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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-K

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

For the fiscal year ended January 31, 2002

OR

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

For the Transition from _____ to _____

Commission File Number: 0-22823

QAD Inc.

(Exact name of registrant as specified in its charter)

Delaware	**77-0105228**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

6450 Via Real
Carpinteria, California 93013
(Address of principal executive offices and zip code)
Registrant's telephone number, including area code (805) 684-6614

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

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

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price for the registrant's common stock in the Nasdaq National Market on April 15, 2002, was approximately $55,150,000. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purposes. The number of outstanding shares of the registrant's common stock as of the close of business on April 15, 2002, was 34,369,905.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12 and 13 of Part III incorporate information by reference from the definitive proxy statement for the registrant's Annual Meeting of Stockholders to be held on June 6, 2002.

QAD INC.
FISCAL YEAR 2002 FORM 10-K ANNUAL REPORT
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FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements. These statements typically are preceded or accompanied by words like "believe," "anticipate," "expect" and words of similar meaning. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Factors That May Affect Future Results and Market Price of Stock." 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 described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by QAD in fiscal year 2003.

PART I

ITEM 1. BUSINESS

ABOUT QAD

Historically, QAD has been recognized as a leading provider of enterprise resource planning (ERP) software applications for manufacturers. With the advent of the Internet, we advanced our manufacturing solutions to include e-business capabilities. With the development of enabling technologies, our solutions have advanced even further to include features that enable *collaborative commerce* for manufacturers. Today's QAD solutions build on our core competency in multi-site manufacturing and distribution operations and help global manufacturers efficiently manage resources within and beyond the enterprise. QAD solutions empower manufacturers to collaborate with their customers, suppliers and partners to make and deliver the right product, at the right cost and at the right time.

QAD has built a solid customer base of global Fortune 1000 manufacturers who are excellent prospects for QAD's next generation collaborative commerce solutions. With a proven track record of over 20 years of industry leadership, and more than 5,300 installations of our software around the world, QAD is ideally qualified to meet the business and technology requirements of global manufacturing enterprises worldwide. QAD focuses its efforts in select industry segments: automotive, consumer products, electronics, food and beverage, industrial and medical industries. We develop our products with constant and direct input from leading global manufacturers within the vertical markets we serve.

Global service and support are an important component of our solutions. QAD offers service and support capabilities that are truly global in scope, and we are one of a few select organizations with the capability to implement our solutions across the globe and support them in multiple languages and currencies. Our geographic management structure ensures that our global practices meet local requirements and that our services are delivered effectively within each region around the globe. We support our customers' global operations through our network of regional support centers and online support, accessible 24 hours a day, seven days a week, anywhere in the world.

QAD solutions include:

- QAD MFG/PRO eB, our flagship ERP product.
- QAD eQ, our private trading exchange (PTX) applications suite.
- MFGx.net, our hosted exchange.
- QAD Interoperability Solutions, a link from enterprise and legacy applications to QAD applications.

For a further discussion of QAD solutions, please see "QAD SOLUTIONS" below in this Item 1.

"QAD eQ" is a trademark, and "QAD" and "MFG/PRO" are registered trademarks of QAD Inc. "MFGx.net" and "Supply Visualization" are service marks of QAD Inc. This Annual Report on Form 10-K may contain trademarks, service marks and registered trademarks of companies other than QAD.

CUSTOMERS

As of January 31, 2002, our software was licensed to more than 225,000 users at more than 5,300 sites in over 80 countries. No single customer accounted for more than 10 percent of total revenue during any of our last three fiscal years. The following are among companies and/or subsidiaries of those companies that have each generated more than $1.0 million in software license, maintenance and service billings over the last three fiscal years:

Automotive

Anritsu, Arvin Meritor, Delco Remy, Delphi, Eaton, Federal Mogul, GKN, Ford Motor Company, Geveke, Guide, Johnson Controls, LDM Technologies, Lear, Mascotech, Merkel Freudenberg, Schefenaker, Textron, Visteon, Webasto

Consumer Products

American Greetings, Avery Dennison, Avon Products, Colgate-Palmolive, Cussons, Fairchild, Firmenich, Friesland, Gillette, Royal Doulton, Spalding, Unilever

Electronics

Akzo Nobel, Celestica, De La Rue, Fairchild, Framatome Connectors International, General Electric, Jabil Circuit, Lucent Technologies, Marconi Communications, Matsushita, NEC Corporation, Philips, Rockwell International/Allen Bradley, Tyco International, Xerox

Food and Beverage

Bakkersland, Cargill, Coca-Cola, Goodman Fielder, HJ Heinz, Hormel Foods, Kraft Foods, Lion Breweries, Mars, National Foods, PepsiCo, Rich Products, Sara Lee, SunMaid Growers

Industrial

Advanced Elastomer Systems, Albany International, Amcor, Black & Decker, Caterpillar, Ingersoll-Rand, Koninklijke Econosto NV, Mitsui, RHI AG, Saint-Gobain, Schlumberger, Solvay, Smiths Group PLC, Thales SA, Uponor

Medical

Allegiance, C.R. Bard, Datex-Ohmeda, Invacare, Johnson & Johnson, Maxxim Medical, Medtronic, Rexall-Sundown, UCB Pharma

INDUSTRY BACKGROUND

In recent years, businesses have been subject to increasing global competition, resulting in pressure to lower production costs, improve product performance and quality, increase responsiveness to customers, and shorten product development, manufacturing, and delivery cycles. Globalization has greatly increased the scope and complexity of multi-national manufacturing organizations while the Internet has had a profound effect on the way these companies conduct business.

Using the Internet as the foundation for electronic communication, interaction and transaction, the first wave of *e-business* revolutionized traditional business processes and practices, increasing and accelerating the flow of information between employees, partners, suppliers and the marketplace as a whole.

With the advancement of enabling technologies, organizations leveraged the Internet to create a new sales and marketing tool—*e-commerce*—where buying and selling over the Internet via Web storefronts and public e-market exchanges gained popularity.

Today's manufacturing organizations are searching for ways to turn Web technology into a significant competitive advantage, where online collaboration across the enterprise, as well as with customers, suppliers and trading partners, is rapidly gaining acceptance as the key to achieving this goal. This new way of conducting business via electronic communication is called *collaborative commerce*.

In the opinion of Gartner Inc., a leading industry analyst firm, "Enterprises of all sizes must cooperate more than ever to meet the demands of their customers. They need to collaborate with customers, suppliers and business partners to develop the right products, for the right markets, at the right time. Collaborative commerce (c-commerce) is a key enabler to make this happen."

Companies need to rethink their business models and implement solutions that can keep pace with the increased rate of change. We believe that collaborative commerce will impact each segment of the enterprise software market including corporate, plant and distribution/operations-level, and supply chain. We also believe that those who adopt a new type of enterprise software—collaborative solutions—will realize enormous competitive advantages over those who do not.

Gartner Inc. estimates, "By 2004, more than 75 percent of enterprises worldwide will leverage c-commerce technologies to engage customers and members of their value chain in enhancing more than 50 percent of their key product and service development and operation processes (0.7 probability)."

Today's Enterprise, Manufacturing and Supply Chain Software

Traditional ERP software enables the integration and management of critical data within an enterprise and supports internal business processes such as sales order management, procurement, inventory management, manufacturing planning and control, service and support, project management, distribution and finance. QAD MFG/PRO eB software is an ERP application designed specifically to handle these internal business processes for manufacturing companies.

Collaborative commerce solutions help manage and optimize the supply chain by enhancing the flow of information to and from customers, suppliers, digital marketplaces and other business partners outside the enterprise. These solutions rely largely on the Internet as a vehicle for achieving collaboration. MFG/PRO eB, QAD eQ and MFGx.net, QAD's hosted exchange, are collaborative solutions for manufacturers.

Expanded definitions of the types of solutions in use today by manufacturing organizations follow:

Collaborative Solutions. Collaborative solutions provide companies with an information systems framework which works with an established ERP backbone and is integrated with other enterprise applications. Collaborative solutions enable manufacturers and distributors to integrate and extend their enterprise and corporate operations, interacting with customers and suppliers, engaging in e-business, collaborating, and expanding their markets through online communities. Collaborative solutions enable companies to deliver individualized customer service as easily as they once delivered mass customer service, thereby increasing their market opportunities. We believe that the complexities of today's enterprise operations require that collaborative commerce solutions be designed using open architecture, open messaging standards, and advanced Internet technologies, with the ability to deliver interoperability to multiple enterprise applications.

Plant and Distribution/Operations-Level Solutions. Plant and distribution/operations-level solutions are primarily focused on the specific needs of mid-range to large manufacturing plants and distribution sites at the operations level of global companies. We believe users of plant and distribution/operations-level solutions are looking for flexible, highly interoperable, full-featured, industry-specific solutions that can be implemented globally, rapidly and cost-effectively and that easily integrate with the company's overall business infrastructure.

Supply Chain Management Solutions. Supply chain management applications have expanded to include collaborative functions thereby turning the supply chain into what is termed today, a *value chain*. Traditional providers of supply chain optimization software typically offer decision support applications that rely on transaction systems such as ERP to hold transaction information. Supply chain planning and optimization applications will increasingly be used for facility location and layout decisions while collaborative solutions will process actual supply demand based on "what is" rather than "what if."

Corporate Enterprise Solutions. Corporate enterprise solutions are primarily focused on the consolidated information needs of Fortune 1000 companies such as corporate financial reporting, consolidations and human resources. These applications are generally characterized by their significant cost of ownership, broad scope and lack of flexibility, which limits their effectiveness in addressing the needs of manufacturing enterprises, individual plants or divisions. The rollout of these corporate enterprise solutions into the plant and distribution/operations-level of organizations has proven to be difficult, primarily due to the cost of ownership and the need for flexibility and control at the level of the individual plants.

THE QAD STRATEGY

Our objective is to be the leading provider of collaborative commerce software solutions for manufacturing, and specifically, for multi-national, large and mid-range manufacturing and distribution companies within our targeted markets. Our strategy is to expand our leadership position at the plant and operations level by providing software applications that not only run

internal processes, but also extend beyond the walls of the enterprise to manage collaborative relationships with customers, suppliers and other business partners.

The key elements of our strategy for achieving our objective include the following:

- *Leverage Best-in-Class Enterprise Applications.* As of January 31, 2002, QAD software was licensed at over 5,300 sites in more than 80 countries. This is a substantial customer base from which we can leverage future software product and service sales. We continue to migrate our current installed base of MFG/PRO software customers to our new Internet-based version, MFG/PRO eB, and hope to fuel an increasing trend to replace legacy ERP applications with MFG/PRO eB as well. Our installed base of satisfied customers are excellent prospects for our new collaborative commerce solutions and we plan to leverage our favorable reputation and proven track record to capitalize on this opportunity to build additional business for our QAD eQ private trading exchange application suite and our MFGx.net service offerings. Our plan is to further penetrate the market by gaining new customers within our target vertical markets for all of these solutions.

- *Become the Private Trading Exchange (PTX) Applications Leader*. We believe that supply chain management within and outside of the enterprise represents one of the greatest opportunities for manufacturing companies to reduce costs and enhance trading partner relationships. As complex supply chains develop a greater need for collaboration, a new type of software application—the private trading exchange—will become an important component in every company's information architecture. Operating as an integrated, collaborative business-to-business (B2B) system, QAD eQ is a private trading exchange suite of applications that enables customers to lower supply chain costs, open new global markets and improve customer satisfaction through personalization of business commerce relationships. Our goal is to become the leader in delivering private trading exchange applications to global manufacturers in the markets we serve.

- *Leverage Global Network of Alliances.* Strategic alliances with partners such as IBM, Deloitte & Touche, Atos Origin and others, expand our sales reach, improve our marketing impact, and strengthen our strategic position in the markets that we serve. We leverage the expertise of distribution, software, services, and technology partners to meet the diverse needs of our customers. We augment our direct sales organization with a global network of over 30 distributors and sales agents, as well as numerous service organizations that offer consulting and implementation services to expand our reach. We plan to leverage our network of distributors, sales agents and services alliances to further penetrate our vertical markets.

- *Maintain Technology Leadership.* Our technology strategy is focused on delivering collaborative solutions based on open architecture and designed for compliance with Internet communication standards. We believe that business component, message-based

interoperability will remain an important requirement for software applications as organizations seek to move toward a collaborative commerce business model. Interoperability enables companies to cost-effectively integrate applications across the enterprise, establishing a solid foundation for this new way of doing business. We are also committed to delivering collaborative solutions that utilize the most advanced technologies, such as Web-Services, Java and XML, to meet the demands of today's business environment.

THE VALUE OF QAD SOLUTIONS

In the Internet-enabled economy, manufacturing and distribution companies are becoming more profit oriented and customer focused. New customer-driven business models require comprehensive end-to-end solutions that manage all areas of the enterprise including corporate, plant and distribution/operations-level, supply chain and collaborative commerce.

QAD's approach provides companies with a collaborative business framework built on our established enterprise resource planning application suite, and integrated with other enterprise applications, to provide an end-to-end solution. Because of our open systems architecture, QAD solutions can interoperate with legacy systems and other leading applications. The result is a powerful, collaborative commerce solution suite that leverages a company's existing information technology (IT) investment, supports their evolving business model, and enables them to quickly adapt to new market opportunities.

Investment in IT systems for manufacturing retracted last year following the global manufacturing sector decline. However, the manufacturing sector is beginning to show indications of growth again and, considering the trend toward collaborative commerce solutions, we believe that QAD solutions are well positioned to benefit from a recovery.

