
**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 July 31, 2009

OR

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

For the transition period from _____ to _____

Commission file number 0-22823

QAD Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 August 31, 2009 was 31,066,080.

**QAD INC.
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PART I

ITEM 1. FINANCIAL STATEMENTS

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

| | July 31, 2009 | January 31, 2009 |
|---|-------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and equivalents | \$ 40,634 | \$ 31,467 |
| Accounts receivable, net | 40,601 | 70,954 |
| Other current assets | 18,692 | 19,164 |
| Total current assets | 99,927 | 121,585 |
| Property and equipment, net | 39,560 | 41,438 |
| Capitalized software costs, net | 3,978 | 5,699 |
| Goodwill | 6,316 | 6,237 |
| Other assets, net | 18,808 | 18,786 |
| Total assets | <u>\$ 168,589</u> | <u>\$ 193,745</u> |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 275 | \$ 266 |
| Accounts payable | 5,973 | 12,494 |
| Deferred revenue | 75,037 | 81,392 |
| Other current liabilities | 23,450 | 31,081 |
| Total current liabilities | 104,735 | 125,233 |
| Long-term debt | 16,578 | 16,717 |
| Other liabilities | 4,354 | 4,324 |
| 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 shares at both July 31, 2009 and January 31, 2009 | 35 | 35 |
| Additional paid-in capital | 141,477 | 139,930 |
| Treasury stock, at cost (4,285,001 and 4,597,758 shares at July 31, 2009 and January 31, 2009, respectively) | (34,299) | (36,614) |
| Accumulated deficit | (55,537) | (49,103) |
| Accumulated other comprehensive loss | (8,754) | (6,777) |
| Total stockholders' equity | <u>42,922</u> | <u>47,471</u> |
| Total liabilities and stockholders' equity | <u>\$ 168,589</u> | <u>\$ 193,745</u> |

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 July 31, | | Six Months Ended July 31, | |
|--|--|-------------------|--------------------------------------|-------------------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenue: | | | | |
| License fees | \$ 6,658 | \$ 11,432 | \$ 12,909 | \$ 23,393 |
| Maintenance and other | 32,136 | 34,495 | 64,953 | 68,654 |
| Services | 12,516 | 23,586 | 28,446 | 44,304 |
| Total revenue | 51,310 | 69,513 | 106,308 | 136,351 |
| Costs and expenses: | | | | |
| Cost of license fees | 1,769 | 2,497 | 3,538 | 4,785 |
| Cost of maintenance, service and other revenue | 20,457 | 29,963 | 44,460 | 57,652 |
| Sales and marketing | 12,674 | 19,864 | 26,563 | 38,113 |
| Research and development | 9,345 | 11,297 | 19,671 | 22,371 |
| General and administrative | 9,011 | 8,597 | 16,391 | 16,920 |
| Amortization of intangibles from acquisitions | 174 | 197 | 347 | 375 |
| Total costs and expenses | 53,430 | 72,415 | 110,970 | 140,216 |
| Operating loss | (2,120) | (2,902) | (4,662) | (3,865) |
| Other expense (income): | | | | |
| Interest income | (147) | (462) | (308) | (847) |
| Interest expense | 324 | 323 | 627 | 639 |
| Other expense (income), net | (347) | 94 | (98) | 436 |
| Total other expense (income) | (170) | (45) | 221 | 228 |
| Loss before income taxes | (1,950) | (2,857) | (4,883) | (4,093) |
| Income tax benefit | (525) | (1,424) | (793) | (1,930) |
| Net loss | \$ (1,425) | \$ (1,433) | \$ (4,090) | \$ (2,163) |
| Basic net loss per share | \$ (0.05) | \$ (0.05) | \$ (0.13) | \$ (0.07) |
| Diluted net loss per share | \$ (0.05) | \$ (0.05) | \$ (0.13) | \$ (0.07) |

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Six Months Ended July 31, | |
|---|--------------------------------------|------------------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net loss | \$ (4,090) | \$ (2,163) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,451 | 5,450 |
| Provision for doubtful accounts and sales adjustments | 2,019 | 47 |
| Loss (gain) on disposal of property and equipment | 36 | (1) |
| Exit costs | 217 | — |
| Stock compensation expense | 2,494 | 3,197 |
| Other, net | (349) | (154) |
| Changes in assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable | 30,853 | 27,108 |
| Other assets | (642) | (2,672) |
| Accounts payable | (4,406) | (3,601) |
| Deferred revenue | (10,151) | (15,968) |
| Other liabilities | (9,150) | (4,167) |
| Net cash provided by operating activities | 12,282 | 7,076 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (474) | (2,918) |
| Capitalized software costs | (299) | (434) |
| Acquisition of businesses, net of cash acquired | (12) | (2,491) |
| Proceeds from sale of property and equipment | 41 | 3 |
| Net cash used in investing activities | (744) | (5,840) |
| Cash flows from financing activities: | | |
| Repayments of debt | (130) | (139) |
| Proceeds from issuance of common stock | 14 | 435 |
| Changes in book overdraft | (2,476) | (610) |
| Dividends paid | (986) | (1,533) |
| Repurchase of common stock | — | (2,219) |
| Net cash used in financing activities | (3,578) | (4,066) |
| Effect of exchange rates on cash and equivalents | 1,207 | 406 |
| Net increase (decrease) in cash and equivalents | 9,167 | (2,424) |
| Cash and equivalents at beginning of period | 31,467 | 45,613 |
| Cash and equivalents at end of period | <u>\$ 40,634</u> | <u>\$ 43,189</u> |
| Supplemental disclosure of non-cash activities: | | |
| Obligations associated with dividend declaration | \$ 772 | \$ 764 |
| Dividends paid in stock | 553 | — |

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 ("GAAP") 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, 2009 of QAD Inc. ("QAD" or the "Company"). The Condensed Consolidated Financial Statements include the results of the Company and its wholly owned subsidiaries. The results of operations for the three and six months ended July 31, 2009 are not necessarily indicative of the results to be expected for the year ending January 31, 2010.

Reclassifications and Corrections of Previously Issued Financial Statements

In accordance with Staff Accounting Bulletin No. 108, results for the fiscal year and quarter ended January 31, 2009 have been revised from previously reported amounts. The revision relates to revenue recognition of a customer contract accounted for using contract accounting in accordance with American Institute of Certified Public Accountants ("AICPA") Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts". During preparation of the Company's financial statements for the first quarter of fiscal 2010, the Company determined that it could not reliably estimate the costs of maintenance to be provided to the customer under the contract and accordingly could not accrue the full gross profit under the percentage-of-completion method. The accounting for the contract has been revised to apply the zero gross margin approach under the percentage-of-completion method. Under this method, revenues are recorded only to the extent of contract costs incurred. As a result, total revenue for the year and three months ended January 31, 2009 was reduced by \$0.7 million and net loss and accumulated deficit were increased by \$0.6 million. There was no impact to operating cash flows for any periods. The Company considers the adjustment to be immaterial to the prior periods. The Company has also revised the previously reported amounts for certain other items that were immaterial to the financial statements individually as well as in the aggregate.

The following table summarizes the effect of the adjustment on the Company's prior period consolidated financial statements:

| | <u>As Previously Reported</u> | <u>Effect of Adjustment</u> | <u>As Adjusted</u> |
|---|---------------------------------------|---------------------------------|------------------------|
| | (in thousands, except per share data) | | |
| <i>Statement of Operations for the year ended January 31, 2009:</i> | | | |
| Maintenance and other revenue | \$ 133,717 | \$ (637) | \$ 133,080 |
| Services revenue | 83,050 | (60) | 82,990 |
| Total revenue | 263,440 | (697) | 262,743 |
| Operating loss | (23,166) | (697) | (23,863) |
| Loss before income taxes | (22,734) | (697) | (23,431) |
| Income tax expense | 361 | (72) | 289 |
| Net loss | (23,095) | (625) | (23,720) |
| Per common share: | | | |
| Basic net loss per share | (0.75) | (0.02) | (0.77) |
| Diluted net loss per share | (0.75) | (0.02) | (0.77) |
| <i>Balance Sheet as of January 31, 2009:</i> | | | |
| Other current assets | 19,092 | 72 | 19,164 |
| Total current assets | 121,513 | 72 | 121,585 |
| Total assets | 193,673 | 72 | 193,745 |
| Deferred revenue | 80,695 | 697 | 81,392 |
| Total current liabilities | 124,536 | 697 | 125,233 |
| Accumulated deficit | (48,478) | (625) | (49,103) |
| Total stockholders' equity | 48,096 | (625) | 47,471 |
| Total liabilities and stockholders' equity | 193,673 | 72 | 193,745 |

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

2. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value using generally accepted accounting principles, and expands disclosures related to fair value measurements. Subsequent to the issuance of SFAS 157, the FASB issued FASB Staff Position ("FSP") 157-2 ("FSP 157-2"). FSP 157-2 delayed the effective date of the application of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Company adopted all of the provisions of SFAS 157 on February 1, 2008 with the exception of the application of the statement to non-recurring nonfinancial assets and nonfinancial liabilities. The Company adopted FSP 157-2 on February 1, 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"), which replaces FASB Statement No. 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date. The statement also establishes disclosure requirements which will enable financial statement users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008. The Company did not initiate any acquisitions during the six months ended July 31, 2009, but the requirements of SFAS 141R will apply to any acquisitions that the Company might commence subsequent to its adoption by the Company on February 1, 2009.

