cash Flows” section below.

Current liabilities declined $36.0 million due to a $25.9 million decrease in deferred revenue, a $7.6 million decrease in other current liabilities and a $2.5 million decrease in accounts payable. Deferred revenue decreased $25.9 million due to seasonal declines following high year-end maintenance renewal billings. The decrease in other current liabilities was primarily attributable to payments in the current year of prior year-end liabilities which included the accrual of the final payment for the acquisition of Precision Software Limited and seasonally higher year-end royalty, commission and bonus liabilities.

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

DSO under the countback method was 68 days at October 31, 2008, compared to 58 days at January 31, 2008 and 66 days at October 31, 2007. DSO using the average method, which utilizes the accounts receivable balance and earned revenue in the calculation, was 71 days at October 31, 2008, compared to 99 days at January, 31 2008 and 69 days at October 31, 2007.

Cash Flows

The following is a summary of cash flows for the first nine months of fiscal 2009 and 2008:

Operating Activities

Net cash provided by operating activities was $9.6 million and $11.5 million in the first nine months of fiscal 2009 and 2008, respectively. The decrease from fiscal 2008 to 2009 related primarily to $6.4 million of additional deferred revenue being recognized in the first nine months of fiscal 2009 compared to the same period in fiscal 2008. In addition, the change in other assets period over period negatively impacted cash flow by $4.1 million. Other assets increased primarily due to a non-cash related increase in the balance of our income tax receivables due to an increase in our current period net operating loss. These changes which negatively affected cash flow were partially offset by positive effects on cash flow related to accounts receivable of $8.1 million due to higher collections in fiscal 2009.

Investing Activities

Net cash used in investing activities for the first nine months of fiscal 2009 and 2008 was $11.6 million and $9.6 million, respectively. Property and equipment purchases amounted to $4.8 million and $4.0 million in the first nine months of fiscal 2009 and 2008, respectively. Both fiscal 2009 and 2008 purchases primarily related to computer equipment and software. During the first nine months of fiscal 2009, we made acquisition-related payments totaling $6.2 million primarily associated with the final payment of $3.5 million for the acquisition of Precision Software Limited, the acquisition of certain assets of FullTilt Solutions, Inc. for $1.2 million and the final payment of $1.2 million to buy out the minority interest shareholders in our Thailand subsidiary. In the same period in the prior year, we made additional progress payments of $4.7 million related to our fiscal 2007 acquisitions. For further discussion of business combinations, see note 6 within the Notes to Condensed Consolidated Financial Statements included elsewhere in the Quarterly Report on Form 10-Q.

Financing Activities

Net cash used in financing activities was $5.3 million and $15.6 million for the first nine months of fiscal 2009 and 2008, respectively. The first nine months of fiscal year 2009 included repurchases of common stock for $2.2 million compared to repurchases of common stock for $14.2 million during the same period in the prior year. In fiscal 2009, all common stock repurchases were acquired on the open market while in fiscal 2008 the repurchases included one million shares acquired in a single, privately negotiated transaction. Proceeds from the issuance of common stock, primarily related to the exercise of equity awards, were $0.5 million and $2.6 million in the first nine months of fiscal 2009 and 2008, respectively. In addition, $2.3 million and $2.4 million in dividends were paid to owners of QAD common stock during each of the first nine months of fiscal 2009 and 2008, respectively.

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

Contractual Obligations

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 will 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 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 our funded debt to 12-month trailing EBITDA ratio. At October 31, 2008, a prime rate borrowing would have had an effective rate of 3.75% and a 30-day LIBOR borrowing would have had an effective rate of approximately 3.33%.

As of October 31, 2008, there were no borrowings under the Facility and we were in compliance with the financial covenants of the Facility.

Notes Payable

In July 2004, we entered into a loan agreement with Mid-State Bank & Trust, 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 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 October 31, 2008 was $17.1 million.