QAD meets multi-national, large and mid-range manufacturing customer requirements for enterprise collaborative commerce solutions in our vertical markets by delivering:

Expertise and Functionality for Key Vertical Markets. Our industry expertise and strategy of developing industry-specific solutions provide our customers with a significant competitive advantage. QAD's focus on key vertical markets has enabled us to achieve leadership positions in the automotive, consumer products, electronics, food and beverage, industrial and medical industries. In order to stay at the forefront of the industries we serve, QAD partners with our customers through active industry development groups, which play a vital role in driving the next generation of enhancements.

Low Total Cost of Ownership. The advanced industry-specific features and functionality of QAD solutions mean customers in the industries we serve can have feature-rich solutions for significantly less cost than larger, more complicated ERP solutions, which often require extensive, costly customization to achieve the type of industry-specific functionality available "out-of-the-box" with QAD solutions. QAD solutions implement quickly and are easy to use, resulting in training times and support costs that are less than with other ERP solutions.

Quick Time-to-Benefit. Our proven implementation methodology, together with our expertise in key vertical markets and impressive track record of rapid installations, provides a quick time-to-benefit for our customers compared to our larger competitors whose software often takes longer and is much more complex to implement for manufacturing customers.

Global Functionality for Multi-national, Large and Mid-range Companies. Our reputation for best-in-class manufacturing applications is supported by a proven track record of successful deployments worldwide. Our solutions are available in as many as 26 languages and incorporate global tax management and multi-currency capabilities tailored to local financial practices and requirements in many of our major markets.

Increased Velocity and Efficiency of the Supply Chain. QAD's collaborative commerce solutions streamline business processes and enable diverse and sophisticated interactions between partners, suppliers and customers. By enabling global manufacturers to efficiently manage

resources within and beyond the enterprise, QAD solutions can improve customer delivery performance and reduce purchasing and inventory costs.

Adaptable, High-Performance Computing. QAD solutions have the flexibility and scalability that multi-national, large and mid-range companies need to quickly and successfully adapt to growth, organizational change, technological advances, market shifts and other challenges. QAD solutions have a reputation for delivering robust performance that will continue as their needs and businesses change and adapt.

Open Integration Architecture. Our open systems architecture incorporates Open Applications Group Integration Specification (OAGIS) standards and advanced Internet technologies such as Web-Services, Java and XML in order to deliver truly open, interoperable end-to-end enterprise and supply chain solutions. The ability of our solutions to interoperate with other enterprise applications enables our customers to leverage their existing IT investments and move to collaborative commerce quickly.

Single Point-of-Contact for Customers, Partners and Suppliers. QAD's collaborative commerce solutions provide a single point-of-contact for customer, partner, and supplier interactions across multiple sales channels such as Web storefronts, public e-market exchanges and private trading exchanges. For example, each customer profile and the personalization of information unique to that customer can be managed in a single location and used to power all customer interactions globally. The same is true for supplier and partner communications. By presenting a single point-of-contact for all trading partner interactions, QAD solutions help unify diverse global operations and process orders intelligently from anywhere to anywhere in the world.

Global Service and Support. Global service and support are an important component of our solutions. QAD offers service and support capabilities that are truly global in scope, and we are one of a few select organizations with the capability to implement our solutions across the globe and support those solutions in multiple languages and currencies. Our organization is staffed with more than 500 support and services professionals whose focus is on bringing world-class, value-added services to our customers. Our geographic management structure ensures that

our global organization meets local requirements and that our services are delivered effectively within each region around the globe. Working in concert with a network of QAD service alliance partners, QAD Global Services ensures that our customers receive the right combination of services for their system from pre-installation, to implementation, to ongoing service and support.

QAD Global Services utilizes a proven implementation methodology and has earned a reputation for on-time implementations and rapid time-to-benefit for our solutions. We support our customers' global operations through our network of regional support centers and online support, accessible 24 hours a day, seven days a week, anywhere in the world. In addition, we offer an extensive menu of training for our customers available either online or via one of our many global training centers.

QAD SOLUTIONS

We target our solutions to address the needs of multi-national, large and mid-range manufacturing and distribution companies within the automotive, consumer products, electronics, food and beverage, industrial and medical industries. Our primary product lines are as follows:

- QAD MFG/PRO eB, an enterprise application suite offering a Web-enabled ERP foundation for manufacturers that helps increase inventory turns, improve productivity and

profitability, as well as offering a total cost of ownership that is one of the lowest in the industry.

- QAD eQ, a private trading exchange (PTX) suite of Sell-Side, Buy-Side, and Replenishment order management applications built on a Commerce Management Foundation. QAD eQ extends the usefulness of existing information systems enabling collaboration with customers, suppliers, partners and digital marketplaces to deliver competitive advantages.
- MFGx.net, a hosted exchange, through which we deliver Internet-based solutions to our customers and the manufacturing community. MFGx.net includes QAD Supply Visualization, a Web-Service, which provides real-time inventory visibility to authorized suppliers via the Internet.
- QAD Interoperability Solutions, which provide effective interoperability across the enterprise, linking financials, human resources, customer relationship management (CRM), and other enterprise and legacy applications seamlessly to QAD applications. QAD Interoperability Solutions include the QAD/Connects A2A suite of connectivity adapters and tools, and QAD EDI ECommerce.

MFG/PRO eB: The QAD Enterprise Application

Our flagship product, MFG/PRO eB, is a best-in-class manufacturing solution designed for the demands of today's business environment. A foundation for collaborative commerce, MFG/PRO eB software includes an integrated set of manufacturing, distribution, financial and customer service applications designed to address the needs of customers in our targeted vertical markets.

MFG/PRO eB consists of a core ERP application and a number of key extensions. The core ERP application consists of three areas of functionality—manufacturing, distribution and financials—while the extensions provide additional business functionality.

QAD's deep industry experience has allowed it to develop MFG/PRO eB with unique, industry-specific features. Additional industry-specific functionality is developed in conjunction with our customers through our Industry Development Groups. MFG/PRO eB software supports multiple currencies and global tax management and is tailored to financial practices and requirements in many of our major geographic markets. Because of our open systems approach, MFG/PRO eB is able to interoperate with legacy systems and other leading enterprise applications to give companies best-in-class functionality.

MFG/PRO eB software supports single or multiple sites, as well as multiple production and operational processes. These capabilities enable manufacturers to manage multiple hybrid production methods within a single organization or production site and provide the flexibility to adapt to additional sites and processes as an organization's business evolves. Accessible through a Web browser, MFG/PRO eB includes an easily deployable Java platform interface that minimizes internal system traffic and provides low-cost system access for end users.

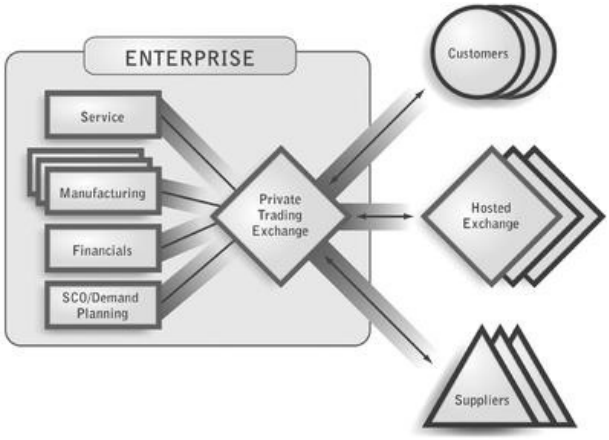
MFG/PRO eB delivers value to our manufacturing customers by helping to increase inventory turns and improve the productivity of manufacturing enterprise operations.

QAD eQ: The QAD Private Trading Exchange Application

As supply chains emerge as agile competitors in the global marketplace, manufacturers are moving towards collaborative commerce by applying technology and new business processes in

order to optimize their operations and make huge gains in operational efficiencies. We believe that manufacturers focused on collaborating with their distribution channels, downstream partners, suppliers, engineering associates, and all the other members of their extended supply chain, will reap major benefits.

QAD eQ enables collaborative commerce, which promises to deliver significant increases in corporate innovation, productivity and profitability. QAD eQ is a private trading exchange (PTX) suite of Sell-Side, Buy-Side and Replenishment order management applications built on a Commerce Management Foundation (CMF) that essentially transforms a company's existing ERP system(s) into a unified collaborative commerce solution. We believe that our PTX application suite, QAD eQ, uniquely positions QAD to benefit from growing demand for this type of sophisticated software. QAD eQ is designed to help manufacturers increase sales, lower costs, open new global markets, personalize trading relationships and improve customer satisfaction via its collaborative commerce capabilities.



QAD eQ is a private trading exchange, which connects the manufacturing organization to customers and suppliers, enabling the enterprise to achieve higher profit margins, lower operating costs and improve customer service through collaborative commerce.

The QAD eQ private trading exchange application suite consists of four distinct modules:

QAD eQ Commerce Management Foundation

The QAD eQ Commerce Management Foundation (CMF) module is a framework which defines a company's community trading partners. Using QAD eQ Commerce Management Foundation, a company captures information from its entire supply chain, encompassing the roles, policies and processes that define the company's personality and it uses this information to process and manage transactions intelligently throughout the enterprise.

QAD eQ Sell-Side

QAD eQ Sell-Side is a full-featured order management system for collaborative commerce, which provides multiple ways to capture an order and process that order all the way through to back-office systems. It is designed to help manufacturers extend their global reach by facilitating the sale of products and services via the Internet and other electronic channels. QAD eQ Sell-Side provides a single point-of-contact for customer interactions across multiple sales channels—Web storefronts, public e-market exchanges, private trading

exchanges and EDI connections. Each customer profile and personalization of information unique to that customer can be managed in a single location and used to power all customer interactions globally. By automating the order process, QAD eQ Sell-Side enables companies to reduce errors, lower transaction costs, and improve productivity. QAD eQ Sell-Side can increase revenue by expanding a company's market reach through access to new sales channels and can improve customer satisfaction by enabling customer self-service via the Internet.

QAD eQ Buy-Side

QAD eQ Buy-Side is an advanced purchase order management system designed to increase procurement process efficiencies and reduce the direct and indirect material costs of large, multi-national companies through centralized procurement functions while allowing for autonomy and flexibility for local purchasing. It helps manage the entire life cycle of a purchase from initial request through receipt and payment. Automating the purchasing process improves productivity while also accelerating information throughout the supply chain. QAD eQ Buy-Side also provides an on-ramp to e-market exchanges, providing manufacturers with many more sources from which they may competitively source and procure materials and supplies.

QAD eQ Replenishment

QAD eQ Replenishment enables manufacturers to apply lean manufacturing concepts to their supply chains to make them more efficient with the potential of huge cost savings. We call this the lean manufacturing supply chain. QAD eQ enables a lean manufacturing supply chain with its automated "pull" inventory capability, which provides automatic, unattended replenishment based on point-of-use or point-of-sale information. QAD eQ Replenishment can significantly help reduce supply chain costs and replenishment times by applying vendor-managed inventory and kanban processes while at the same time increasing service levels.

QAD eQ in Summary

We believe that QAD eQ is unique in the industry due to the following capabilities:

- QAD eQ is able to function as a private enterprise exchange—a pivotal component for today's collaborative commerce requirements
- QAD eQ Commerce Management Foundation module provides the "many-to-many" relationship management that is essential for management of complex business relationships and transactions
- QAD eQ provides for consistent image and transaction processing to customers and suppliers through its Sell-Side and Buy-Side modules
- QAD eQ is able to significantly reduce supply chain costs via its automated replenishment capabilities

- QAD eQ is able to function as an on-ramp to e-market exchanges
- QAD eQ is able to integrate easily with other disparate enterprise applications

These capabilities give manufacturers the ability to take an order—unattended, at a single place, using one of many electronic conduits (such as Web storefront, EDI, e-market exchanges)—and deliver that order intelligently to suppliers inside and outside of the enterprise by coordinating Sell-Side, Buy-Side, and Replenishment operations simultaneously. The application platform

enables manufacturers to implement and monitor their trading interface with both suppliers and customers via the Internet to achieve dramatic reductions of supply chain costs, improved delivery time, and greater customer satisfaction.

A strength of QAD eQ is its ability for real-time integration with other enterprise systems, unifying multiple disparate company systems into a single, unified solution. QAD eQ interoperates with other enterprise systems through an open message-based architecture and is engineered with IBM's proven WebSphere development environment and business components framework to meet the security requirements needed for the processing of Internet transactions. Integrating back-office systems with the extended enterprise, QAD eQ offers greater operational efficiencies for manufacturers via its four distinct modules.

All modules of the QAD eQ application suite have been released for general availability. Most recently, QAD eQ Replenishment was made available in the QAD eQ v3.5 release announced for general availability in January 2002.

MFGx.net: The QAD Hosted Exchange

QAD has developed an Internet portal through which it can deliver valuable information to the manufacturing community as well as a number of service-based solutions to customers. This portal is called MFGx.net. Through MFGx.net, we anticipate that we can meet a substantial number of our manufacturing customers' collaborative commerce needs.

Our vision is for MFGx.net to provide a collaborative environment within the manufacturing community where trading partners can share information and can work together to achieve overall competitiveness. We plan for MFGx.net to provide a growing number of hosted, Web-based services for manufacturers.

MFGx.net's initial offering is QAD Supply Visualization, a service which provides real-time inventory visibility to authorized suppliers via the Internet. QAD Supply Visualization was first offered in early fiscal year 2002 and has since gained a significant number of trial customers and momentum in the marketplace.

In addition to the already available QAD Supply Visualization service, we are planning additional services via MFGx.net, including QAD Alerts which will notify manufacturers of conditions such as low inventory, late shipments, design changes and new products; and QAD Product Visualization which will offer manufacturers product life-cycle management capabilities.