In April 2009, the FASB issued FSP FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" ("FSP 141(R)-1"). FSP 141 (R)-1 amends the guidance in SFAS 141R relating to the initial recognition and measurement, subsequent measurement and accounting, and disclosures of assets and liabilities arising from contingencies in a business combination. FSP 141 (R)-1 is effective for fiscal years beginning after December 15, 2008. The Company did not initiate any acquisitions during the six months ended July 31, 2009, but will apply the requirements of FSP FAS 141 (R)-1 to any acquisitions that the Company might commence subsequent to its adoption by the Company on February 1, 2009.

In April 2009, the FASB issued three related Staff Positions: (i) FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP FAS 157-4"), (ii) FSP FAS 115-2 and FSP FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("FSP FAS 115-2" and "FSP FAS 124-2"), and (iii) FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107-1" and "APB 28-1"), which will be effective for interim and annual periods ending after June 15, 2009. FSP FAS 157-4 provides guidance on how to determine the fair value of financial assets and liabilities under SFAS 157 in the current economic environment and reemphasizes that the objective of a fair value measurement remains an exit price. If there has been a significant decrease in the volume and level of activity of the asset or liability in relation to normal market activities, quoted market values may not be representative of fair value. As a result, a change in valuation technique or the use of multiple valuation techniques may be appropriate. FSP FAS 115-2 and FSP FAS 124-2 modify the requirements for recognizing other-than-temporarily impaired debt securities and revise the existing impairment model for such securities, by modifying the current intent and ability indicator in determining whether a debt security is other-than-temporarily impaired. FSP FAS 107-1 and APB 28-1 enhance the disclosure of instruments under the scope of SFAS 157 for both interim and annual periods. The Company adopted these Staff Positions on May 1, 2009.

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

2. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS 165"). The objective of this Statement is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This statement is effective for interim and annual financial periods ending after June 15, 2009. The adoption of SFAS 165 had no impact on the accompanying condensed consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162," which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this standard will change how the Company references various elements of GAAP when preparing its financial statement disclosures, but will have no impact on the Company's financial position, results of operation or cash flows.

3. COMPUTATION OF NET LOSS PER SHARE

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

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---------------------------------------|------------|------------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| | (in thousands, except per share data) | | | |
| Net loss | \$ (1,425) | \$ (1,433) | \$ (4,090) | \$ (2,163) |
| Weighted average shares of common stock outstanding — <i>basic</i> | 30,897 | 30,620 | 30,826 | 30,648 |
| Weighted average shares of common stock equivalents issued using the treasury stock method | — | — | — | — |
| Weighted average shares of common stock and common stock equivalents outstanding — <i>diluted</i> | 30,897 | 30,620 | 30,826 | 30,648 |
| Basic net loss per share | \$ (0.05) | \$ (0.05) | \$ (0.13) | \$ (0.07) |
| Diluted net loss per share | \$ (0.05) | \$ (0.05) | \$ (0.13) | \$ (0.07) |

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. The Company's unvested RSUs, stock options and SARs are not considered participating securities as they do not have rights to dividends or dividend equivalents prior to vesting or exercise. For the three and six months ended July 31, 2009, shares of potential common stock of approximately 6.2 million and 6.4 million, respectively, were not included in the diluted calculation because the effect would be anti-dilutive. For the three and six months ended July 31, 2008, shares of potential common stock of approximately 5.5 million and 4.4 million, respectively, were not included in the diluted calculation because the effect would be anti-dilutive.

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

4. COMPREHENSIVE LOSS

Comprehensive loss 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 were as follows:

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|--|--|-------------------|--------------------------------------|-------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | (in thousands) | | | |
| Net loss | \$ (1,425) | \$ (1,433) | \$ (4,090) | \$ (2,163) |
| Foreign currency translation adjustments | (1,327) | (17) | (1,977) | 300 |
| Comprehensive loss | <u>\$ (2,752)</u> | <u>\$ (1,450)</u> | <u>\$ (6,067)</u> | <u>\$ (1,863)</u> |

5. FAIR VALUE MEASUREMENTS

The following table sets forth the financial assets, measured at fair value, by level within the fair value hierarchy of SFAS 157 as of July 31, 2009:

| Description | Fair value measurement at reporting date using | | | Total |
|---------------------------|---|--|--|------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| | (in thousands) | | | |
| Money market mutual funds | \$ 24,285 | \$ — | \$ — | \$ 24,285 |
| Total | <u>\$ 24,285</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 24,285</u> |

Money market mutual funds are classified as part of "Cash and equivalents" in the accompanying Condensed Consolidated Balance Sheets. The amount of cash and cash equivalents as of July 31, 2009 includes \$16.3 million in cash deposited with commercial banks.

The carrying amounts of cash and equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturities of these instruments. The Company's line of credit bears a variable market interest rate, subject to certain minimum interest rates. Therefore, should the Company have any amounts outstanding under the line of credit, the carrying value of the line of credit would reasonably approximate fair value. The Company's note payable bears a fixed rate of 6.5%. The estimated fair value of the note payable was approximately \$17.7 million at July 31, 2009 and the carrying value was \$16.9 million. The estimated fair value of the note payable is based primarily on expected market prices for bank loans with similar terms and maturities.

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

6. CAPITALIZED SOFTWARE COSTS

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

| | July 31, 2009 | January 31, 2009 |
|--|--------------------------|-----------------------------|
| | (in thousands) | |
| Capitalized software costs: | | |
| Acquired software technology | \$ 9,084 | \$ 8,594 |
| Capitalized software development costs | <u>4,063</u> | <u>3,808</u> |
| | 13,147 | 12,402 |
| Less accumulated amortization | <u>(9,169)</u> | <u>(6,703)</u> |
| Capitalized software costs, net | <u>\$ 3,978</u> | <u>\$ 5,699</u> |

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

Amortization of capitalized software costs was \$1.1 million and \$2.1 million for the three and six months ended July 31, 2009, respectively. For the three and six months ended July 31, 2008, amortization of capitalized software costs was \$1.1 million and \$2.0 million, respectively. Capitalized software costs are amortized on a straight-line basis over the product's estimated useful life, which is typically three years. Amortization of capitalized software costs is included in "Cost of license fees" in the accompanying Condensed Consolidated Statements of Operations. The estimated remaining amortization expenses related to capitalized software costs for the years ended January 31, 2010, 2011 and 2012 are \$1.7 million, \$2.0 million and \$0.3 million, respectively.

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The changes in the carrying amounts of goodwill for the six months ended July 31, 2009, by segment, were as follows (segments are defined in note 13 "Business Segment Information" within these Notes to Condensed Consolidated Financial Statements):

| | North America | Asia Pacific | Latin America | Total |
|--|--------------------------|-------------------------|--------------------------|-----------------|
| | (in thousands) | | | |
| Balances, January 31, 2009 | \$ 4,734 | \$ 887 | \$ 616 | \$ 6,237 |
| Impact of foreign currency translation | <u>—</u> | <u>25</u> | <u>54</u> | <u>79</u> |
| Balances, July 31, 2009 | <u>\$ 4,734</u> | <u>\$ 912</u> | <u>\$ 670</u> | <u>\$ 6,316</u> |

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 2009 and recorded a \$14.4 million goodwill impairment charge related to its EMEA region. No impairment was determined related to the other regions.