Obligations Associated with Acquisitions

In connection with the acquisitions of Precision and Bisgen in fiscal 2007, part of the purchase price consideration for each of these companies included deferred payments. Consideration for Precision included total deferred payments of $7.2 million. In September 2007, we made the first anniversary payment of $3.7 million and in September 2008, we made the second anniversary payment of $3.5 million. Consideration for Bisgen included deferred payments of $0.7 million. In fiscal 2008 and for the first nine months of fiscal 2009, we paid $0.5 million. An additional $0.2 million is due to be paid by June 2011. Additionally, the purchase price consideration for the FBO Systems acquisition in fiscal 2007 included performance payments based on revenue growth, of which $0.5 million is issuable by the end of fiscal 2009.

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange. For the nine months ended October 31, 2008 and 2007, approximately 34% and 30% of our revenue was denominated in currencies other than the U.S. Dollar. Approximately 44% and 40% of our expenses were denominated in currencies other than the U.S. Dollar for the nine months ended October 31, 2008 and 2007, respectively. As a result, fluctuations in the values of the respective currencies relative to the currencies in which we generate revenue and incur expenses could adversely impact our results.

Fluctuations in currencies relative to the U.S. Dollar have affected and will continue to affect period-to-period comparisons of our reported results of operations. Foreign currency transaction losses totaled $0.6 million for both the nine months ended October 31, 2008 and 2007. Due to constantly changing currency exposures and the volatility of currency exchange rates, we may experience foreign currency losses in the future. We cannot predict the effect of exchange rate fluctuations upon future operating results. Although we do not currently undertake hedging transactions, we may choose to hedge a portion of our currency exposure in the future.

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

We prepared sensitivity analyses of our interest rate exposure and our exposure from anticipated investment and borrowing levels for fiscal 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 2008 fiscal year-end rates would not have a material adverse effect on the fair value of investments and would not materially impact our results of operations or financial condition for fiscal 2009.

ITEM 4 — CONTROLS AND PROCEDURES

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

Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors reported in Item 1A within the Company's Annual Report on Form 10-K for the year ended January 31, 2008.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits

10.72	Employment agreement between the Registrant and Daniel Lender, dated October 10, 2008
31.1	Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Signatures

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

QAD Inc.
(Registrant)

Date: December 10, 2008

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

By: /s/ KARA BELLAMY
Kara Bellamy
Vice President, Corporate Controller
(Chief Accounting Officer)

Exhibit Index

Exhibit No.	Description
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Exhibit 10.72

QAD INC.
100 Innovation Place
Santa Barbara, CA 93108
USA
Tel: +1.805.566.6000
Fax: +1 805.566.4202
http://www.qad.com

Human Resources
CA Fax + 805 566 6091

October 10, 2008

Daniel Lender
40 Alston Place
Santa Barbara, CA 93108

Dear Daniel:

We are pleased to offer you the position of Chief Financial Officer (CFO) for QAD. This full time exempt position will report to Karl Lopker, Chief Executive Officer (CEO). You will be working out of our corporate QAD office located in Santa Barbara, CA. Your primary job responsibilities will be discussed with you in more detail after you have commenced employment. We anticipate your date of hire to be on or before November 15, 2008.

Compensation:

Your gross base salary per pay period (24 periods per year) will be $14,583.33 (equates to $350,000 annually). You will also be eligible to participate in the QAD Bonus Plan at $200,000 potential which is based on achievement of specific objectives. Complete details of the plan will be discussed and provided to you following your hire. Your on-target earning goal, base plus bonus, will be $550,000.00 per annum.

Sign-on Bonus:

You will also receive a $50,000 sign-on bonus contingent on your being able to commence employment on or before November 15, 2008. The bonus will be paid out on the first paycheck following your hire date (**or** within 30 days of your hire date) and will be subject to all laws of taxation and income reporting. You agree to repay this amount in full, in the event you resign from QAD during the first 12 months of employment.