MFGx.net Service Offering: QAD Supply Visualization

A significant number of manufacturers, especially in the automotive and electronics industries, use items that are provided under contract by a single supplier. In those cases, the manufacturer requires the supplier to restock the item on an as-needed basis when the inventory of the item falls below a certain threshold. This is referred to as vendor-managed inventory.

Collaborative commerce solutions from QAD provide a unique capability to help in this type of relationship in that the supplier can track the usage of the item and the inventory level via the Internet, and then synchronize its production and delivery with the needs of the manufacturer. We deliver this collaborative capability via our MFGx.net hosted exchange offering called QAD Supply Visualization, which works by displaying a manufacturer's usage and inventory information, in real-time, to its supplier over the Internet.

QAD Supply Visualization improves our manufacturing customers' communications with their suppliers, offering the opportunity to reduce operating and inventory costs, reduce expediting charges, minimize production line shutdowns due to stock outs, improve fulfillment times and increase inventory accuracy. QAD Supply Visualization is also easy to implement, easy to use, and is able to deliver a rapid return on investment (ROI).

QAD Supply Visualization is offered as a hosted solution on a monthly fee basis resulting in minimal upfront costs, including low implementation costs for the customer.

During fiscal year 2002, QAD went from having a small number of QAD Supply Visualization beta customers to having a significant number of customers and their trading partners who are evaluating or using the service.

QAD Interoperability Solutions

In today's fast paced collaborative commerce environment, businesses rely on optimal operations that enable fast response to customer needs. As a result, many companies deploy best-in-class applications in critical areas of their business. The challenge is getting disparate applications to work together seamlessly. QAD has developed a number of interoperability solutions, which are the keys to successful integration of all QAD solutions within and across multi-site manufacturing enterprises.

QAD Interoperability Solutions provide effective interoperability across the enterprise linking other applications, such as financials, human

resources, customer relationship management (CRM), and legacy applications, seamlessly to QAD applications. In addition to linking within the enterprise, QAD Interoperability Solutions can link between enterprises for electronic data interchange (EDI).

QAD's Interoperability Solutions include QAD/Connects A2A, a complete suite of connectivity adapters and tools, and QAD EDI ECommerce, an application for EDI transactions.

QAD/Connects A2A

Our framework of integration adapters, messaging system and supporting services is entitled QAD/Connects A2A (Applications to Applications). This integration solution framework is very effective in delivering successful integration solutions linking QAD applications to other enterprise solutions such as financials, human resources, CRM and other ERP or legacy systems.

QAD/Connects A2A provides industry standard interoperability between QAD applications and a variety of other industry applications, reducing or eliminating the need for hard-coded interfaces, providing flexibility and adaptability to change, minimizing ongoing maintenance costs, and maximizing overall applications productivity.

QAD/Connects A2A, in conjunction with integration services provided by QAD Global Services, can provide end-to-end connectivity across multi-national global enterprises.

Included in the QAD/Connects A2A interoperability solution suite are:

Q/LinQ Messaging System

Q/LinQ provides a robust and flexible messaging system for information exchange between QAD and other ERP/legacy applications, delivering effective message and error handling, registry functions, publishing, processing, mapping and communications.

Standardized MFG/PRO Gateways and API's

Standardized MFG/PRO Gateways include a range of standard business models and supporting application program interfaces (API's) for all major application areas—Accounts Receivable, Accounts Payable, Sales Orders, Inventory and General Ledger.

QAD EDI ECommerce

Another QAD Interoperability Solution offering, QAD EDI ECommerce, provides a streamlined method of managing EDI communication between MFG/PRO and trading partners. It is a globally deployable product that imports and exports EDI sales and distribution data between MFG/PRO and third party electronic commerce subsystems.

CUSTOMER SERVICE AND SUPPORT

QAD offers service and support capabilities that are truly global in scope, and we are one of a few select organizations with the capability to implement our solutions across the globe and support those solutions in multiple languages and currencies. Our organization is staffed with more than 500 support and service professionals whose focus is on bringing world-class, value-added services to our customers. Our geographic management structure ensures that our global organization meets local requirements and that our services are delivered effectively within each region around the globe.

QAD Global Services utilizes a proven implementation methodology and has earned a reputation for on-time implementations and rapid time-to-benefit for our solutions. We support our customers' global operations through our network of regional support centers and online support, accessible 24 hours a day, seven days a week, anywhere in the world. In addition, we offer an extensive menu of training for our customers available either online or via one of our many global training centers.

To broaden our customer service and support offerings, we have entered into strategic partnerships with IBM, Deloitte & Touche, Atos Origin, and other select organizations. Through these partnerships, we provide additional business process and program management consulting services. These strategic partners are closely aligned to our organization and participate in the selling process.

Our Global Services organization offers the following services to our customers:

- *Technical Services.* Our technical services organization addresses critical areas in the life cycle of our customers' product implementation from the pre-installation audit that helps ensure a correct fit, to installation services that quickly get our customers' systems operational. The technical services group also provides conversion services that help customers smoothly migrate to the latest software release, integration services that address customers' complex integration needs and performance optimization services that help maximize system productivity and efficiency.

- *Implementation Services.* Our implementation services organization utilizes Q-Advantage, our proven implementation framework, to ensure rapid implementation, consistency in delivery and maximum use of resources. Our implementation services team empowers customers through efficient knowledge transfer from our in-depth product knowledge and our business process and vertical market expertise.

- *Support Services.* Our customer service organization has attended and automated support systems around the world, including a global call tracking and escalation system based on our MFG/PRO Service/Support Management module. In addition, our solution-

centered support provides customers with online access to customer service solutions 24 hours a day, seven days a week. Our solution-centered support database contains the most frequently requested customer solutions, all search-enabled through an easy to use online knowledge base.

Our Support Services offerings generate maintenance revenue from our installed base of more than 5,300 sites approximating 50% of QAD's annual revenue over the past two fiscal years.

- *Learning Services*. We offer comprehensive education and training services to our customers, end-users and service providers. Fully equipped training centers around the globe feature experienced and certified instructors along with a broad and substantial curriculum. Learning services is currently working to enhance its educational offerings via a growing computer-based training curriculum.

QAD PRODUCT ALLIANCES

We have a number of ongoing business alliances that extend the functionality of our software through the addition of integrated best-in-class applications. We have also entered into select joint development agreements with third-party software developers who provide functionality that has been embedded into or integrated with QAD software to deliver more complete solutions for our targeted vertical markets. Our alliances include IBM, Progress Software Corporation and others.

TECHNOLOGY

QAD MFG/PRO eB Technology

MFG/PRO was first introduced in 1986. We have subsequently released a number of product versions and enhancements. Our most recent version, MFG/PRO eB, has been developed with a commercially available toolset marketed by Progress Software Corporation, that works with relational databases provided by Oracle Corporation and Progress. MFG/PRO eB software operates under UNIX, Linux and Windows NT operating systems and takes advantage of advances in Progress software that open up this fourth-generation language to access by Sun Microsystems' Java language. MFG/PRO eB also features an Internet-enabled Java user interface called QAD eB Desktop.

QAD eQ Technology

The business components of QAD eQ are built in Java, taking advantage of advanced techniques in object-oriented software design. QAD eQ is based on IBM's WebSphere development environment and Business Components framework. The solution's thin-client architecture requires only a standard Web browser to display user information. Components of QAD eQ architecture consist of Java, JSPs, DHTML, HTML, Java Scripts, Java Servlets and XML. QAD eQ leverages a Web server and Apache-Tomcat combination that has features and functionality required for the demands of secure, scalable collaborative commerce. QAD eQ is designed to run on a variety of hardware platforms, such as IBM pSeries, HP-UX Solaris, NT, MS2000 and IBM iSeries. It is designed to support major databases such as Oracle and DB2.

MFGx.net and QAD Supply Visualization Technology

Our current MFGx.net offering, QAD Supply Visualization, is a thin-client product offered over the Internet requiring only a standard Web browser for customers and suppliers to share inventory and order information. Components of QAD Supply Visualization are built using Java, JSPs, DHTML, HTML and Java Servlets on the server side. Data is transported in XML format using standard HTTP protocol. The offering is hosted on the Linux operating system. These technologies allow us to leverage our legacy enterprise products while using the most advanced tools to provide our customers with true supply chain visibility.

RESEARCH AND DEVELOPMENT

Our principal research and development staff is focused on continuing updates and enhancements to our MFG/PRO eB software, including the continual migration of MFG/PRO eB to components, and advancements to our HTML user interface. We believe that the Internet capability of our products will be important to the future success of our ERP and supply chain solutions. Accordingly, we have developed and will continue to develop Internet-enabled versions of our products through in-house and third-party development.

We maintain three separate technology development organizations, MFG/PRO eB, QAD eQ, and MFGx.net, each specifically focused on developing its portion of QAD's end-to-end manufacturing solutions.

As of January 31, 2002, approximately 200 research and development personnel were involved in the development of MFG/PRO eB, QAD eQ, and our hosted exchange, MFGx.net. Our research and development expenses totaled $31.7 million, $34.5 million and $34.1 million in fiscal years 2002, 2001 and 2000, respectively.

SALES AND MARKETING

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

Our direct sales organization is composed of approximately 200 staff members. We continue to strengthen our sales force and our sales regions in order to improve our ability to deliver localized industry-specific solutions throughout the world. Within each territory, a focus on our vertical industries is maintained through marketing, local product development and sales training.

Our indirect sales channel consists of over 30 distributors and sales agents worldwide. We do not grant exclusive rights to any of our distributors or sales agents. Our distributors and sales agents primarily sell independently to companies within their geographic territory, but may also work in conjunction with our direct sales organization. In addition, we leverage our relationships with implementation service providers, hardware vendors and other third parties to identify sales opportunities on a global basis.

Our marketing strategy includes developing demand for our products by increasing awareness of QAD and our software. We participate in major industry tradeshows, sponsor regional and worldwide user conferences, support regional alliance conferences and advertise in leading business industry publications. We utilize marketing automation tools to support our field sales organization and provide e-marketing capabilities. We continue to improve our Web site to consistently communicate our solutions' capabilities and their value propositions.

COMPETITION

The enterprise software applications market is highly competitive, is rapidly changing and is affected by new product introductions and other market activities, including consolidations among industry participants and the entry of new participants.

In the market for corporate enterprise and plant and distribution/operations-level enterprise applications, MFG/PRO eB currently competes with:

- Vendors, such as IFS, Intentia, and JD Edwards that market software focused on the specific needs of manufacturing plants and distribution sites of multi-national manufacturing companies
- Larger corporate enterprise solutions providers, such as Oracle, Peoplesoft, SAP and other business application software vendors
- Internal development efforts by corporate information technology departments

In the supply chain management market, we compete primarily with companies such as i2 Technologies, Manugistics and SAP, that have developed or are attempting to develop supply chain management software that complements ERP solutions.

In the collaborative commerce segment, various vendors from different backgrounds are currently competing for market presence and prominence. Segment borders move very rapidly and vendors are aggressively acquiring supporting applications to broaden their overall collaborative offerings. Vendors are moving into the collaborative commerce space from a number of backgrounds including the following:

- Traditional ERP vendors expanding their offerings into e-business
- Traditional supply chain optimization vendors, such as i2 Technologies
- Start-up companies in any of the following categories: electronic storefronts, online procurement, auctions/reverse auctions and business intelligence
- Public trading exchange providers such as Ariba and Commerce One
- Public trading exchanges and industry consortia trading exchanges

Because of their various backgrounds and the relative immaturity of the market, each of these categories of vendors is challenged to deliver an end-to-end solution for collaborative commerce.

As the collaborative commerce solutions market continues to develop, companies with significantly greater resources could attempt to increase their presence in these markets by acquiring or forming strategic alliances with our competitors or with our current or potential partners. The dynamic nature of the emerging market space leads us to believe that numerous smaller, but well-capitalized vendors may emerge as strong competitors.

Increased competition in these markets is likely to result in price reductions, reduced operating margins and changes in market share, any one of which could adversely affect us. Many of our present or future competitors may have significantly greater financial, technical, marketing and other resources, greater name recognition and a larger installed base of customers than we do. As a result, they may be able to devote greater resources to the development, promotion and sale of their products. Although we believe we offer, and will continue to offer, products that are

competitive, we can make no assurance that we will be able to compete successfully with existing or new competitors or that competition will not adversely affect us.

PROPRIETARY RIGHTS AND LICENSING

Our success is dependent upon our proprietary technology and other intellectual property. We rely primarily on a combination of the protections provided by applicable copyright, trademark and trade secret laws, as well as on confidentiality procedures and licensing arrangements, to establish and protect our rights in our software and related materials and information. We enter into license agreements with each of our customers. Each of these license agreements provides for the non-exclusive license of QAD software. These licenses generally are perpetual and contain strict confidentiality and non-disclosure provisions, a limited warranty covering the QAD software and indemnification for the customer from infringement actions related to the QAD software.

The pricing policy under each license is based on a standard price list and may vary based on a number of parameters including the number of end-users, number of sites, number of modules, number of languages, the country in which the license is granted and level of ongoing support, training and services to be provided by QAD.

To facilitate our customers ability to customize, we generally license our MFG/PRO software to end-users in both object code (machine-readable) and source code (human-readable) format. While this practice facilitates customization, making software available in source code also makes it easier for third-parties to copy or modify our software for impermissable purposes. Distributors or other persons may independently develop a modified version of our software. Our license agreements generally allow the use of our software solely by the customer for internal purposes without the right to sublicense or transfer the software to third-parties. We have no patents, but have one pending patent application.