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

7. GOODWILL AND INTANGIBLE ASSETS (Continued)

Intangible Assets

| | July 31, 2009 | January 31, 2009 |
|------------------------------------|--------------------------|-----------------------------|
| | (in thousands) | |
| Amortizable intangible assets: | | |
| Customer relationships | \$ 1,630 | \$ 1,534 |
| Trade name | 557 | 501 |
| Covenant not to compete | 155 | 135 |
| | <u>2,342</u> | <u>2,170</u> |
| Less accumulated amortization | (2,140) | (1,638) |
| Amortizable intangible assets, net | <u>\$ 202</u> | <u>\$ 532</u> |

Intangible assets are included in “Other assets, net” in the accompanying Condensed Consolidated Balance Sheets. As of July 31, 2009 and January 31, 2009, 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 \$0.3 million for the three and six months ended July 31, 2009. For the three and six months ended July 31, 2008, the aggregate amortization expense related to amortizable intangible assets was \$0.2 million and \$0.4 million, respectively. The estimated remaining amortization expense related to amortizable intangible assets for the years ended January 31, 2010 and 2011 is \$0.1 million and \$0.1 million, respectively. No additional amortization of these assets is estimated in fiscal 2012 and thereafter.

8. DEBT

| | July 31, 2009 | January 31, 2009 |
|-------------------------|--------------------------|-----------------------------|
| | (in thousands) | |
| Total debt: | | |
| Notes payable | \$ 16,853 | \$ 16,983 |
| Less current maturities | (275) | (266) |
| Long-term debt | <u>\$ 16,578</u> | <u>\$ 16,717</u> |

Notes Payable

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

8. DEBT (Continued)

The Facility provided that the Company 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 July 31, 2009, a prime rate borrowing would have had an effective rate of 3.00% and a 30-day LIBOR borrowing would have had an effective rate of approximately 1.03%.

Effective April 10, 2009, the Company executed an amendment to the Facility to amend the 12-month trailing EBITDA and fixed charge ratio covenants for future reporting periods. For the reporting period beginning February 1, 2009 through the expiration of the Facility, the minimum 12-month trailing EBITDA is reduced to \$5 million with the definition of EBITDA amended to exclude goodwill impairment charges which might arise under the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets". The minimum fixed charge ratio was amended to 1.3 to 1.0 for the period February 1, 2009 through October 31, 2009 and thereafter 1.5 to 1.0.

As of July 31, 2009, there were no borrowings under the Facility and the Company was in compliance with the financial covenants, as amended.

9. INCOME TAXES

The total amount of gross unrecognized tax benefits as of the period ending July 31, 2009 was \$2.9 million. The entire amount of unrecognized tax benefits will impact the effective tax rate if recognized. Under the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), the liability for unrecognized tax benefits is classified as long-term unless the liability is expected to conclude within twelve months of the reporting date. Due to potential settlements with both foreign and domestic tax authorities in the next twelve months related to certain tax credits and deductions, an estimated \$1.4 million of unrecognized tax benefits may be recognized during the next twelve month period.

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. Since adoption, the Company has accrued approximately \$0.3 million for the payment of interest and penalties relating to unrecognized tax benefits.

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 India for fiscal years ending 1999, 2000, 2006 and 2007, in France for fiscal years ending 2005 through 2008, in California for fiscal years ending 2004 and 2005, and Tennessee for fiscal years ending 2004 through 2007.

Historically, QAD has demonstrated that the earnings of its foreign subsidiaries are permanently reinvested. During this quarter, management has stated its intent to liquidate one of its foreign subsidiaries and repatriate its earnings. The Company is recognizing the income tax effect of this change from the indefinite reversal criterion in its income tax expense. The Company has not changed its intention to permanently reinvest the earnings of its other foreign subsidiaries.

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

10. STOCK-BASED COMPENSATION

The Company's equity awards consist of stock options, stock-settled SARs and RSUs. For a description of the Company's stock-based compensation plans, see Note 12 "Stock-Based Compensation" in Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended January 31, 2009.

The following table sets forth reported stock compensation expense for the three and six months ended July 31, 2009 and 2008:

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| | (in thousands) | | | |
| Stock-based compensation expense: | | | | |
| Cost of maintenance, service and other revenue | \$ 257 | \$ 320 | \$ 513 | \$ 613 |
| Sales and marketing | 223 | 421 | 440 | 808 |
| Research and development | 172 | 216 | 365 | 460 |
| General and administrative | 604 | 636 | 1,176 | 1,316 |
| Total stock-based compensation expense | \$ 1,256 | \$ 1,593 | \$ 2,494 | \$ 3,197 |

Net cash received from options and SARs exercised for the six months ended July 31, 2009 and 2008 was \$14,000 and \$435,000, respectively. There were no excess tax benefits recorded for equity awards exercised in the six months ended July 31, 2009 and 2008.

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

| | Six Months Ended July 31, | |
|-----------------------------|--------------------------------------|-------------|
| | 2009 | 2008 |
| Expected life in years (1) | 5.25 | 5.25 |
| Risk free interest rate (2) | 1.88% | 3.22% |
| Volatility (3) | 57% | 50% |
| Dividend rate (4) | 3.91% | 1.31% |

-
- (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 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)

10. STOCK-BASED COMPENSATION (Continued)

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

| | <u>Options/ SARs</u> (in thousands) | <u>Weighted Average Exercise Price per Share</u> | <u>Weighted Average Remaining Contractual Term</u> (years) | <u>Aggregate Intrinsic Value</u> (in thousands) |
|--|--|--|---|--|
| Outstanding at January 31, 2009 | 5,967 | \$ 7.99 | 4.9 | \$ 22 |
| Granted | 67 | 2.79 | | |
| Exercised | (5) | 3.05 | | |
| Expired | (292) | 7.94 | | |
| Forfeited | (206) | 7.93 | | |
| Outstanding at July 31, 2009 | <u>5,531</u> | \$ 7.94 | 3.9 | \$ 300 |
| Vested and expected to vest at July 31, 2009 (1) | <u>5,344</u> | \$ 7.95 | 3.9 | \$ 289 |
| Vested and exercisable at July 31, 2009 | <u>3,778</u> | \$ 8.09 | 3.3 | \$ 232 |

(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 July 31, 2009 and the exercise price for in-the-money options) that would have been received by the option holders if all options and SARs had been exercised on July 31, 2009.

The total intrinsic value of options exercised in both the three and six months ended July 31, 2009 was \$1,500. The total intrinsic value of options and SARs exercised in the three and six months ended July 31, 2008 was \$0.1 million and \$0.5 million, respectively. The weighted average grant date fair value per share of SARs granted in the three and six months ended July 31, 2009 was \$1.34 and \$1.05, respectively. The weighted average grant date fair value per share of SARs granted in the three and six months ended July 31, 2008 was \$3.27 and \$3.29, respectively. At July 31, 2009, there was approximately \$4.4 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 1.0 year.

The estimated fair value of 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.

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

10. STOCK-BASED COMPENSATION (Continued)

The following table summarizes the activity for RSUs for the six months ended July, 31 2009:

| | <u>RSUs</u> <u>(in thousands)</u> | <u>Weighted Average Grant Date Fair Value</u> |
|---|--------------------------------------|---|
| Restricted stock at January 31, 2009 | 747 | \$ 6.39 |
| Granted | 100 | 2.65 |
| Vested (1) | (134) | 7.17 |
| Forfeited | (6) | 7.03 |
| Restricted stock at July 31, 2009 | <u>707</u> | <u>\$ 5.71</u> |
| Restricted stock expected to vest as of July 31, 2009 (2) | <u>637</u> | <u>\$ 6.33</u> |

(1) The number of RSUs vested includes shares withheld on behalf of employees to satisfy statutory tax withholding requirements.

(2) RSUs expected to vest are net of estimated future forfeitures.

Total unrecognized compensation cost related to RSUs was approximately \$3.7 million as of July 31, 2009. This cost is expected to be recognized over a period of approximately 2.7 years.