Stock-settled stock appreciation rights ("SARs") and Restricted Stock Units (RSUs):

A 100,000-share initial-hire grant of stock-settled stock appreciation rights ("SARs") has been submitted for approval to the Board of Directors. The share price for the SARs will be based on the fair market value of QAD stock on the later of your start date or the date of approval by the Board of Directors. Your SARs will vest over a four-year period, one-fourth of the grant (25%) on each of the first four anniversaries of the grant date.

Also, a 210,000-share initial-hire grant of restricted stock units (RSUs) has been submitted for approval to the Board of Directors. Your RSUs will vest over a four-year period, one-fourth of the grant (25%) on each of the first four anniversaries of the grant date.

In addition, at the next annual grant period, 40,000-share grant of restricted stock units (RSUs) will be submitted for approval to a representative of the Board of Directors.

Benefits:

As a full-time employee, you are eligible to participate in the following current benefits: health, dental, life, short term and long term disability insurance, flexible spending accounts, and a 401(K) plan. All insurance benefits and the flexible spending account eligibility begin on your date of hire. Voluntary life insurance is available on the first day of the month following your date of hire.

In addition to the benefits noted above, you will be eligible to participate in other company benefits currently being offered. As a rehire, your PTO accrual rate will be reinstated at rate consistent with no break in service. Your new-hire package will contain detailed information pertaining to the benefits and programs listed above.

Termination:

Should you be terminate for reasons other than for cause, you will be offered a Separation and Release of All Claims agreement with payment terms equal to 12 months base salary.

Change in Control:

QAD will offer you a Change in Control Agreement consistent with Board approval for the position of CFO.

Other:

Pursuant to Federal law, you will need to provide evidence of your eligibility to work in the United States within three days from your initial hire date. Examples of acceptable documentation commonly used include a Passport or Driver's License AND a Social Security card (see "List of Acceptable Documents" attached to the I-9 document.) For Payroll purposes, we require a copy of your social security card. If you do not have your social security card available, please provide verification from your local Social Security office that a replacement card has been requested. Please be prepared to provide this documentation at your new hire orientation.

Except as expressly noted in this letter, your employment with QAD will be subject to all of the Company's usual policies and practices. Consistent with these policies and practices, employment with QAD, Inc. is 'at-will' and you or the Company may terminate employment at any time for any reason.

You represent and warrant that you are free to accept this offer of employment and that you doing so does not breach any contract or agreement which you have with any other entity and is not in violation of any legal duty you have to any other entity.

Please sign this letter in the space provided as an indication of your acceptance of this offer and return it to Murray Ray, 100 Innovation Place, Santa Barbara, CA 93108.

Daniel, we look forward to your re-joining the QAD team. We believe you will enjoy the challenges and opportunities that lie ahead in our dynamic business and that you have the skills and talent necessary to be a strong contributor to our mutual growth.

Sincerely,

/s/ Murray Ray
Murray Ray
Chief People Officer
QAD Inc.

/s/ Karl Lopker
Karl Lopker
CEO
QAD Inc.

I, /s/ Daniel Lender accept the position as offered above on: 10 October, 2008. I will commence employment on: 20 October, 2008.
Signature *Acceptance Date* *Hire Date*

If you accept this offer of employment, please let us know exactly how you want your name listed on QAD internal phone and e-mail lists. Please state one primary name and one last name.

DANIEL LENDER
Please Print

Exhibit 31.1

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

I, Karl F. Lopker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of QAD Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: December 10, 2008

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

Exhibit 31.2

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

I, Daniel Lender, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of QAD Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: December 10, 2008

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

Exhibit 32.1

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

In connection with the Quarterly Report of QAD Inc. (the "Company") on Form 10-Q for the period ending October 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karl F. Lopker, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: December 10, 2008

/s/ KARL F. LOPKER

Karl F. Lopker
Chief Executive Officer
QAD Inc.

Exhibit 32.2

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

In connection with the Quarterly Report of QAD Inc. (the "Company") on Form 10-Q for the period ending October 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel Lender, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: December 10, 2008

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