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

We may be faced with or need to bring infringement claims to protect our rights. We have been in the past, and may be in the future, subject to claims of intellectual property infringement and may increasingly be subject to these types of claims as the number of products and competitors in our targeted vertical markets grows and the functionality of products in other industry segments overlaps. Although we do not believe that any of our products infringe upon the proprietary rights of third-parties, there can be no assurance that third-parties will not claim infringement by us with respect to current or future products. In addition, we periodically acquire intellectual property from third-parties. In some instances, this intellectual property is prepared on a work-for-hire or similar basis, and in other instances, we license the intellectual property. We have been in the past, and expect to be in the future, party to disputes about ownership, license scope and royalty or fee terms with respect to intellectual property. Any claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements, any of which could have an adverse effect upon us. We may

also initiate claims or litigation against third-parties for infringement of our proprietary rights or to establish the validity of our proprietary rights, which could result in significant expense to us and divert the efforts of our technical and management personnel from productive tasks, whether or not such litigation were determined in our favor.

Our intellectual property rights may be significantly affected by third-party relationships and actions. We have in the past, and may in the future, resell certain software which we license from third-parties. In addition, we have in the past, and may in the future, jointly developed software in which we will have co-ownership or cross-licensing rights. There can be no assurance that these third-party software arrangements and licenses will continue to be available to us on terms that provide us with the third-party software we require, provide adequate functionality in our products on terms that adequately protect QAD's proprietary rights, or are commercially favorable to us. The loss of or inability to maintain or obtain any of these software licenses, including a loss as a result of a third-party infringement claim, could result in delays or reductions in product shipments until equivalent software, if any, could be identified, licensed or developed and integrated.

We may be exposed to product liability claims. While our license agreements with our customers typically contain provisions designed to limit our exposure to potential material product liability claims, it is possible that the limitation of liability provisions may not be effective under the laws of some jurisdictions. Although we have not experienced any product liability claims to date, we may be subject to claims in the future. We have an errors and omissions insurance policy. However, this insurance may not continue to be available to us on commercially reasonable terms, or at all. A successful product liability or errors or omissions claim brought against us could have an adverse effect on us. Moreover, defending a suit, regardless of its merits, could entail substantial expense and require the time and attention of key management personnel, either of which could have an adverse effect on us.

EMPLOYEES

As of January 31, 2002, we had approximately 1,300 full-time employees of which approximately 200 were in research and development, 500 were in support and services, 350 were in sales and marketing and 250 were in administration. Generally, our employees are not represented by collective bargaining agreements. However, certain employees of our Netherlands and France based subsidiaries are represented by statutory Works Councils as required under the local laws. Employees of our Brazil based subsidiary are represented by a collective bargaining agreement with the Data Processing Union. We believe that, in general, our employee relations are good.

BUSINESS SUMMARY

We believe that QAD is well positioned to continue its success in the enterprise solutions space and leverage that success to become a market leader in the new emerging field of collaborative commerce solutions for our multi-national, large and mid-range manufacturing customers.

We regard the combination of our applications MFG/PRO eB and QAD eQ, our QAD Interoperability Solutions, our MFGx.net service offerings, as well as our extensive global support and implementation capabilities, as a uniquely positioned end-to-end, collaborative commerce solution that provides manufacturers with significant competitive advantages, synchronized

processes across the enterprise, increased supply chain efficiency, and the ability to open new markets via collaborative commerce.

We believe our collaborative commerce solutions are well positioned to succeed in the collaborative commerce segment for the following reasons:

- QAD has developed and delivered an integrated application suite, MFG/PRO eB, QAD eQ and MFGx.net based on proven technology and deep manufacturing experience.

- QAD solutions can help manufacturers realize new efficiencies and achieve significant performance improvements in virtually every area of the manufacturing enterprise.
- QAD industry-specific solutions provide our customers with significant competitive advantage and impressive ROI.
- QAD solutions implement quickly and have a low total cost of ownership compared to other solutions.
- QAD solutions, service, and support are truly global in nature and are available in as many as 26 languages, incorporating global tax management and multi-currency capabilities tailored to local financial practices.
- QAD solutions' open architecture allows customers to integrate with other ERP or legacy systems, protecting and extending their existing IT investments.
- QAD has a passion for manufacturing excellence and for helping our customers achieve competitive advantages.

QAD's existing customer base of more than 5,300 sites, our Global Service and Support operations, our internal and extended sales operations, our marketing organization and our strategic partnerships with select partners provide significant resources with which to build our position in the market place.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information concerning our executive officers. All ages are as of March 31, 2002.

Name	Age	Position(s)
Pamela M. Lopker	47	Chairman of the Board and President
Karl F. Lopker	50	Chief Executive Officer
Kathleen M. Fisher	47	Executive Vice President and Chief Financial Officer
Vincent P. Niedzielski	48	Executive Vice President, Research and Development
Murray W. Ray	54	Executive Vice President, Global Services and Human Resources
Roland B. Desilets	40	Executive Vice President, General Counsel and Secretary
Valerie J. Miller	38	Vice President, Corporate Controller

Pamela M. Lopker founded QAD in 1979 and has been our Chairman of the Board and President since incorporation in 1981. Prior to founding QAD, Ms. Lopker served as Senior Systems Analyst for Comtek Research from 1977 to 1979. Ms. Lopker is certified in Production and Inventory Management by the American Production and Inventory Control Society.

Ms. Lopker earned a Bachelor of Arts degree in Mathematics from the University of California at Santa Barbara. Ms. Lopker is married to Karl F. Lopker.

Karl F. Lopker has served as Director and Chief Executive Officer since joining QAD in 1981. Mr. Lopker was founder and President of Deckers Outdoor Corporation from 1973 to 1981, where he currently serves as a Director. Mr. Lopker is certified in Production and Inventory Management at the Fellow level by the American Production and Inventory Control Society. Mr. Lopker studied Electrical Engineering and Computer Science at the University of California at Santa Barbara. Mr. Lopker is married to Pamela M. Lopker.

Kathleen M. Fisher is Executive Vice President and Chief Financial Officer (CFO). She joined QAD in March 2000. Prior to joining QAD, Ms. Fisher served as the financial executive of Adept Technology, an automation software and hardware manufacturer, in San Jose, California. She has also served as CFO for Borland Corporation, formerly Inprise Corporation, and Softbank Content, Inc. Ms. Fisher received a Bachelor of Science degree in Business Administration from the University of Redlands and a Master of Business Administration degree from the University of Southern California in Los Angeles.

Vincent P. Niedzielski is Executive Vice President, Research and Development. He joined QAD in April 1996. Prior to joining QAD, Mr. Niedzielski served as Vice President, Production and Development at Candle Corporation from 1984 to 1996. Mr. Niedzielski holds a Bachelor of Science degree in Mathematics and Computer Science from the University of Scranton.

Murray W. Ray is Executive Vice President, Global Services and Human Resources. Mr. Ray joined QAD in August 1996 and was appointed Vice President of Global Services and Human Resources in October 1998 and February 2001, respectively. Prior to joining QAD, he served 11 years at Compaq Computer Corporation, formerly Digital, as Industrial Marketing Manager and then Director of Professional Services. He also served as Director of Professional Services at AT&T. Mr. Ray earned a Bachelor of Science Degree in Mathematics and Statistics from the University of Western Australia and he has graduated from the advanced management programs at the Australian Management College and the University of Hawaii.

Roland B. Desilets is Executive Vice President, General Counsel and Secretary. He rejoined QAD in April 2001, after spending one year as Vice President and General Counsel of Atlas Commerce, Inc., a Safeguard Scientifics company. Prior to this, he served as Corporate General Counsel and Regional General Counsel at QAD since 1998 and 1993, respectively. Before joining QAD in 1993, Mr. Desilets served as intellectual property counsel for Unisys Corporation. He holds a Juris Doctor degree from Widener University School of Law, a Master of Science degree in Computer Science from Villanova University, and a Bachelor of Science degree in Physics from Ursinus College.

Valerie J. Miller is Vice President, Corporate Controller. She joined QAD as Assistant Corporate Controller in May 1999 and was appointed Vice President, Corporate Controller and Chief Accounting Officer in June 2001. Prior to joining QAD, Ms. Miller served eight years with Allergan, a specialty pharmaceutical company, in various financial positions. She began her career at the public accounting firm of Ernst & Young. Ms. Miller

is a Certified Public Accountant and received her Bachelor of Arts degree in Business Economics/Accounting from the University of California at Santa Barbara.

SEGMENT REPORTING

Segment financial information for fiscal years 2002, 2001 and 2000 is presented in footnote 9 of our financial statements included in Item 14 of this Annual Report on Form 10-K.

ITEM 2. PROPERTIES

QAD is headquartered in Carpinteria, California, in approximately 91,000 square feet of leased space in three facilities with lease commitments ranging from 2004 to 2011. QAD owns 28 acres with approximately 54,000 square feet of existing office space in Summerland, California, a neighboring community. This property carries an entitlement for the construction of a company headquarters. QAD is currently taking steps to preserve these entitlements and investigating the possibility of further construction. In addition, QAD owns a 34-acre parcel in Carpinteria, California, and there are no immediate plans to develop this property.

The company has over 30 additional offices located across our four geographic regions with an aggregate square footage of approximately 250,000 square feet and lease commitments ranging from 2002 until 2019. This includes major offices located in the United States, the Netherlands, Australia, the United Kingdom, Mexico, Poland, Thailand, China, France and Japan.

Although we may seek new or expanded facilities in the future, we expect that our current domestic and international facilities will be sufficient to meet our needs for at least the next 12 months.

ITEM 3. LEGAL PROCEEDINGS

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

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

QAD common stock has been traded on the Nasdaq National Market since our initial public offering in August 1997 (under the symbol QADI). According to records of our transfer agent, we had approximately 400 stockholders of record as of April 15, 2002. The following table sets forth the high and low closing prices for QAD's common stock as reported by Nasdaq in each quarter of the last two fiscal years.

	Low Price	High Price
Fiscal year 2002:		
Fourth quarter	$ 2.16	$ 3.45
Third quarter	1.62	3.50
Second quarter	2.51	3.99
First quarter	2.06	3.88
Fiscal year 2001:		
Fourth quarter	$ 1.19	$ 3.06
Third quarter	2.16	3.63
Second quarter	3.06	7.00
First quarter	5.25	14.88

Our policy has been to reinvest earnings to fund future growth. Accordingly, we have not paid dividends and we do not anticipate declaring dividends on our common stock in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

Years Ended January 31,				
2002	2001	2000	1999	1998

(in thousands, except per share data)

STATEMENTS OF OPERATIONS DATA:					
Total revenue	$ 204,009	$ 214,075	$ 239,262	$ 193,344	$ 170,770
Operating income (loss)	(832)	(19,011)	(9,780)	(34,806)	14,695
Net income (loss)	(5,313)	(25,406)	(16,336)	(35,921)	9,856
Basic and diluted net income (loss) per share	(0.16)	(0.76)	(0.54)	(1.22)	0.38
BALANCE SHEET DATA:					
Total assets	158,009	181,462	214,371	200,055	190,506
Long-term debt	15,345	19,460	21,890	6,526	39

We have made eight acquisitions since the third quarter of fiscal year 1999. Results of operations of the acquired entities have been included in the financial statements since the respective dates of acquisition. Acquisitions are described in greater detail in footnote 2 of our financial statements included in Item 14 of this Annual Report on Form 10-K.

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

INTRODUCTION

The following discussion should be read in conjunction with our financial statements and notes thereto included in Item 14 of this Annual Report on Form 10-K.

OVERVIEW

Founded in 1979, QAD has been recognized as a leading provider of enterprise resource planning (ERP) software applications for manufacturers. With the advent of the Internet, we advanced our manufacturing solutions to include e-business capabilities. With the development of enabling technologies, our solutions have advanced even further to include *collaborative commerce* for manufacturers. Today's QAD solutions build on our core competency in multi-site manufacturing and distribution operations and help global manufacturers efficiently manage resources within and beyond the enterprise. QAD solutions empower manufacturers to collaborate with their customers, suppliers and partners to make and deliver the right product, at the right costs and at the right time.

QAD has built a solid customer base of global Fortune 1000 manufacturers who are excellent prospects for QAD's next generation collaborative commerce solutions. With a proven track record of over 20 years of industry leadership, and more than 5,300 installations of our software around the world, QAD is ideally qualified to meet the business and technology requirements of global manufacturing enterprises worldwide. QAD focuses its efforts in select industry segments: automotive, consumer products, electronics, food and beverage, industrial and medical industries. We develop our products with constant and direct input from leading global manufacturers within the vertical markets we serve.

Global service and support is an important component of our solutions. QAD Global Services utilizes a proven implementation methodology and has earned a reputation for on-time implementations and rapid time-to-benefit for our solutions.

CRITICAL ACCOUNTING POLICIES

We consider certain accounting policies related to revenue recognition, accounts receivable allowances, impairment of long-lived assets and valuation of deferred tax assets to be critical policies due to the estimation processes and management's judgment involved in each.

- *Revenue Recognition.* QAD licenses its software under non-cancelable license agreements including third-party software sold in conjunction with QAD software, provides customer support and provides services including technical, implementation and training. Revenue is recognized in accordance with Statement of Position (SOP) No. 97-2, "Software Revenue Recognition," as modified by SOP No. 98-9, "Modification of SOP No. 97-2, Software Revenue Recognition with Respect to Certain Transactions" and Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." Our revenue recognition policy is as follows:

  License Revenue. We recognize revenue from license contracts when a non-cancelable, non-contingent license agreement has been signed, the software product has been delivered, no uncertainties exist surrounding product acceptance, fees from the agreement are fixed and determinable, and collection is probable. We use the residual

method to recognize revenue when a license agreement includes one or more elements to be delivered at a future date if evidence of the fair value of all undelivered elements exists. If evidence of the fair value of the undelivered elements does not exist, revenue is deferred and recognized when delivery occurs. Certain judgments affect the application of our license revenue recognition policy, such as the assessment of collectibility for which we review a customer's credit worthiness and our historical experience with that customer, if applicable.