11. STOCKHOLDERS' EQUITY

Cash or Stock Dividend

On May 6, 2009, the Company's Board of Directors declared a quarterly dividend of \$0.025 per share of common stock payable on July 3, 2009 to shareholders of record at the close of business on June 2, 2009. The dividend was payable in either cash or shares of the Company's common stock, at the election of each shareholder. Based on the shareholder election, the Company paid \$0.2 million in cash and issued 180,000 shares.

On June 11, 2009, the Company's Board of Directors declared a quarterly dividend of \$0.025 per share of common stock payable on October 8, 2009 to shareholders of record at the close of business on August 28, 2009. QAD will pay its quarterly dividend in either cash or shares of the Company's common stock, at the election of each shareholder.

12. 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.

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

12. COMMITMENTS AND CONTINGENCIES (Continued)

Legal Actions

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

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

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

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. The Corporate component of operating income (loss) represents research and development costs and income from manufacturing operations. Property and equipment, net, are assigned by geographic region based upon the location of each legal entity.

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|------------------------------|--------------------------------|-------------------|------------------------------|-------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | (in thousands) | | (in thousands) | |
| Revenue: | | | | |
| North America ⁽¹⁾ | \$ 21,933 | \$ 29,997 | \$ 46,401 | \$ 58,299 |
| EMEA | 16,700 | 21,948 | 33,492 | 43,303 |
| Asia Pacific | 9,539 | 13,206 | 19,579 | 25,339 |
| Latin America | 3,138 | 4,362 | 6,836 | 9,410 |
| | <u>\$ 51,310</u> | <u>\$ 69,513</u> | <u>\$ 106,308</u> | <u>\$ 136,351</u> |
| Operating income (loss): | | | | |
| North America | \$ 1,953 | \$ 2,594 | \$ 4,797 | \$ 5,740 |
| EMEA | 146 | (403) | (242) | (688) |
| Asia Pacific | 419 | 1,130 | 1,102 | 2,182 |
| Latin America | (326) | (501) | (205) | (258) |
| Corporate | (4,312) | (5,722) | (10,114) | (10,841) |
| | <u>\$ (2,120)</u> | <u>\$ (2,902)</u> | <u>\$ (4,662)</u> | <u>\$ (3,865)</u> |

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

13. BUSINESS SEGMENT INFORMATION (Continued)

| | July 31, 2009 | January 31, 2009 |
|------------------------------|--------------------------|-----------------------------|
| | (in thousands) | |
| Property and equipment, net: | | |
| North America | \$ 32,784 | \$ 34,580 |
| EMEA | 4,865 | 4,731 |
| Asia Pacific | 1,489 | 1,704 |
| Latin America | 422 | 423 |
| | <u>\$ 39,560</u> | <u>\$ 41,438</u> |

(1) Sales into Canada accounted for 5% and 4% of North America total revenue in the three and six months ended July 31, 2009 and for 4% and 3% of North America total revenue for the three and six months ended July 31, 2008.

14. RESTRUCTURING CHARGES

Restructuring charges for the three and six months ended July 31, 2009 were as follows:

| | Three Months Ended July 31, 2009 | Six Months Ended July 31, 2009 |
|---|---|---|
| | (in thousands) | |
| Cost of maintenance, services and other revenue | \$ 322 | \$ 734 |
| Sales and marketing | 367 | 657 |
| Research and development | 468 | 554 |
| General and administrative | 287 | 318 |
| Total restructuring charges | <u>\$ 1,444</u> | <u>\$ 2,263</u> |

Q4 Fiscal 2009 Restructuring Plan

In the fourth quarter of fiscal 2009, the Company initiated a restructuring program in order to reduce operating costs. This program reduced the number of employees by approximately 145 full-time positions globally. In connection with this restructuring plan, the Company recorded restructuring charges totaling \$3.4 million related to one-time termination benefits for the elimination of approximately 110 of these full-time positions during the fourth quarter of fiscal 2009. During the first quarter of fiscal 2010, an additional \$0.8 million of severance expense was recognized related to one-time termination benefits for the elimination of the remaining 15 employees identified in Q4 fiscal 2009 and an additional 20 employees identified in Q1 fiscal 2010. Charges associated with these one-time termination benefits have been recorded in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Related to this restructuring plan, the Company paid \$0.5 million in the fourth quarter of fiscal 2009 and \$3.5 million in the first six months of fiscal 2010. As of July 31, 2009, there was approximately \$0.2 million accrued related to the Q4 fiscal 2009 cost reduction initiatives. This amount is related to employee severance pay and related expenses which the Company expects to substantially pay during fiscal 2010.

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

14. RESTRUCTURING CHARGES (Continued)

Q2 Fiscal 2010 Restructuring Plan

In May 2009, the Company took further cost cutting actions which resulted in additional severance expense of approximately \$1.5 million in the second quarter of fiscal 2010. The number of employees was reduced by approximately 80 full-time positions. As of July 31, 2009, a total of \$1.3 million was paid related to the plan. As of July 31, 2009, there was \$0.2 million accrued related to the Q2 fiscal 2010 cost reduction initiatives. This amount is related to employee severance pay and related expenses which the Company expects to substantially pay during fiscal 2010.

Restructuring Accruals

The activity in the Company's restructuring accrual for the six months ended July 31, 2009 is summarized as follows:

| | Q4 Fiscal 2009 Restructuring Plan | Q2 Fiscal 2010 Restructuring Plan | Total |
|---|--|--|---------------|
| | | (in thousands) | |
| Balance as of January 31, 2009 | \$ 2,872 | \$ — | \$ 2,872 |
| Employee severance pay and related expenses | 819 | 1,496 | 2,315 |
| Cash paid | (3,524) | (1,264) | (4,788) |
| Reversal of previous charges | (52) | — | (52) |
| Impact of foreign currency translation | 28 | 4 | 32 |
| Balance as of July 31, 2009 | <u>\$ 143</u> | <u>\$ 236</u> | <u>\$ 379</u> |

If revenue should continue to decline significantly, the Company will continue to further reduce operating expenses to align them with economic conditions, and possibly could engage in a further restructuring. In taking these actions, the Company may incur additional costs which could negatively impact net income and cash flows from operating activities.

15. SUBSEQUENT EVENT

The Company performed an evaluation of subsequent events through September 10, 2009, the date the financial statements were issued. Based on this review, certain items were identified that required disclosure in these notes to condensed consolidated financial statements, as noted below.

On August 12, 2009, the Company completed a one-time Stock Option and Stock Appreciation Right Exchange Program (the "Program"). Pursuant to the terms of the Program, eligible participants were able to exchange outstanding stock options and SARs granted under QAD's 1997 and 2006 Stock Incentive Programs with a per share exercise price above the fair market value of QAD common stock as of the first business day following the close of the exchange offer period, for a reduced number of SARs at a per share exercise price equal to the fair market value of the Company's common stock on August 13, 2009, the date of issuance of the new SARs.

Stock options and SARs to purchase 3,378,161 shares of the Company's common stock were tendered and accepted in the exchange offer, which expired August 12, 2009. These surrendered equity awards represent 79% of the total shares subject to equity awards eligible for exchange in the exchange offer at the beginning of the offer period or 85% of the total shares subject to equity awards eligible for exchange in the exchange offer at the close of the offer period. The surrendered equity awards were cancelled as of August 13, 2009. In exchange for these surrendered equity awards, new SARs to purchase 1,539,372 shares of the Company's common stock were issued at an exercise price of \$3.91. A total of 1,838,789 shares went back into the pool of shares available for issuance. The Company does not expect to record any incremental stock compensation expense as a result of the Program.

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, 2009. 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 ("SEC").

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, 2009, and the Condensed Consolidated Financial Statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

OVERVIEW

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

Total revenue during the second quarter of fiscal 2010 was \$51.3 million, down from \$69.5 million in the same period of fiscal 2009. We experienced decreases in all revenue categories: 41% in license revenue, 7% in maintenance and other revenue and 47% in services revenue. Total revenue during the first six months of fiscal 2010 was \$106.3 million, down from \$136.4 million in the same period of fiscal 2009. We experienced decreases in all revenue categories: 45% in license revenue, 5% in maintenance and other revenue and 36% in services revenue.

Overall gross margin was 57% for the second quarter of fiscal 2010, compared to 53% for the same prior year quarter, up primarily due to changes in revenue mix. For the first six months of fiscal 2010, overall gross margin was 55%, relatively consistent with 54% for the same prior year period.