Maintenance Revenue. Revenue for ongoing customer support and product updates is recognized ratably over the term of the maintenance period, which in most instances is one year.

Services Revenue. Revenue from technical and implementation services is recognized as the services are performed for the time-and-materials contracts. Revenue from training services is recognized as the services are performed.

We believe that we are currently in compliance with SOP No. 97-2, SOP No. 98-9 and SAB No. 101. However, the accounting profession continues to discuss various provisions of these guidelines with the objective of providing additional guidance on their future application. These discussions and the issuance of new interpretations, once finalized, could lead to unanticipated changes in recognized revenue. They could also drive significant adjustments to our business practices that could result in increased administrative costs, lengthened sales cycles and other changes that could affect our results of operations.

- *Accounts Receivable Allowances.* We review the collectibility of our accounts receivable each period by analyzing balances based on age and record specific allowances for any balances that we determine may not be fully collectible. We also provide an additional reserve based on historical data including analysis of credit memo data and other known factors. These determinations require management's judgment. Actual collection of these balances may differ due to global or regional economic factors, challenges faced by customers within our targeted vertical markets or specific financial difficulties of individual customers.

- *Impairment of Long-Lived Assets and Valuation of Deferred Tax Assets.* Our long-lived assets include goodwill, intangibles, deferred taxes and other assets. At January 31, 2002, we had $10.1 million of goodwill and other intangible assets, and $0.3 million of net deferred tax assets, current and non-current, which when combined account for approximately 7% of our total assets. In assessing the recoverability of our goodwill and intangibles we must make assumptions regarding estimated future cash flows to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets not previously recorded. During the year ended January 31, 2002, we recorded a $2.1 million impairment loss related to goodwill and other intangible assets. For fiscal year 2003, we will adopt Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) and will be required to analyze goodwill for impairment issues during the first six months of fiscal year 2003, and then on a periodic basis thereafter. For a further discussion of SFAS 142, see "RECENT ACCOUNTING STANDARDS" in this Item 7.

  Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", requires that the carrying value of our net deferred tax assets reflect an amount that is more likely than not to be realized. In assessing the likelihood of realizing tax benefits

associated with deferred tax assets and the need for a valuation allowance, we consider future taxable income and tax planning strategies that are both prudent and feasible. Should we determine that we would be able to realize deferred tax assets in the future in excess of the net recorded amount, an adjustment to deferred tax assets would decrease tax expense in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of the net deferred tax asset in the future, an adjustment to deferred tax assets would increase tax expense in the period such determination was made.

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:

	Years Ended January 31,		
	2002	2001	2000
Revenue:			
License fees	31 %	32 %	40 %
Maintenance and other	51	46	38
Services	18	22	22
Total revenue	100	100	100
Costs and expenses:			
Cost of license fees	6	6	9
Other cost of revenue	36	41	36
Sales and marketing	29	31	33
Research and development	15	16	14
General and administrative	11	11	10
Amortization of intangibles from acquisitions	2	2	2
Impairment loss	1	—	—
Restructuring charge	—	2	—
Total costs and expenses	100	109	104
Operating income (loss)	—	(9)	(4)
Other expense	1	—	1
Loss before income taxes	(1)	(9)	(5)
Income tax expense	2	3	2
Net loss	(3)%	(12)%	(7)%

Total revenue. Total revenue for fiscal year 2002 was $204.0 million, a decrease of $10.1 million or 5% from fiscal year 2001. License

revenue decreased by $6.4 million due to the slowdown in corporate IT spending within our core customer base of manufacturers prompted by current economic conditions. During the year, there were four orders for our private trading exchange application suite, QAD eQ, with one order of approximately $1 million. Maintenance and other revenue increased $5.3 million due to growth in our installed base, partially offset by a decline in hardware sales. Services revenue declined $9.0 million due to a reduction in the number of large license sales that lead to large systems implementation projects.

Total revenue for fiscal year 2001 was $214.1 million, a decrease of $25.2 million or 11% from fiscal year 2000. This decrease was primarily due to declines in license fees and services revenue, partially offset by continued growth in maintenance revenue. During fiscal year 2001, our customers shifted their focus from dealing with the Y2K problem to planning and developing coherent e-business strategies. This shift caused an "e-business pause" and delayed purchasing decisions on both the traditional enterprise systems and the advanced e-business solutions we offer, negatively impacting our license revenue. The decrease in services revenue relates to decreased utilization of our service consultants in conjunction with lower license sales. Maintenance and other revenue continued to grow due to expansion of our installed base.

As a result of these factors, revenue mix has shifted toward maintenance revenue, growing from 38% of total revenue in fiscal year 2000 to 46% and 51% in fiscal years 2001 and 2002, respectively. License revenue was 40% of total revenue in fiscal year 2000, declining to 32% in fiscal year 2001 and 31% in fiscal year 2002. Services revenue has declined from 22% of total revenue in fiscal year 2000 and 2001 to 18% in fiscal year 2002.

No single customer has accounted for more than 10% of our total revenue in any of the last three fiscal years. However, it is not uncommon to obtain a multi-million dollar contract with a single customer.

Total Cost of Revenue. Total cost of revenue (combined cost of license fees and other cost of revenue) as a percentage of total revenue was 42%, 47% and 45% in fiscal years 2002, 2001 and 2000, respectively. The five percentage point decrease from fiscal year 2001 to fiscal year 2002 was due primarily to improvements in our maintenance margin due to lower personnel and related costs in line with our continued cost containment measures. The two percentage point increase from fiscal year 2000 to fiscal year 2001 was primarily due to lower service margins from decreased utilization of service consultants in conjunction with the lower license sales.

Sales and Marketing. Sales and marketing expense was $59.4 million, $66.5 million and $80.1 million for fiscal years 2002, 2001, and 2000, respectively. These declines were due primarily to lower personnel and related costs resulting from our continued cost containment efforts. Fiscal year 2002 also included a reduction in partner fees that are paid to distributors and sales agents, primarily in connection with the sale of QAD licenses and first year maintenance.

Research and Development. Research and development expense was $31.7 million, $34.5 million and $34.1 million in fiscal years 2002, 2001 and 2000, respectively. The fiscal year 2002 decline primarily related to decreased personnel and related expenses due to our continued cost containment efforts. This decline was partially offset by lower capitalized expenses for translations and localizations of our products. It should be noted that we have successfully contained research and development expenses while increasing our investment in the development of our new technologies, QAD eQ and MFGx.net, as well as adding functionality to MFG/PRO eB.

General and Administrative. General and administrative expense remained relatively flat at $22.9 million for fiscal year 2002 compared to $22.5 million for fiscal year 2001. General and administrative expense decreased from $23.2 million for fiscal year 2000 to $22.5 million for fiscal year 2001 due to cost controls related to restructuring activities.

Amortization of Intangibles from Acquisitions. Amortization of intangibles from acquisitions totaled $3.5 million, $4.6 million and $4.4 million in fiscal years 2002, 2001 and 2000, respectively.

The decline from fiscal year 2001 to 2002 was related to certain intangible assets that became fully amortized during fiscal year 2002.

Impairment Loss. In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", we periodically review long-lived assets for impairment in value based upon undiscounted future operating cash flows from those assets. Appropriate losses are recognized whenever the carrying amount of an asset may not be recovered. As of January 31, 2002, we determined that the technology related to Enterprise Engines, Inc. (EEI) was impaired, and deemed to have no fair value due to our shift from the use of the EEI toolset to the IBM WebSphere toolset underlying our QAD eQ product. Accordingly, an impairment loss of $2.1 million was recorded to the fiscal year 2002 statement of operations related to the remaining book value of EEI goodwill and other intangible assets.

Restructuring Charge. During the past three years, we have implemented restructuring programs designed to strengthen operations and financial performance. Accordingly, restructuring charges (including adjustments) of $0.1 million, $5.1 million and $1.2 million were recorded for fiscal year 2002, 2001 and 2000, respectively. Below is a discussion of the respective restructuring programs.

During fiscal year 2000, we continued our fiscal year 1999 initiative which more closely aligned costs with sales expectations in response to changes in customers' manufacturing capital software spending patterns. The fiscal year 2000 program resulted in a $1.2 million charge that primarily related to employee termination costs and included an adjustment to the fiscal year 1999 restructuring charge. At January 31, 2001, the entire fiscal year 2000 restructuring charge was utilized.

During fiscal year 2001, we undertook several initiatives to strengthen operating and financial performance by sharpening the focus of our e-business and business intelligence solutions for multi-national customers. The related actions resulted in a $5.1 million charge taken in the third quarter of fiscal year 2001, and included facility consolidations ($1.0 million), a reduction of approximately 150 employees, contractors and consultants across most regions and functions ($2.2 million) and associated asset write-downs ($1.9 million). As of January 31, 2002, $3.9 million

of this charge was utilized and $1.0 million was adjusted downwards because final amounts required were lower than originally estimated. We expect to pay the remaining balance of $0.2 million, primarily consisting of lease obligations, by the end of fiscal year 2007.

In fiscal year 2002, we continued our fiscal year 2001 initiative resulting in additional charges of $1.1 million. This expense primarily related to the reduction of office space in three of our North American locations. In addition, during fiscal year 2002, we recorded adjustments of $1.0 million to the fiscal year 2001 restructuring accrual, primarily related to employee termination costs that were lower than originally anticipated. As of January 31, 2002, of the $1.1 million fiscal year 2002 restructuring charges, $0.3 million had been utilized. The remaining balance of $0.8 million, related to lease obligations, is expected to be paid through fiscal year 2007.

Total Other (Income) Expense. Total other (income) expense was $1.6 million, $0.7 million and $1.5 million in fiscal years 2002, 2001 and 2000, respectively. The increase in expense from fiscal year 2001 to 2002 was primarily due to an unfavorable change in foreign currency transaction and remeasurement losses. The decrease in expense from fiscal year 2000 to 2001 was due to an increase in interest income related to higher cash and equivalents and short-term investment

balances and a favorable change in foreign currency transaction and remeasurement gains and losses. This improvement was partially offset by an increase in interest expense due to higher debt throughout fiscal year 2001.

Income Tax Expense. We recorded income tax expense of $2.9 million, $5.7 million and $5.1 million in the years ended January 31, 2002, 2001 and 2000, respectively. Fiscal year 2002 income tax expense represented taxes in profitable jurisdictions. Fiscal year 2001 income tax expense included $2.5 million for taxes in the jurisdictions that were profitable and a $3.2 million valuation allowance on deferred tax assets. Fiscal year 2000 income tax expense included $3.8 million for taxes in profitable jurisdictions and $1.3 million in tax charges related to a valuation allowance and an IRS audit of the years 1995 and 1996. We have not provided tax benefits for the jurisdictions in loss positions due to management's determination regarding the uncertainty of the realization of these tax benefits.

PRO FORMA FINANCIAL RESULTS

Pro forma information is provided below to assist in evaluating our performance on a more consistent year-to-year basis. Pro forma amounts have been adjusted to exclude amortization of intangibles from acquisitions, a goodwill impairment loss, restructuring charges and significant deferred tax asset valuation allowances. Pro forma adjustments are detailed below in a reconciliation from net loss calculated in accordance with accounting principles generally accepted in the United States to pro forma net income (loss).

	Years Ended January 31,		
	2002	2001	2000
	(in thousands)		
Reconciliation of net loss to pro forma net income (loss):			
Net loss	$ (5,313)	$ (25,406)	$ (16,336)
Adjustments to net loss:			
Amortization of intangibles from acquisitions	3,538	4,596	4,382
Impairment loss	2,066	—	—
Restructuring charge	93	5,076	1,152
Tax valuation allowance adjustment	—	3,191	670
Pro forma net income (loss)	$ 384	$ (12,543)	$ (10,132)
Pro forma basic net income (loss) per share	$ 0.01	$ (0.38)	(0.33)
Pro forma basic weighted shares	34,055	33,433	30,509
Pro forma diluted net income (loss) per share	$ 0.01	$ (0.38)	(0.33)
Pro forma diluted weighted shares	34,324	33,433	30,509

On a pro forma basis, we achieved profitability of $0.01 per share in fiscal year 2002. This is a significant improvement over the $0.38 and $0.33 pro forma net loss per share in fiscal year 2001 and 2000, respectively.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our operations and met our capital expenditure requirements through cash flows from operations, sale of equity securities and borrowings. Cash and equivalents were $50.8 million and $36.5 million at January 31, 2002 and 2001, respectively. Our working capital was $22.7 million and $17.6 million as of January 31, 2002 and 2001, respectively. The increase in working capital is primarily due to a $14.3 million increase in cash, an $8.5 million reduction in accounts payable and accrued expenses and a $4.9 million decrease in deferred revenues and other, partially offset by a $20.8 million decrease in accounts receivable.

Accounts receivable, net of the allowance for doubtful accounts and sales adjustments, decreased to $59.7 million at January 31, 2002, from $80.5 million at January 31, 2001. Accounts receivable days' sales outstanding, using the countback method, decreased to 75 days at January 31,

2002, from 99 days at January 31, 2001. This decline reflects increased management focus on the collection process. Net cash provided by operating activities was $21.5 million, $12.6 million and $9.6 million in fiscal years 2002, 2001 and 2000, respectively. The increase from fiscal year 2001 to 2002 relates primarily to the decreased net loss and increased accounts receivable collections, offset by a decrease in deferred revenue and other in fiscal year 2002. The increase from fiscal year 2000 to 2001 is primarily due to increased accounts receivable collections and the noncash portion of the fiscal year 2001 restructuring charge, partially offset by the increased net loss and net reduction of accrued expenses.