Cash flows from operations were \$12.3 million for the first six months of fiscal 2010, compared to \$7.1 million in the same period of fiscal 2009. The increase in cash flows from operations was primarily due to an increase in cash collections in excess of billings on our accounts receivable and the positive effect of the change in deferred revenue, partially offset by higher payments for severance.

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

CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

Accounts Receivable Allowances. We review the collectibility of our accounts receivable each period by analyzing balances based on age and record specific allowances for any balances that we determine may not be fully collectible due to inability of the customers to pay. We also provide an additional reserve based on historical data including analysis of write-offs and other known factors. The allowance for sales adjustments primarily relates to reserves required to adjust revenue to the amount that will actually be realized. Provisions to the allowance for doubtful accounts are included in bad debt expense in general and administrative expense and provisions for sales adjustments are recorded against revenue. Bad debt expense recorded in the second quarter of fiscal 2010 was \$1.1 million and for the first six months of fiscal 2010 was \$1.3 million. The economic downturn has affected our customer base, as it is focused in manufacturing and, in particular, the automotive supplier industry. Therefore, we are closely monitoring our receivable balances. Significant judgment is required in adjusting our receivables to amounts we believe are realizable, especially when a customer is experiencing financial difficulty or is in bankruptcy. Although we use the best information available in making our estimates, we may incur additional bad debt expense in future periods which could have a material effect on earnings in any given quarter should additional allowances for doubtful accounts be necessary.

Goodwill and Intangible Assets. Goodwill and other intangible assets at July 31, 2009 were \$6.3 million and \$0.2 million, respectively, and accounted for 4% of our total assets. All of our goodwill and intangible assets have been accounted for under the provisions of SFAS No. 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 No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144").

Goodwill is tested for impairment at least annually utilizing an "income approach" methodology, which utilizes a discounted cash flow method to determine the fair value of the reporting unit based on the present value of future benefits the reporting unit is expected to generate, and the "publicly-traded guideline company method" or "market approach," which utilizes financial and valuation ratios of publicly traded companies that are comparable to QAD to determine if our valuation ratios are a fair measure of QAD's enterprise value. In assessing the recoverability of goodwill, 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 7 "Goodwill and Intangible Assets" within the Notes to Condensed Consolidated Financial Statements.

We are currently evaluating the manner in which the results of the Company's operations are evaluated. Previously, operating results have been reviewed based on geographic segments. However, due to the continued global nature of our business and the interdependency of revenues across geographic regions, the importance of operating results by region are being reconsidered. In a future period, we may decide to revise our reporting segments and reporting units. If such a revision occurs, we will adjust our prior period segment financial information to conform to the revised presentation.

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 7 "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. SFAS No. 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 July 31, 2009, we had \$27.3 million of deferred tax assets net of valuation allowance. This balance consisted of \$37.4 million of gross deferred tax assets offset by a \$10.1 million valuation allowance. 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 decrease of valuation allowances recorded in the second quarter of fiscal 2010 of \$0.8 million. This was due to an increase in net income and the impact of foreign currency fluctuations in our valued entities. In the future, if we determine that some or all of the net deferred tax assets will not be realizable, an adjustment to the valuation allowance applied against the deferred tax assets will be made that will increase tax expense in the period of determination.

Tax Contingency Reserves. Effective February 1, 2007, we adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109” (“FIN 48”). Under FIN 48, we recognize a tax position when we determine that it is more likely than not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions that are more likely than not to be sustained, we measure the tax position at the largest amount of benefit that has a greater than 50 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”. 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 July 31, | | Six Months Ended July 31, | |
|--|--------------------------------|------|------------------------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenue: | | | | |
| License fees | 13% | 16% | 12% | 17% |
| Maintenance and other | 63 | 50 | 61 | 50 |
| Services | 24 | 34 | 27 | 33 |
| Total revenue | 100 | 100 | 100 | 100 |
| Costs and expenses: | | | | |
| Cost of license fees | 3 | 4 | 3 | 4 |
| Cost of maintenance, service and other revenue | 40 | 43 | 42 | 42 |
| Sales and marketing | 25 | 29 | 25 | 28 |
| Research and development | 18 | 16 | 19 | 16 |
| General and administrative | 18 | 12 | 16 | 13 |
| Amortization of intangibles from acquisitions | — | — | — | — |
| Total costs and expenses | 104 | 104 | 105 | 103 |
| Operating loss | (4) | (4) | (5) | (3) |
| Other expense (income) | — | — | — | — |
| Loss before income taxes | (4) | (4) | (5) | (3) |
| Income tax benefit | (1) | (2) | (1) | (1) |
| Net loss | (3)% | (2)% | (4)% | (2)% |

Comparison of revenues

Total Revenue. Total revenue for the second quarter of fiscal 2010 was \$51.3 million, a decrease of \$18.2 million or 26%, from \$69.5 million in the second quarter of fiscal 2009. Holding foreign currency exchange rates constant to those prevailing in the second quarter of fiscal 2009, total revenue for the current quarter would have been approximately \$54.3 million or \$15.2 million lower when compared to the same period last year. The unfavorable currency impact of approximately \$3.0 million for the second quarter of fiscal 2010 related mainly to fluctuations in the euro, Australian dollar and British pound. When comparing categories within total revenue at constant rates, our current quarter results included a decrease in license, maintenance and other and services revenue. Revenue outside the North America region as a percentage of total revenue was consistent at 57% for both the second quarter of fiscal 2010 and the second quarter of fiscal 2009. Revenue decreased across all geographic regions during the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009. Our products are sold to manufacturing companies that operate mainly in the following six industries: automotive, consumer products, food and beverage, high technology, industrial products and life sciences. Given the similarities between food and beverage and consumer products as well as between high technology and industrial products, we aggregate them for management review. Our second quarter fiscal 2010 revenue by industry was approximately 25% in automotive, 27% in consumer products and food and beverage, 35% in high technology and industrial products and 13% in life sciences. In comparison to the revenue by industry in the prior year, the automotive industry decreased.

Total revenue for the six months ended July 31, 2009 was \$106.3 million, a decrease of \$30.1 million, or 22%, from \$136.4 million over the same period of fiscal 2008. Holding foreign currency exchange rates constant to those applicable in the same period of fiscal 2009, total revenue for the six months ended July 31, 2009 would have been approximately \$113.9 million, or \$22.5 million lower when compared to the same period last year. The unfavorable currency impact of approximately \$7.6 million for the six months ended July 31, 2009 related to fluctuations in the euro, Australian dollar, British pound, Polish zloty and Brazilian real. When comparing categories within total revenue at constant rates, our first six months results included lower revenue across all revenue categories. Revenue outside the North America region as a percent of total revenue was relatively consistent at 56% and 57% for the six months ended July 31, 2009 and 2008, respectively. When comparing the six months ended July 31, 2009 to the same period ended July 31, 2008, revenue decreased across all our geographic regions. Revenue by industry for the first half of fiscal 2010 was approximately 27% in automotive, 35% in consumer products and food and beverage, 25% in high technology and industrial products and 13% in life sciences. In comparison to the revenue by industry in the prior year, the automotive and high technology and industrial products industries decreased.

License Revenue. License revenue was \$6.7 million for the second quarter of fiscal 2010, down \$4.7 million, or 41%, from \$11.4 million in the second quarter of fiscal 2009. Holding foreign currency exchange rates constant to those prevailing in the second quarter of fiscal 2009, license revenue for the current quarter would have been approximately \$7.0 million, representing a \$4.4 million, or 39%, decrease from the same period last year. We experienced decreases in license revenue across all our geographic regions during the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009. 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 second quarter of fiscal 2010, one customer placed a license order totaling more than \$0.3 million. No orders exceeded \$1.0 million. This compared to the second quarter of fiscal 2009 in which six customers placed license orders totaling more than \$0.3 million of which one order exceeded \$1.0 million. Discounts associated with license revenue increased in the second quarter of fiscal 2010 when compared to license discounts in the second quarter of fiscal 2009. The increase in license discounts relates to the license order during the second quarter of fiscal 2010 which was greater than \$0.3 million. Excluding that order, license discounts have remained consistent in the second quarter of fiscal 2010 when compared to the second quarter of fiscal 2009.

License revenue was \$12.9 million for the six months ended July 31, 2009, a decrease of \$10.5 million, or 45%, from \$23.4 million for the six months ended July 31, 2008. Holding foreign currency exchange rates constant to fiscal 2009, license revenue for the current six-month period would have been approximately \$13.8 million, representing a \$9.6 million, or 41%, decrease from the same period last year. In comparing the year-to-date results as of July 31, 2009 with the year-to-date results as of July 31, 2008, we experienced decreases in license revenue across all our geographic regions. During the six months ended July 31, 2009, two customers placed license orders totaling more than \$0.3 million. No orders exceeded \$1.0 million. This is compared to eight customers who placed license orders totaling more than \$0.3 million in the six months ended July 31, 2008, two of which exceeded \$1.0 million. For the six months ended July 31, 2009, discounts granted to customers for software licenses were higher when compared to the same period in the prior year. The increase in license discounts relates to the license order during the second quarter of fiscal 2010 which was greater than \$0.3 million. Excluding that order, license discounts have remained consistent in the first half of fiscal 2010 when compared to the same period in fiscal 2009.

Maintenance and Other Revenue. Maintenance and other revenue was \$32.1 million for the second quarter of fiscal 2010, representing a decrease of \$2.4 million, or 7%, from \$34.5 million for the second quarter of fiscal 2009. Holding foreign currency exchange rates constant to those prevailing in the second quarter of fiscal 2009, the second quarter fiscal 2010 maintenance and other revenue would have been approximately \$33.5 million, representing a \$1.0 million, or 3%, decrease when compared to the second quarter of fiscal 2009. The \$1.0 million non-currency related decrease in maintenance and other revenue was primarily due to a few customers for whom we have deferred our recognition of revenue as a result of the customers entering into bankruptcy. Future revenue related to these customers will be recognized upon cash collection. Maintenance and other revenue decreased across all our geographic regions during the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009.

Maintenance and other revenue was \$65.0 million for the six months ended July 31 2009, representing a decrease of \$3.7 million, or 5%, from \$68.7 million over the same period ended July 31, 2008. When we hold exchange rates constant to those prevailing in the same period of fiscal 2009, maintenance and other revenue for the current six-month period would have been approximately \$68.5 million. The non-currency related decrease of \$0.2 million related to a decrease in hosting revenue. Maintenance and other revenue decreased across all our geographic regions primarily as a result of foreign currency fluctuations.

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 six months ended July 31, 2009 and 2008 was in excess of 90%.

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Services Revenue. Services revenue was \$12.5 million for the second quarter of fiscal 2010, representing a decrease of \$11.1 million, or 47%, when compared to the same period last year at \$23.6 million. Holding foreign currency exchange rates constant to those prevailing in the second quarter of fiscal 2009, services revenue for the second quarter of fiscal 2010 would have been approximately \$13.7 million, reflecting a \$9.9 million, or 42%, decrease from the same period last year. We experienced decreases in services revenue across all our geographic regions in the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009. The decrease in services revenue quarter over quarter was primarily attributed to a large engagement in the automotive sector that was scaled back in the fourth quarter of fiscal 2009 as well as engagements in which we were recognizing a lower amount of services revenue per customer per quarter, which we believe is a result of lower license revenue over the recent quarters and customer decisions to extend or delay their implementations, upgrades or other ongoing services projects.

Services revenue was \$28.4 million for the six months ended July 31, 2009. This represents a decrease of \$15.9 million, or 36%, when compared to services revenue of \$44.3 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 six months of fiscal 2010 would have been approximately \$31.7 million, reflecting a \$12.6 million, or 28%, decrease from the same period last year. When comparing the first half of fiscal 2010 to the same period in fiscal 2009, services revenue decreased across all our geographic regions. The decrease in services revenue period over period was primarily attributed to a large engagement in the automotive sector that was scaled back in the fourth quarter of fiscal 2009 as well as engagements in which we were recognizing a lower amount of services revenue per customer per quarter, which we believe is a result of lower license revenue over the recent quarters and customer decisions to extend or delay their implementations, upgrades or other ongoing services projects.

Comparison of costs and expenses

Restructuring

Restructuring charges for the three and six months ended July 31, 2009 were as follows:

| | Three Months Ended July 31, 2009 | Six Months Ended July 31, 2009 |
|---|---|---|
| | (in thousands) | |
| Cost of maintenance, services and other revenue | \$ 322 | \$ 734 |
| Sales and marketing | 367 | 657 |
| Research and development | 468 | 554 |
| General and administrative | 287 | 318 |
| Total restructuring charges | \$ 1,444 | \$ 2,263 |

Q4 Fiscal 2009 Restructuring Plan

In the fourth quarter of fiscal 2009, we initiated a restructuring program in order to reduce operating costs. This program reduced the number of employees by approximately 145 full-time positions globally. In connection with this restructuring plan, we recorded restructuring charges totaling \$3.4 million related to one-time termination benefits for the elimination of approximately 110 of these full-time positions during the fourth quarter of fiscal 2009. During the first quarter of fiscal 2010, an additional \$0.8 million of severance expense was recognized related to one-time termination benefits for the elimination of the remaining 15 employees identified in Q4 fiscal 2009 and an additional 20 employees identified in Q1 fiscal 2010. Charges associated with these one-time termination benefits have been recorded in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Related to this restructuring plan, we paid \$0.5 million in the fourth quarter of fiscal 2009 and \$3.5 million in the first six months of fiscal 2010. As of July 31, 2009, there was approximately \$0.2 million accrued related to the Q4 fiscal 2009 cost reduction initiatives. This amount is related to employee severance pay and related expenses which we expect to substantially pay during fiscal 2010.

Q2 Fiscal 2010 Restructuring Plan

In May 2009, we took further cost cutting actions which resulted in additional severance expense of approximately \$1.5 million in the second quarter of fiscal 2010. The number of employees was reduced by approximately 80 full-time positions. As of July 31, 2009, a total of \$1.3 million was paid related to the plan. As of July 31, 2009, there was \$0.2 million accrued related to the Q1 fiscal 2010 cost reduction initiatives. This amount is related to employee severance pay and related expenses which we expect to substantially pay during fiscal 2010.

Restructuring Accruals

The activity in the Company's restructuring accrual for the six months ended July 31, 2009 is summarized as follows:

| | Q4 Fiscal 2009 Restructuring Plan | Q2 Fiscal 2010 Restructuring Plan (in thousands) | Total |
|---|---|---|---------------|
| Balance as of January 31, 2009 | \$ 2,872 | \$ — | \$ 2,872 |
| Employee severance pay and related expenses | 819 | 1,496 | 2,315 |
| Cash paid | (3,524) | (1,264) | (4,788) |
| Reversal of previous charges | (52) | — | (52) |
| Impact of foreign currency translation | 28 | 4 | 32 |
| Balance as of July 31, 2009 | <u>\$ 143</u> | <u>\$ 236</u> | <u>\$ 379</u> |

If our revenue should continue to decline significantly we will continue to further reduce our operating expenses to align them with economic conditions, and possibly could engage in a further restructuring. In taking these actions, we may incur additional costs which could negatively impact our net income and cash flows from operating activities.

Total Cost of Revenue. Total cost of revenue (combined cost of license fees and cost of maintenance, service and other revenue) for the second quarter was \$22.2 million for fiscal 2010 and \$32.5 million for fiscal 2009, and as a percentage of total revenue was 43% for the second quarter of fiscal 2010 and 47% for the second quarter of fiscal 2009. Holding foreign currency exchange rates constant to those prevailing during the second quarter of fiscal 2009, total cost of revenue for the second quarter of fiscal 2010 would have been approximately \$1.5 million higher at \$23.7 million and the cost of revenue percentage would have been 44%, reflecting a 1% positive foreign exchange effect in our margins. Changes in the cost of revenue as a percentage of total revenue were primarily due to lower services revenue in the overall revenue mix. Since services revenue has lower margins, the overall cost of revenue percentage decreased. The non-currency related decrease in cost of revenue of \$8.8 million was primarily due to lower third party contractor expense of \$2.7 million, lower services salaries and related expenses of \$2.5 million, primarily as a result of lower headcount of approximately 80 people, and lower travel expense of \$1.7 million.