Net cash used in investing activities primarily relates to the purchase of property and equipment and aggregated $4.5 million, $7.8 million and $7.4 million in fiscal years 2002, 2001 and 2000, respectively. At January 31, 2002, we did not have any material commitments for capital expenditures. However, we are investigating the possibility of construction of a company headquarters on property owned by QAD in Summerland, California, a neighboring community to its existing headquarters in Carpinteria, California.

The net cash provided by (used in) financing activities totaled $(2.4) million, $(1.7) million and $20.2 million in fiscal years 2002, 2001 and 2000, respectively. Net cash provided by (used in) financing activities primarily relates to a fiscal year 2000 common stock private placement, as well as proceeds and repayments of borrowings. During fiscal year 2002, we paid $2.0 million of principal on the term portion of our five-year senior credit facility with Foothill Capital Corporation.

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

RECENT ACCOUNTING STANDARDS

In June 2001, Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) were issued. SFAS 141, among other things, requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with its provisions. SFAS 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of

Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS 121). SFAS 141 became effective June 30, 2001, and we are required to adopt the provisions of SFAS 142 effective February 1, 2002.

SFAS 142 requires reassessment of the useful lives and residual values of all intangible assets acquired in purchase business combinations and making any necessary amortization period adjustments by the end of the first interim period after adoption. For intangible assets having an indefinite useful life, any impairment loss to be measured as of the date of adoption is to be recognized as the cumulative effect of a change in accounting principle in the first interim period after adoption.

SFAS 142 also requires an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. We will then have up to six months from that date to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. If an indication exists that the reporting unit's goodwill may be impaired, the implied fair value of the reporting unit's goodwill must be compared to its carrying amount. This comparison is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in our consolidated statement of operations.

Unamortized goodwill was $8.3 million as of January 31, 2002. Amortization expense related to goodwill was $1.2 million, $1.1 million and $1.0 million for the fiscal years 2002, 2001 and 2000, respectively. We will complete the initial goodwill impairment assessment in fiscal year 2003 to determine if a transition impairment charge should be recognized under SFAS 142. At this time, it is not practical to reasonably estimate whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

In August 2001, Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144) was issued. SFAS 144 supersedes both SFAS 121 and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (Opinion 30), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS 144 retains the fundamental provisions of SFAS 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS 121. SFAS 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS 121, an impairment assessment under SFAS 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS 142.

We are required to adopt SFAS 144 no later than the fiscal year beginning after December 15, 2001, and plan to adopt its provisions for the quarter ending April 30, 2002. We do not expect the adoption of SFAS 144 for long-lived assets held for use to have a material impact on our financial statements because the impairment assessment under SFAS 144 is largely unchanged from SFAS 121. The provisions of the statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. Therefore, management cannot determine the potential effects that adoption of SFAS 144 will have on our financial statements.

In November 2001, the Financial Accounting Standards Board issued Staff Announcement Topic D-103, "Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred" (SAT 103). SAT 103 requires companies to characterize reimbursements received for out-of-pocket expenses incurred as revenue in the statement of operations. Currently, we classify reimbursed out-of-pocket expenses as a reduction to the related expenses in the accompanying consolidated statements of operations.

SAT 103 is to be applied in financial reporting periods beginning after December 15, 2001, and we plan to adopt this announcement in the first quarter of fiscal year 2003. Comparative financial statements for prior periods will include reclassifications to comply with the guidance of this announcement. It will not affect net income or loss in any past or future period, but will increase both services revenue and other cost of revenue. We do not anticipate that the adoption of SAT 103 will have a material impact on total gross margin.

FACTORS THAT MAY AFFECT FUTURE RESULTS AND MARKET PRICE OF STOCK

HISTORICAL FLUCTUATIONS IN QUARTERLY RESULTS AND POTENTIAL FUTURE SIGNIFICANT FLUCTUATIONS

Our quarterly revenue, expenses and operating results have varied significantly in the past. We anticipate that such fluctuations will continue in the future as a result of a number of factors, many of which are outside our control. The factors affecting these fluctuations include demand for our products and services, the size, timing and structure of significant licenses purchased by customers, market acceptance of new or enhanced versions of our software products and products that operate with our products, the publication of opinions about us, our products and technology by industry analysts, the entry of new competitors and technological advances by competitors, delays in localizing our products for new markets, delays in sales as a result of lengthy sales cycles, changes in operating expenses, foreign currency exchange rate fluctuations, changes in pricing policies by us or our competitors, customer order deferrals in anticipation of product enhancements or new product offerings by us or our competitors, the timing of the release of new or enhanced versions of our software products and products that operate with our products, changes in the method of product distribution and licensing (including the mix of direct and indirect channels), product life cycles, changes in the mix of products and services licensed or sold by us, customer cancellation of major planned software development programs and general economic factors.

We have also historically recognized a substantial portion of our revenue from sales booked and shipped in the last month of a quarter. As a result, the magnitude of quarterly fluctuations in license fees may not become evident until late in, or at the end of, a particular quarter. If sales forecasted from a specific customer for a particular quarter are not realized in that quarter, we are unlikely to be able to generate revenue from alternate sources in time to compensate for the shortfall. As a result, a lost or delayed sale could have an adverse effect on our quarterly operating results. To the extent that significant sales occur earlier than expected, operating results for subsequent quarters may be adversely affected. We have also historically operated with little backlog for licenses because our products are generally shipped as orders are received. As a result, revenue from license fees in any quarter is substantially dependent on orders booked and shipped in that quarter and on sales by our distributors and other resellers. Sales derived through indirect channels are more difficult to predict and may have lower profit margins than direct sales.

A significant portion of our revenue in any quarter may be derived from a limited number of large, non-recurring license sales. We expect to continue to experience from time to time large, individual license sales, which may cause significant variations in quarterly license fees. We also believe that the purchase of our products is relatively discretionary and generally involves a significant commitment of a customer's capital resources. Therefore, a downturn in any potential customer's business could result in order cancellations that could have a significant adverse impact on our revenue and quarterly results. Moreover, declines in general economic conditions could precipitate significant reductions in corporate spending for information technology, which could result in delays or cancellations of orders for our products.

Our service-related revenue may not reduce the quarterly fluctuations in our revenue. Additionally the services business reduces our gross margins and services staffing increases our overhead. During fiscal year 2002, customer demand for QAD services declined due significantly to reduced license sales with which such services are associated. However, services revenue remains a substantial part of our business. While the expenses associated with services operations are relatively predictable, the revenues are dependent upon the timing and size of customer orders to provide the services. To the extent that these services operations fail to secure orders from customers to provide services on a regular basis, our results may be negatively affected.

Our expense level is relatively fixed and is based, in significant part, on expectations of future revenue. Because our expense level is relatively fixed, if revenue levels are below expectations, expense could be disproportionately high as a percentage of total revenue. If this were to occur, operating results would be immediately and adversely affected and losses could occur.

Because of the significant fluctuations in our revenue, period-to-period comparisons may not be meaningful. Based upon the factors described above, we believe that our quarterly revenue, expenses and operating results are likely to vary significantly in the future, that period-to-period comparisons of our results of operations are not necessarily meaningful and that, as a result, these comparisons should not be relied upon as indications of future performance. Moreover, there can be no assurance that our revenue will grow in future periods or that we will be profitable on a quarterly or annual basis. We have in the past experienced and may in the future experience quarterly losses.

RISKS ASSOCIATED WITH SALES CYCLE

Our products involve a long sales cycle and the timing of sales is difficult to predict. Because the licensing of our products generally involves a significant commitment of capital (which ranges from approximately $50,000 to several million dollars), the sales cycle associated with a customer's purchase of our products is generally lengthy (with a typical duration of 4 to 15 months), varies from customer to customer and is subject to a number of significant risks over which we have little or no control. These risks include customers' budgetary constraints, timing of budget cycle, concerns about the introduction of new products by us or our competitors and general economic downturns that can result in delays or cancellations of information systems investments. Due in part to the strategic nature of our products, potential customers are typically cautious in making product acquisition decisions. We have seen the results of this in the post-Y2K downturn in the software industry and in the more recent pause as companies evaluate the move to e-business solutions. The decision to license our products generally requires us to provide a significant level of education to prospective customers regarding the uses and benefits of our products, and we must frequently commit substantial presales support resources. While we believe we have

established a robust global support and services organization over the past several years, we continue to rely on third-parties for a substantial portion of our implementation and systems support services, which in the past caused sales cycles to be lengthened and may have resulted in the

loss of sales. Further, the uncertainty of the outcome of our sales efforts and the length of our sales cycles could still result in substantial fluctuations in operating results. If sales forecasted from a specific customer for a particular quarter are not realized in that quarter, then we are unlikely to be able to generate revenue from alternative sources in time to compensate for the shortfall. As a result, and due to the relatively large size of some orders, a lost or delayed sale could have an adverse effect on our quarterly operating results.

DEPENDENCE ON THIRD-PARTY PRODUCTS

We are dependent on third-party products, particularly Progress software. Our MFG/PRO software is written in a programming language that is proprietary to Progress Software Corporation (Progress). We have entered into a license agreement with Progress that provides us and each of our subsidiaries, among other things, with the perpetual, worldwide, royalty-free right to use the Progress programming language to develop and market our software products. The agreement also provides for continued software support from Progress through June 2002 without charge to us. Progress may only terminate the agreement upon our adjudication as bankrupt, liquidation or other similar event, or if we have ceased business operations in full. We are currently in discussions with Progress to extend this agreement. Our success is dependent upon Progress continuing to develop, support and enhance its programming language, its toolset and database, as well as the continued market acceptance of Progress as a standard database program. We have in the past and may in the future experience product release delays because of delays in the release of Progress products or product enhancements. Any of these delays could have an adverse effect on our business, operating results and financial condition. MFG/PRO software employs Progress programming interfaces that allow MFG/PRO software to operate with Oracle Corporation database software. However, our MFG/PRO software does not run within programming environments other than Progress and our customers must acquire rights to Progress software in order to use MFG/PRO software.

We also are reliant on the Java programming language (Java) in developing and supporting our products. For instance, the user interface for MFG/PRO software products employs Java. The QAD eQ software is also written in Java and is implemented using the IBM WebSphere components. The success of QAD eQ is dependent upon the continued acceptance of Java as well as on the continued support of the WebSphere components product by IBM and its acceptance in the market. The failure to successfully incorporate Java in new products, to convert MFG/PRO software to Java-interfaced Progress software components, to extend the MFG/PRO Java user interfaces, or of Java or Enterprise Java Beans technology to achieve market acceptance could have an adverse effect on us.

We also maintain a number of development and product alliances with other third-parties. These alliances include software developed to be sold in conjunction with QAD software products, technology developed to be included in or encapsulated within QAD software products and numerous third-party software programs that generally are not sold with QAD software but interoperate directly with QAD software through application program interfaces. We generally enter into joint development agreements with our third-party software development partners that govern ownership of the technology collectively developed. Each of our partner agreements and third-party development or reseller agreements contain strict confidentiality and non-disclosure

provisions for the service provider, end-user and third-party developer. Our third-party development agreements contain restrictions on the use of QAD technology outside of the development process. Any failure to establish or maintain successful relationships with these third-party software providers or third-party installation, implementation and development partners or failure of these third-party software providers to develop and support their software could have an adverse effect on us.

RAPID TECHNOLOGICAL CHANGE

The market for our software products is characterized by rapid technological advances, evolving industry standards in computer hardware and software technology, changes in customer requirements and frequent new product introductions and enhancements. Customer requirements for products can change rapidly as a result of innovations or changes within the computer hardware and software industries, the introduction of new products and technologies (including new hardware platforms and programming languages) and the emergence, evolution or widespread adoption of industry standards. For example, increasing commercial use of the Internet is giving rise to new customer requirements and new industry standards. Our future success will depend upon our ability to continue to enhance our current product line and to develop and introduce new products that keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance. In particular, we believe our future success will depend on our ability to convert our products to component objects, as well as our ability to develop products that will operate and interoperate across the Internet. We cannot ensure that we will be successful in developing and marketing, on a timely and cost-effective basis, product enhancements or new products that respond to technological advances by others. Our products may also not achieve market acceptance. Our failure to successfully develop and market product enhancements or new products could have an adverse effect on us.

New software releases and enhancements may adversely affect our software sales. While we generally take steps to avoid interruptions of sales due to the pending availability of new products, customers may delay their purchasing decisions in anticipation of the general availability of new or enhanced QAD software or other software, which could have an adverse effect on us. The actual or anticipated introduction of new products, technologies and industry standards can also render existing products obsolete or unmarketable or result in delays in the purchase of those products. As a result, the life cycles of our products are difficult to estimate. We must respond to developments rapidly and incur substantial product development expenses. Any failure by QAD to anticipate or respond adequately to developments in technology or customer requirements, or any significant delays in introduction of new products, could result in a loss of revenue. Moreover, significant delays in the general availability of new releases, significant problems in the installation or implementation of new releases, or customer dissatisfaction with new releases could adversely affect us.