Total cost of revenue for the six months ended July 31, 2009 decreased \$14.4 million to \$48.0 million from \$62.4 million for the six months ended July 31, 2008. As a percentage of total revenue, total cost of revenue decreased to 45% for the six months ended July 31, 2009 from 46% in the same period of fiscal 2009. Holding foreign currency exchange rates constant to those prevailing during the same period last year, total cost of revenue for the six months ended July 31, 2009 would have been approximately \$3.9 million higher at \$51.9 million, and as a percent of revenue would have been 46%, reflecting a 1% positive foreign exchange effect in our margin. Cost of revenues for the first six months of fiscal 2010 when compared to the same period in fiscal 2009 was favorably impacted by the change in revenue mix of increased maintenance and other revenue and lower services revenue. Since margins related to maintenance and other revenue are higher than the margins related to services revenue, the overall cost of revenue percentage decreased. The favorable change in revenue mix was offset by lower margin of maintenance, service and other revenue when compared to the same period in the prior year. The non-currency related decrease in cost of revenue of \$10.5 million was primarily due to lower third party contractor expense of \$3.8 million, lower services salaries and related expenses of \$2.4 million, primarily as a result of lower headcount of approximately 80 people, and lower travel expense of \$2.6 million.

Sales and Marketing. Sales and marketing expense decreased \$7.2 million, or 36%, to \$12.7 million for the second quarter of fiscal 2010 from \$19.9 million in the comparable prior year period. Holding foreign currency exchange rates constant to those prevailing in the second quarter of fiscal 2009, current quarter expense would have decreased approximately \$6.3 million, or 32%, to \$13.6 million when compared with the same period last year. The decrease in sales and marketing expense was primarily due to lower personnel costs of \$3.2 million related primarily to lower salaries, bonuses and commissions as a result of approximately 75 fewer employees and lower travel expense of \$1.1 million. In addition, we did not hold our annual Explore customer event this year. We incurred \$0.9 million of expense related to the Explore event in the second quarter of fiscal 2009.

Sales and marketing expense decreased \$11.5 million, or 30%, to \$26.6 million in the six months ended July 31, 2009 from \$38.1 million in the same period of the previous year. Holding foreign currency exchange rates constant to the first half of the prior year, sales and marketing expense would have been approximately \$9.2 million, or 24%, lower at \$28.9 million. The decrease in sales and marketing expense in the six months ended July 31, 2009 compared to the same period of last year was primarily due to lower personnel costs of \$4.4 million primarily related to lower salaries, bonuses and commissions as a result of approximately 75 fewer employees, lower travel expense of \$1.6 million, lower expenses associated with our Explore and Sales Workshop events of \$1.2 million, lower marketing expense of \$0.6 million, lower sales agent fees of \$0.5 million and lower stock compensation expense of \$0.4 million.

Research and Development. Research and development expense, which is managed on a global basis, decreased \$2.0 million, or 18%, to \$9.3 million for the second quarter of fiscal 2010, when compared to the same quarter last year at \$11.3 million. Holding foreign currency exchange rates constant to those prevailing in the second quarter of fiscal 2009, current quarter expense would have been approximately \$1.6 million, or 14%, lower at \$9.7 million. The decrease in expenses when comparing the second quarter of fiscal 2010 to the same quarter of the previous year was primarily due to a \$1.0 million decrease in salaries and related expenses primarily as a result of 35 fewer employees, lower travel expense of \$0.4 million and lower bonuses of \$0.3 million. These decreases in research and development expense were partially offset by higher severance charges of \$0.4 million related to the reduction in workforce plan.

For the six months ended July 31, 2009, research and development expense decreased \$2.7 million, or 12%, to \$19.7 million from \$22.4 million during the same period last year. Holding foreign currency exchange rates constant to fiscal 2009, fiscal 2010 research and development expense would have been approximately \$1.7 million, or 8%, lower at \$20.7 million. The decrease in research and development expenses when comparing the first half of fiscal 2010 to the same period of the previous year was primarily due to a decrease in salaries and related expenses of \$1.1 million as a result of 35 fewer employees, lower travel expense of \$0.7 million and lower bonuses of \$0.3 million. These decreases in research and development expense were partially offset by lower joint development income of \$0.4 million and higher severance charges of \$0.2 million.

General and Administrative. General and administrative expense increased \$0.4 million, or 5%, to \$9.0 million for the second quarter of fiscal 2010 from the same quarter last year at \$8.6 million. Holding foreign currency exchange rates constant to those prevailing in the second quarter of fiscal 2009, current quarter general and administrative expense would have been approximately \$9.5 million, representing an increase of \$0.9 million, or 10%. The increase from fiscal 2009 to fiscal 2010 was primarily due to higher bad debt expense of \$1.1 million primarily related to three customers who entered into bankruptcy.

For the six months ended July 31, 2009, general and administrative expense decreased \$0.5 million, or 3%, to \$16.4 million from the same period last year at \$16.9 million. Holding foreign currency exchange rates constant to fiscal 2009, fiscal 2010 general and administrative expense would have been approximately \$17.4 million, representing an increase of \$0.5 million, or 3%. The increase from fiscal 2009 to fiscal 2010 was primarily due to higher bad debt expense of \$1.3 million and higher severance charges of \$0.3 million partially offset by lower travel expense of \$0.4 million, lower bonuses of \$0.2 million and lower subscriptions of \$0.2 million mainly related to on-line employee training.

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 six months ended July 31, 2009 and 2008, amortization of intangible assets from acquisitions was \$0.3 million and \$0.4 million, respectively, and primarily related to intangible assets acquired from our fiscal 2007 acquisitions.

Other Expense (Income). Net other expense (income) was \$(0.2) million and breakeven for the second quarter of fiscal 2010 and 2009, respectively. The \$0.2 million favorable change primarily related to \$0.5 million higher exchange gains partially offset by \$0.3 million less interest income in the current quarter. Interest income decreased due to both lower interest rates and lower balances of cash and equivalents available for investment.

Net other expense was \$0.2 million during both the six month periods ended July 31, 2009 and 2008. When we compare fiscal 2010 to fiscal 2009, lower exchange losses of \$0.5 million were offset by lower interest income of \$0.5 million related to both lower interest rates and lower balances of cash and equivalents available for investment.

Income Tax Benefit. We recorded income tax expense (benefit) of \$(0.5) million and \$(1.4) million for the three months ended July 31, 2009 and 2008, respectively. Our effective tax rate decreased to 27% for the second quarter of fiscal 2010 compared to 50% for the same period in the prior year. Projected full year pre-tax income at July 31, 2009 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 six months ended July 31, 2009. The components used to calculate the rate are consistent with prior quarters. The lower income tax rate (resulting in a lower income tax benefit) is primarily due to the impact of significant discrete items which include our stock option tax deduction being less than our stock based compensation expense and the intention to repatriate earnings as a result of a planned liquidation of one of our subsidiaries.

We recorded income tax expense (benefit) of \$(0.8) million and \$(1.9) million for the first six months of fiscal 2010 and 2009, respectively. Our income tax rate decreased to 16% from 47% for the same period in the prior year. The components used to calculate the rate are consistent with prior quarters. The lower income tax rate for the first six months of the current year (resulting in a lower income tax benefit) as compared to the first six months of the prior year is primarily due to the impact of significant discrete items which include our stock option tax deduction being less than our stock based compensation expense and the intention to repatriate earnings of one of our subsidiaries. In addition, the rate for the same period in the prior year was higher due to tax rate changes in our foreign jurisdictions.

LIQUIDITY AND CAPITAL RESOURCES

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

During the first six months of fiscal 2010 we have focused on reducing expenses and conserving cash. Headcount is down over 200 people, or approximately 15%, when compared to July 31, 2008. We saved over \$4 million in non-billable travel expenses in the first half of fiscal 2010 compared to the first half of fiscal 2009. We made only critical capital expenditures during the first half of fiscal 2010 and, as a result, capital expenditures have decreased \$2.4 million from the first half of the prior fiscal year. Finally, we modified our dividend program to give investors the choice of a stock dividend or cash dividend payment, and because holders of a majority of our shares chose a stock dividend, we were able to conserve cash. As a result of our focus on reducing expenses and conserving cash, our cash balance has increased from \$31.5 million as of January 31, 2009 to \$40.6 million as of July 31, 2009 despite a reduction in revenues.

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At July 31, 2009, our principal sources of liquidity were cash and cash equivalents totaling \$40.6 million and net accounts receivable of \$40.6 million. At July 31, 2009, our cash and cash equivalents consisted of current bank accounts, registered money market funds and time delineated deposits. We had no investments in securities with an underlying exposure to sub-prime mortgages nor did we hold auction rate notes or similar securities. Approximately 60% of our cash and cash equivalents were held in U.S. dollar denominated accounts as of July 31, 2009 and January 31, 2009. We have a U.S. line of credit facility that permits unsecured short-term borrowings of up to \$20 million. Our line of credit agreement contains customary covenants that could restrict our ability to incur additional indebtedness or make dispositions of assets if we fail to comply with them. Our line of credit is available for working capital or other business needs. We have not drawn down on the line of credit during any of the last three fiscal years nor do we expect to draw down on the line of credit during fiscal 2010. The facility expires in April 2011.

Our primary commercial banking relationship is with Bank of America and its global affiliates. Our cash and cash equivalents are held by diversified financial institutions globally, and as of July 31, 2009 the portion of our cash and cash equivalents held by Bank of America is approximately 60%.

Net cash flows provided by operating activities was \$12.3 million for the first six months of fiscal 2010 and was primarily comprised of our net loss offset by cashflow from accounts receivable and the effect of non-cash expenses associated with depreciation and amortization and stock compensation expense. The primary working capital source of cash was a decrease in accounts receivable. The decrease in accounts receivable relates primarily to collections in addition to reduced billings in the first half of fiscal 2010 due to a decline in license and services revenue. The primary working capital use of cash was a decrease in deferred revenue and a decrease in accounts payable and accrued expenses primarily due to lower accrued employee bonuses, commissions and severance.

During the first half of fiscal 2010, we made \$4.8 million of severance payments related to our restructuring plans. We expect to pay an additional \$0.4 million over the remaining fiscal 2010 related to the plans.

Capital expenditures decreased to \$0.5 million in the first six months of fiscal 2010 from \$2.9 million in the same period of fiscal 2009 and related mainly to computer equipment and software. We will continue to focus on conserving capital reserves throughout fiscal 2010.

Dividend-related payments for the first six months of fiscal 2010 totaled \$1.0 million compared to \$1.5 million in the same period of fiscal 2009. Starting with the fiscal 2010 second quarterly dividend, we modified our dividend program to allow shareholders the choice of stock or cash, which has enabled us to conserve cash. For the dividend declared during May 2009, we made cash payments of \$0.2 million compared to \$0.8 million of cash payments for each of the previous dividends declared.

There were no stock repurchase-related payments during the first six months of fiscal 2010. We do not currently have a stock repurchase program in place; however, the Board of Directors evaluates our position relating to future potential repurchases on a regular basis.

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

DSO under the countback method was 73 days at July 31, 2009, compared to 75 days at January 31, 2009 and 82 days at July 31, 2008. DSO using the average method, which utilizes the accounts receivable balance and *earned* revenue in the calculation, was 71 days at July 31, 2009, compared to 108 days at January 31, 2009 and 74 days at July 31, 2008.

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

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

CONTRACTUAL OBLIGATIONS

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 provided that we maintain certain financial and operating covenants which include, among other provisions, a minimum total leverage ratio of 1.5 to 1.0, a minimum liquidity ratio of 1.3 to 1.0, a minimum 12-month trailing EBITDA of \$10 million and a minimum fixed charge coverage ratio of 2.00 to 1.00. Borrowings under the Facility bear interest at a floating rate based on LIBOR or prime plus the corresponding applicable margins, ranging from 0.75% to 1.75% for the LIBOR option or -0.25% to 0.25% for the prime option, depending on our funded debt to 12-month trailing EBITDA ratio. At July 31, 2009, a prime rate borrowing would have had an effective rate of 3.0% and a 30-day LIBOR borrowing would have had an effective rate of approximately 1.03%.

Effective April 10, 2009, we executed an amendment to the Facility to amend the 12-month trailing EBITDA and fixed charge ratio covenants for future reporting periods. For the reporting period beginning February 1, 2009 through the expiration of the Facility, the minimum 12-month trailing EBITDA is reduced to \$5 million with the definition of EBITDA amended to exclude goodwill impairment charges which might arise under the provisions of SFAS No. 142, “Goodwill and Other Intangible Assets”. The minimum fixed charge ratio was amended to 1.3 to 1.0 for the period February 1, 2009 through October 31, 2009 and thereafter 1.5 to 1.0.

As of July 31, 2009 there were no borrowings under the Facility and we were in compliance with the financial covenants of the Facility, as amended.

Notes Payable

In July 2004, we entered into a loan agreement with Mid-State Bank & Trust, a bank which was subsequently purchased by Rabobank, N.A. The loan had an original principal amount of \$18.0 million and bears interest at a fixed rate of 6.5%. This loan is secured by our headquarters located in Santa Barbara, California. The terms of the loan provide that we will make 119 monthly payments of \$115,000 consisting of principal and interest and one final principal payment of \$15.4 million. The loan matures in July 2014. The balance of the note payable at July 31, 2009 was \$16.9 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange. For the six months ended July 31, 2009 and 2008, approximately 40% and 35% of our revenue was denominated in currencies other than the U.S. dollar. Approximately 40% and 45% of our expenses were denominated in currencies other than the U.S. dollar for the six months ended July 31, 2009 and 2008, respectively. As a result, fluctuations in the values of 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 breakeven and \$0.5 million for the six months ended July 31, 2009 and 2008, respectively. 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 2010 to assess the impact of hypothetical changes in interest rates. Based upon the results of these analyses, a 10% adverse change in interest rates from the 2009 fiscal year-end rates would not have a material adverse effect on the fair value of investments and would not materially impact our results of operations or financial condition for fiscal 2010.

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, 2009.

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

At the annual meeting of stockholders held on June 10, 2009, the following proposals were adopted:

- (1) To elect seven directors, as nominated:

| | Votes For | Votes Withheld |
|-------------------------|------------|----------------|
| Karl F. Lopker | 25,702,463 | 4,227,874 |
| Pamela M. Lopker | 25,730,710 | 4,199,626 |
| Scott J. Adelson | 29,199,275 | 731,062 |
| Terence R. Cunningham | 25,717,076 | 4,213,261 |
| Thomas J. O'Malia | 25,607,354 | 4,322,982 |
| Lee D. Roberts | 25,717,076 | 4,213,261 |
| Peter R. van Cuylenberg | 25,720,212 | 4,210,125 |

- (2) To approve the Stock Option and Stock Appreciation Right Exchange Program:

| Votes For | Votes Against | Abstentions |
|------------|---------------|-------------|
| 17,658,654 | 5,684,133 | 564,231 |

- (3) To approve an amendment of the Company's 2006 Stock Incentive Program increasing the number of shares of common stock available for issuance from 5,300,000 shares to 8,300,000 shares:

| Votes For | Votes Against | Abstentions |
|------------|---------------|-------------|
| 18,498,432 | 4,845,355 | 563,231 |

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

| Exhibits | |
|----------|--|
| 31.1 | Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

Signatures

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

QAD Inc.
(Registrant)

Date: September 10, 2009

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

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

Exhibit Index

| Exhibit No. | Description |
|--------------------|--|
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| 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 |
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| 32.2 | Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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

I, Karl F. Lopker, certify that:

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

Date: September 10, 2009

/s/ KARL F. LOPKER

Karl F. Lopker
Chief Executive Officer
QAD Inc.

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

I, Daniel Lender, certify that:

1. I have reviewed this 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: September 10, 2009

/s/ DANIEL LENDER

Daniel Lender
Chief Financial Officer
QAD Inc.

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

In connection with the Quarterly Report of QAD Inc. (the "Company") on Form 10-Q for the period ending July 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karl F. Lopker, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: September 10, 2009

/s/ KARL F. LOPKER

Karl F. Lopker
Chief Executive Officer
QAD Inc.

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

In connection with the Quarterly Report of QAD Inc. (the "Company") on Form 10-Q for the period ending July 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel Lender, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: September 10, 2009

/s/ DANIEL LENDER

Daniel Lender
Chief Financial Officer
QAD Inc.