QAD eQ AND OTHER COLLABORATIVE COMMERCE SOLUTIONS

The market for QAD eQ and other collaborative commerce solutions is uncertain. A significant element of our strategy is the acceptance of our QAD eQ product and the development of other collaborative commerce software, a series of new solutions targeted at the collaborative commerce business needs of manufacturing companies. We have devoted substantial resources to developing our QAD eQ software and working with third-parties to develop software components that may be included as part of or encapsulated within QAD eQ software. We have several customers that are

implementing and using this private trading exchange applications suite. However, we cannot ensure our other planned releases for QAD eQ or other collaborative commerce software solutions, whether developed by us or third-parties, will achieve the performance standards required for commercialization. In addition, our QAD eQ software or other collaborative commerce software solutions may not achieve market acceptance or be profitable. If QAD eQ software or our other planned collaborative commerce software solutions do not achieve such performance standards or do not achieve market acceptance, we would be adversely affected.

The underlying technology for our new applications is new and dependent on specific technologies. QAD eQ software is being designed and built using the object-oriented technology of Sun Microsystems—Java 2 Enterprise Edition (J2EE). QAD eQ software depends on the commercial success of platforms that support Enterprise Java Beans in Application Server environments such as the IBM WebSphere development environment and the WebSphere Business Components framework supplied by IBM. Similar to the way our MFG/PRO software is dependent upon Progress language and database technology, our QAD eQ software is dependent on Java, Enterprise Java Beans, and technology supplied by IBM.

Object-oriented applications, such as QAD eQ software, are characterized by technology development styles and programming languages that differ from those used in traditional software applications. We believe that the flexibility inherent in object-based functionality will play a key role in the competitive manufacturing, distribution, financial, planning and service/support management information technology strategies of customers in our targeted industry segments. We cannot ensure that we will be successful in developing our other planned collaborative commerce software on a timely basis or that this software or our QAD eQ software will achieve market acceptance.

MARKET CONCENTRATION

Our target markets are concentrated and, as a result, we are dependent upon achieving success in those markets. We have made a strategic decision to concentrate our product development and sales and marketing in certain primary vertical industry segments—automotive, consumer products, electronics, food and beverage, industrial and medical. An important element of our strategy is to achieve technological and market leadership recognition for our software products in these segments. The failure of our products to achieve or maintain substantial market acceptance in one or more of these segments could have an adverse effect on us. If any of these targeted industry segments experiences a material slowdown in expansion or in prospects for future growth, that downturn would adversely affect the demand for our products. A discussion of concentration of our credit risk is contained in footnote 1 of our financial statements included in Item 14 of this Annual Report on Form 10-K.

DEPENDENCE UPON KEY PERSONNEL

We are dependent upon key personnel. Our future operating results depend in significant part upon the continued service of a relatively small number of key technical and senior management personnel, including Founder, Chairman of the Board and President, Pamela M. Lopker, and Chief Executive Officer, Karl F. Lopker, neither of whom is bound by an employment agreement. Pamela and Karl Lopker are married to each other and, as of April 15, 2002, jointly own approximately 53% of QAD's outstanding common stock. The loss of one or more of these or other key individuals could have an adverse effect on QAD. We do not currently have key-person insurance covering any of our employees.

Our future success also depends on our continuing ability to attract and retain other highly qualified technical and managerial personnel. Competition for these personnel can be intense, and we have at times experienced difficulty in recruiting and retaining qualified personnel. We may be unable to retain our key technical and managerial employees and we may not be successful in attracting, assimilating and retaining other highly qualified technical and managerial personnel in the future. The loss of any member of our key technical and senior management personnel or the inability to attract and retain additional qualified personnel could have an adverse effect on us.

DEPENDENCE UPON DEVELOPMENT AND MAINTENANCE OF SALES AND MARKETING CHANNELS

We are dependent upon the development and maintenance of sales and marketing channels. We sell and support our products through direct and indirect sales organizations throughout the world. In the past, we have made significant expenditures in the expansion of our sales and marketing force, primarily outside the United States. More recently, we have conducted certain restructurings and have tailored our sales and marketing expenditures to align more closely with our targeted vertical markets. Our future success will depend in part upon the productivity of our sales and marketing force and our ability to continue to attract, integrate, train, motivate and retain new sales and marketing personnel. Competition for sales and marketing personnel in the software industry can be intense. We cannot ensure that we will be successful in hiring these personnel in accordance with our plans. Neither can there be assurance that our recent and planned expenses in sales and marketing will ultimately prove to be successful or that the incremental revenue generated will exceed the significant incremental costs associated with these efforts. In addition, our sales and marketing organization may not be able to compete successfully against the significantly more extensive and better funded sales and marketing operations of many of our current and potential competitors. If we are unable to develop and manage our sales and marketing force effectively, we could be adversely affected.

Our indirect sales channel consists of over 30 distributors and sales agents worldwide (sales channels). We do not grant exclusive distribution rights to our sales channels. Our sales channels primarily sell independently to companies within their geographic territory but may also work in conjunction with our direct sales organization. We will need to maintain and expand our relationships with our existing sales channels to expand the distribution of our products. Current or future distributors and sales agents may not provide the level and quality of expertise and service required to successfully license QAD software products. We also may not be able to maintain effective, long-term relationships with them. In addition, our selected sales channels may not continue to meet our sales needs. Further, they may market software products in competition with us in the future or otherwise reduce or discontinue their relationships with or support of us and our products. Any failure to successfully maintain our existing indirect sales channel relationships or to establish new relationships in the future could have an adverse effect on us. In addition, if any of our distributors and sales agents exclusively adopts a product other than QAD software products, or if any distributor or sales agent reduces its sales efforts relating to QAD software products or increases support for competitive products, we could be adversely affected.

RELIANCE ON RELATIONSHIPS WITH THIRD-PARTIES

We are reliant on relationships with third-parties. We have established strategic relationships with a number of consulting and systems integration organizations that we believe are important to our worldwide sales, marketing, service and support activities and the implementation of our products. We are aware that these third-party providers do not provide system integration services exclusively for our products and in many instances these firms have similar, and often more established, relationships with our principal competitors. We expect to continue to utilize third-party system integrators.

QAD Global Services is a significant part of our business that offers technical implementation and learning services to our customers. We have designed our service organization so that we can subcontract our services to partners for specific technical needs and also subcontract services from our partners to meet our capacity requirements. We believe this method allows for additional flexibility in ensuring our customers' needs for services are met. These relationships also assist us in keeping pace with the technological and marketing developments of major software vendors, and, in certain instances, provide us with technical assistance for our product development efforts.

Numerous organizations provide services in connection with QAD software. These third-parties may not provide the level and quality of service required to meet the needs of our customers and we may not be able to maintain an effective, long-term relationship with these third-parties. Further, we cannot ensure that these third-party implementation providers, many of which have significantly greater financial, technical, personnel and marketing resources than QAD, will not market software products in competition with us in the future or will not otherwise reduce or discontinue their relationships with or support of us and our products. Any failure to maintain our existing relationships or to establish new relationships in the future, or the failure of these third-parties to meet the needs of our customers, could have an adverse effect on us. In addition, if these third-parties exclusively adopt a product or technology other than QAD software products or technology, or if these third-parties reduce their support of QAD software products and technology or increase such support for competitive products or technology, we could be adversely affected.

We typically enter into separate agreements with each of our service partners. These agreements provide our partners with the non-exclusive right to promote and market QAD software products and to provide training, installation, implementation and other services for QAD software products within a defined territory for a specified period of time (generally two years). Our installation and implementation partners generally do not receive fees for the sale of QAD software products unless they participate actively in a sale as a sales agent. However, they generally are permitted to set their own rates for their installation and implementation services, and we typically do not collect a royalty or percentage fee from these partners on services performed. We also enter into similar agreements with our distribution partners that grant these partners the non-exclusive right, within a specified territory, to market, license, deliver and support QAD software products. In exchange for these distributors' services, we grant a discount to the distributor for the license of our software products.

We also rely on third-parties for the development or interoperation of key components of our software so that users of QAD software products will obtain the functionality demanded. These

research and product alliances develop software to be sold in conjunction with QAD software products, technology to be included in or encapsulated within QAD software products and numerous third-party software programs that generally are not sold with QAD software products, but interoperate directly with QAD software through application program interfaces. We generally enter into reseller or joint development agreements with our third-party software development partners that govern ownership of the technology collectively developed. Each of our partner agreements and third-party development agreements contains strict confidentiality and non-disclosure provisions for the service provider, end-user and third-party developer. Our third-party development agreements contain restrictions on the use of our technology outside of the development process. Any failure to establish or maintain successful relationships with these third-party software providers or these third-party implementation and development partners or the failure of these third-party software providers to develop and support their software could have an adverse effect on us.

RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS

Our operations are international in scope, which exposes us to additional risk, including currency-related risk. We derived approximately 55% of our total revenue from sales outside the United States in fiscal years 2002 and 2001 and 60% in fiscal year 2000. Of our more than 5,300 licensed sites in more than 80 countries, as of January 31, 2002, over 70% are outside the United States. Our foreign exchange risk is discussed in Item 7A of this Annual Report on Form 10-K.

PRINCIPAL STOCKHOLDERS

Our principal stockholders are also directors. As of April 15, 2002, Pamela and Karl Lopker jointly and beneficially owned approximately 53% of our outstanding common stock. Recovery Equity Investors II, L.P. (REI) owned approximately 8% of our outstanding common stock. On a combined basis, current directors and executive officers beneficially owned approximately 62% of the common stock. Pamela and Karl Lopker currently constitute two of the six members of the board of directors and are also officers of QAD in their capacity as President and CEO, respectively. The general partner of REI is also on the QAD board of directors.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange. In fiscal year 2002, approximately 35% of our revenue was denominated in foreign currencies compared to 40% and 35% in fiscal years 2001 and 2000, respectively. We also incur a significant portion of our expenses in currencies other than the United States dollar. As a result, fluctuations in the values of the respective currencies relative to the currencies in which we generate revenue could adversely affect us.

Fluctuations in currencies relative to the United States dollar have affected and will continue to affect period-to-period comparisons of our reported results of operations. In fiscal years 2002, 2001 and 2000, foreign currency transaction and remeasurement (gains) and losses totaled $0.5 million, $(1.5) million and $0.6 million, respectively, and are included in other (income) expense in our consolidated statements of operations. Due to constantly changing currency exposures and the volatility of currency exchange rates, we may experience currency losses in the future, and we cannot predict the effect of exchange rate fluctuations upon future operating results. Although we do not currently undertake hedging transactions, we may choose to hedge a portion of our currency exposure in the future, as we deem appropriate.

Interest Rates. We invest our surplus cash in a variety of financial instruments, consisting principally of bank time deposits and short-term marketable securities with maturities of less than one year. QAD's investment securities are held for purposes other than trading. Cash balances held by subsidiaries are invested in short-term time deposits with the local operating banks. 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 2003 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 2002 fiscal year-end rates would not have a material adverse effect on the fair value of investments and would not materially impact our results of operations or financial condition for the next fiscal year.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is included in Item 14 of this Annual Report on Form 10-K.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding the directors is incorporated by reference to the section entitled "Election of Directors" appearing in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission (Commission) within 120 days after the end of our fiscal year 2002. Certain information with respect to persons who are or may be deemed to be executive officers of the Registrant is set forth under the caption "Executive Officers of the Registrant" in Part I of this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is incorporated by reference to the information set forth under the caption "Executive Compensation" in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our fiscal year 2002.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding security ownership of certain beneficial owners and management is incorporated by reference to the information set forth under the caption "Stock Ownership of Directors, Executive Officers and Certain Beneficial Owners" in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our fiscal year 2002.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions is incorporated by reference to the information set forth under the caption "Certain Transactions" in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our fiscal year 2002.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A)1. FINANCIAL STATEMENTS

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

QAD INC.
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Consolidated Statements of Operations for the years ended January 31, 2002, 2001 and 2000	44

Consolidated Statement of Stockholders' Equity and Comprehensive Loss for the years ended January 31, 2002, 2001 and 2000	45
Consolidated Statements of Cash Flows for the years ended January 31, 2002, 2001 and 2000	46
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(A)2. FINANCIAL STATEMENT SCHEDULES

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

	Page
II. VALUATION AND QUALIFYING ACCOUNTS	63

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

(A)3. EXHIBITS

See the Index of Exhibits at page 66.

(B) REPORTS ON FORM 8-K

None.

INDEPENDENT AUDITORS' REPORT

The Board of Directors of
QAD Inc.:

We have audited the accompanying consolidated balance sheets of QAD Inc. and subsidiaries as of January 31, 2002 and 2001 and the related consolidated statements of operations, stockholders' equity and comprehensive loss and cash flows for each of the years in the three-year period ended January 31, 2002. These consolidated financial statements are the responsibility of QAD's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of QAD Inc. and subsidiaries at January 31, 2002 and 2001 and the results of their operations and their cash flows for each of the years in the three-year period ended January 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Los Angeles, California
March 1, 2002

QAD INC.

CONSOLIDATED BALANCE SHEETS

AS OF JANUARY 31, 2002 AND 2001

(IN THOUSANDS, EXCEPT FOR SHARE DATA)

	2002	2001
Assets		
Current assets:		
Cash and equivalents	$ 50,782	$ 36,500
Accounts receivable, net	59,714	80,496
Other current assets	11,535	12,601

Total current assets	122,031	129,597
Property and equipment, net	20,512	25,437
Capitalized software development costs, net	2,963	6,701
Other assets, net	12,503	19,727
Total assets	$ 158,009	$ 181,462
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	$ 2,157	$ 1,448
Accounts payable	10,069	15,527
Accrued expenses	28,299	31,298
Deferred revenue and other	58,854	63,739
Total current liabilities	99,379	112,012
Long-term debt	15,345	19,460
Other deferred liabilities	633	192
Minority interest	516	502
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, $0.001 par value. Authorized 5,000,000 shares; none issued and outstanding	—	—
Common stock, $0.001 par value. Authorized 150,000,000 shares; issued and outstanding 34,253,314 shares and 33,747,148 shares at January 31, 2002 and 2001, respectively	34	34
Additional paid-in-capital	114,911	113,999
Accumulated deficit	(65,595)	(60,282)
Unearned compensation-restricted stock	—	(112)
Accumulated other comprehensive loss	(7,214)	(4,343)
Total stockholders' equity	42,136	49,296
Total liabilities and stockholders' equity	$ 158,009	$ 181,462

See accompanying notes to consolidated financial statements.

QAD INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED JANUARY 31, 2002, 2001 AND 2000

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	2002	2001	2000
Revenue:			
License fees	$ 62,820	$ 69,202	$ 95,120
Maintenance and other	103,624	98,314	90,579
Services	37,565	46,559	53,563
Total revenue	204,009	214,075	239,262
Costs and expenses:			
Cost of license fees	12,396	13,204	20,306
Other cost of revenue	72,829	86,752	85,812
Sales and marketing	59,365	66,483	80,057
Research and development	31,672	34,492	34,084
General and administrative	22,882	22,483	23,249
Amortization of intangibles from acquisitions	3,538	4,596	4,382

Impairment loss	2,066	—	—
Restructuring charge	93	5,076	1,152
Total costs and expenses	204,841	233,086	249,042
Operating loss	(832)	(19,011)	(9,780)
Other (income) expense:			
Interest income	(1,365)	(1,548)	(736)
Interest expense	2,359	2,591	1,972
Other (income) expense, net	587	(305)	219
Total other (income) expense	1,581	738	1,455
Loss before income taxes	(2,413)	(19,749)	(11,235)
Income tax expense	2,900	5,657	5,101
Net loss	$ (5,313)	$ (25,406)	$ (16,336)
Basic and diluted net loss per share	$ (0.16)	$ (0.76)	$ (0.54)

See accompanying notes to consolidated financial statements.

QAD INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED JANUARY 31, 2002, 2001 AND 2000
(IN THOUSANDS)

	Common Stock and Additional Paid-in-Capital		Accumulated Deficit	Receivable from Stock-holders	Restricted Stock		Accumulated Other Comprehensive Loss	Total Stock-Holders' Equity	Compre-hensive Loss
	Shares	Amount			Shares	Amount			
Balance January 31, 1999	29,704	$ 99,596	$ (18,526)	$ (54)	(88)	$ (970)	$ (617)	$ 79,429	
Comprehensive loss:									
Net loss	—	—	(16,336)	—	—	—	—	(16,336)	$ (16,336)
Translation adjustments	—	—	—	—	—	—	(2,518)	(2,518)	(2,518)
Total comprehensive loss									$ (18,854)
Tax benefit associated with stock option exercises	—	656	—	—	—	—	—	656	
Common stock activity:									
Under stock purchase plan and incentive plan	474	1,404	—	—	—	—	—	1,404	
Under stock options	433	505	—	—	—	—	—	505	
Under restricted stock awards	10	—	—	—	10	151	—	151	
Under business acquisition, net	120	506	—	—	—	—	—	506	
Restricted stock awards cancelled	(60)	(673)	—	—	60	673	—	—	
Under private placement	2,333	9,600	—	—	—	—	—	9,600	
Other	(2)	(3)	(14)	49	—	—	—	32	
Balance January 31, 2000	33,012	111,591	(34,876)	(5)	(18)	(146)	(3,135)	73,429	
Comprehensive loss:									
Net loss	—	—	(25,406)	—	—	—	—	(25,406)	$ (25,406)
Translation adjustments	—	—	—	—	—	—	(1,208)	(1,208)	(1,208)
Total comprehensive loss									$ (26,614)
Tax benefit associated with stock option exercises	—	807	—	—	—	—	—	807	
Common stock activity:									
Under stock purchase plan and incentive plan	439	1,193	—	—	—	—	—	1,193	

Under stock options	290	541	—	—	—	—	—	541	
Under restricted stock awards	7	—	—	—	8	128	—	128	
Common stock repurchases	(5)	(295)	—	—	—	—	—	(295)	
Restricted stock awards cancelled	(4)	(8)	—	—	4	8	—	—	
Other	8	204	—	5	—	(102)	—	107	
Balance January 31, 2001	33,747	114,033	(60,282)	—	(6)	(112)	(4,343)	49,296	
Comprehensive loss:									
Net loss	—	—	(5,313)	—	—	—	—	(5,313)	$ (5,313)
Translation adjustments	—	—	—	—	—	—	(2,871)	(2,871)	(2,871)
Total comprehensive loss									$ (8,184)
Common stock activity:									
Under stock purchase plan and incentive plan	504	881	—	—	—	—	—	881	
Under stock options	1	2	—	—	—	—	—	2	
Under restricted stock awards	7	—	—	—	—	102	—	102	
Restricted stock awards cancelled	(6)	(10)	—	—	6	10	—	—	
Other	—	39	—	—	—	—	—	39	
Balance January 31, 2002	34,253	$ 114,945	$ (65,595)	$ —	—	$ —	$ (7,214)	$ 42,136	

See accompanying notes to consolidated financial statements.

QAD INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JANUARY 31, 2002, 2001 AND 2000

(IN THOUSANDS)

	2002	2001	2000
Cash flows from operating activities:			
Net loss	$ (5,313)	$ (25,406)	$ (16,336)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	14,766	17,817	17,829
Provision for doubtful accounts and sales adjustments	1,468	3,461	(261)
(Gain) loss on disposal of equipment	164	(86)	(56)
Impairment loss	2,066	—	—
Asset write-off	250	466	—
Restructuring charge	93	4,511	832
Tax benefit from exercise of stock options	—	807	656
Other, net	17	90	10
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	17,403	12,536	(3,316)
Other assets	1,896	3,056	1,276
Accounts payable	(4,967)	(1,335)	974
Accrued expenses	(2,025)	(5,500)	3,733
Deferred revenue and other	(4,315)	2,216	4,257
Net cash provided by operating activities	21,503	12,633	9,598
Cash flows from investing activities:			
Purchase of property and equipment	(3,845)	(5,033)	(6,863)
Investment in software development	(636)	(2,312)	(2,720)

Acquisitions of businesses, net of cash acquired	—	(574)	(439)
Investment in equity securities	—	—	(500)
Proceeds from sale of short-term cash investment	—	—	3,000
Other, net	18	92	93
Net cash used in investing activities	(4,463)	(7,827)	(7,429)
Cash flows from financing activities:			
Proceeds from notes payable	—	15,000	21,901
Reduction of notes payable	(3,244)	(18,108)	(13,171)
Issuance of common stock for cash	883	1,734	11,509
Repurchase of common stock	—	(295)	(67)
Other, net	—	5	35
Net cash provided by (used in) financing activities	(2,361)	(1,664)	20,207
Effect of exchange rates on cash and equivalents	(397)	(2,578)	(2,518)
Net increase in cash and equivalents	14,282	564	19,858
Cash and equivalents at beginning of period	36,500	35,936	16,078
Cash and equivalents at end of period	$ 50,782	$ 36,500	$ 35,936
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$ 2,009	$ 2,212	$ 1,845
Income taxes	353	2,218	1,137
Supplemental disclosure of non-cash investing and financing activities:			
Issuance of note payable for acquisitions of businesses	—	873	960
Forgiveness of accounts receivable in connection with acquisitions of businesses	—	265	394
Issuance of common stock for acquisitions of businesses	—	—	506

See accompanying notes to consolidated financial statements.

QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

QAD Inc. is a global provider of collaborative commerce software applications for multi-national, large and mid-range manufacturing companies. QAD serves the specific needs of the automotive, consumer products, electronics, food and beverage, industrial and medical industries. We market, distribute, implement and support our products worldwide. Founded in 1979, QAD is recognized as a provider of enterprise resource planning software applications. With the advent of e-business, we have extended our products and services and built on our core competency in multi-site manufacturing and distribution operations by addressing enterprise collaborative commerce management requirements.

PRINCIPLES OF CONSOLIDATION

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

USE OF ESTIMATES

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND EQUIVALENTS AND SHORT-TERM CASH INVESTMENTS

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Short-term cash investments include those investments with original maturities in excess of three months.

REVENUE RECOGNITION

QAD licenses its software under non-cancelable license agreements including third-party software sold in conjunction with QAD software, provides customer support and provides services including technical, implementation and training. Revenue is recognized in accordance with Statement of Position (SOP) No. 97-2, "Software Revenue Recognition," as modified by SOP No. 98-9, "Modification of SOP No. 97-2, Software Revenue Recognition with Respect to Certain Transactions" and Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." Our revenue recognition policy is as follows:

License Revenue. We recognize revenue from license contracts when a non-cancelable, non-contingent license agreement has been signed, the software product has been delivered, no uncertainties exist surrounding product acceptance, fees from the agreement are fixed and

determinable, and collection is probable. We use the residual method to recognize revenue when a license agreement includes one or more elements to be delivered at a future date if evidence of the fair value of all undelivered elements exists. If evidence of the fair value of the undelivered elements does not exist, revenue is deferred and recognized when delivery occurs.

Maintenance Revenue. Revenue for ongoing customer support and product updates is recognized ratably over the term of the maintenance period, which in most instances is one year.

Services Revenue. Revenue from technical and implementation services is recognized as the services are performed for the time-and-materials contracts. Revenue from training services is recognized as the services are performed.

INCOME TAXES

We recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities and expected benefits of utilizing net operating loss and credit carryforwards. The impact on deferred taxes of changes in tax rates and laws, if any, are reflected in the financial statements in the period of enactment. No provision is made for taxes on unremitted earnings of certain non-U.S. subsidiaries, which are or will be reinvested indefinitely in such operations.

COMPUTATION OF NET INCOME OR LOSS PER SHARE

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

	Years Ended January 31,		
	2002	2001	2000
	(in thousands, except per share data)		
Net loss	$ (5,313)	$ (25,406)	$ (16,336)
Weighted average shares of common stock outstanding used in basic net loss per share calculation	34,055	33,433	30,509
Weighted average shares of common stock equivalents issued using the treasury stock method	—	—	—
Weighted average shares of common stock and common stock equivalents outstanding used in diluted net loss per share calculation	34,055	33,433	30,509
Basic and diluted net loss per share	$ (0.16)	$ (0.76)	$ (0.54)

Common stock equivalent shares consist of the shares issuable upon the exercise of stock options and warrants using the treasury stock method. Shares of common stock equivalents of approximately 269,000, 393,000 and 454,000 for fiscal years 2002, 2001 and 2000, respectively, were not included in the diluted calculation because they were anti-dilutive. Due to the net loss for the fiscal years 2002, 2001 and 2000, basic and diluted per share amounts are the same.

FOREIGN CURRENCY TRANSLATION

The financial position and results of operations of our foreign subsidiaries are generally determined using the country's local currency as the functional currency with resulting translation adjustments treated as a component of comprehensive loss. Gains and losses resulting from

foreign currency transactions and remeasurement adjustments of monetary assets and liabilities not held in an entity's functional currency are included in earnings. Foreign currency transaction and remeasurement (gains) and losses for fiscal years 2002, 2001 and 2000 totaled $0.5 million, $(1.5) million and $0.6 million, respectively, and are included in other (income) expense in the accompanying consolidated statements of operations.

FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK

The carrying amounts of cash and equivalents, accounts receivable and accounts payable approximate fair value due to the short-term

maturities of these instruments. Our debt instruments bear variable market interest rates. Therefore, the carrying value of these instruments approximates fair value. Concentration of credit risk with respect to trade receivables is limited due to the large number of customers comprising our customer base, and their dispersion across many different industries and locations throughout the world. No single customer accounted for 10% or more of revenue for fiscal years 2002, 2001 and 2000. Also, no single customer accounted for 10% or more of accounts receivable at January 31, 2002 and 2001.

LONG-LIVED ASSETS

Property and equipment are stated at cost. Additions and significant renewals and improvements are capitalized, while maintenance and repairs are expensed. Upon disposition, the net book value of assets is relieved and resulting gains or losses are reflected in earnings. For financial reporting purposes, depreciation is generally provided on the straight-line method over the useful life of 3 years for computer equipment and software, 5 years for furniture and office equipment, and 39 years for buildings. Leasehold improvements are generally depreciated over the shorter of the lease term or the useful life of the asset.

We capitalize software development costs incurred in connection with the localization and translation of our products once technological feasibility has been achieved based on a working model. Capitalized software development costs are amortized on a straight-line basis over three years and charged to cost of revenue. All other development costs are expensed to research and development as incurred.

Goodwill represents the excess of acquisition costs over the fair value of net assets of purchased businesses. Other intangible assets include individual employment agreements, covenants-not-to-compete and customer contracts. Through January 31, 2002, goodwill and other intangible assets were amortized using the straight-line method over lives of 10 to 15 years and 2 to 5 years, respectively. Effective February 1, 2002, as required under SFAS 142 goodwill will no longer be amortized. Instead, the goodwill will be assessed on an annual basis for impairment at the reporting unit level by applying a fair value-based test. For further discussion of SFAS 142, see "RECENT ACCOUNTING STANDARDS" below.

In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS 121), we periodically review applicable assets for impairment in value based upon undiscounted future operating cash flows from those assets, and appropriate losses are recognized, whenever the carrying amount of an asset may not be recovered. As of January 31, 2002, we determined that the technology related to Enterprise Engines, Inc. (EEI) was impaired, and deemed to have no fair value due to our shift from the use of the EEI toolset to the IBM WebSphere toolset underlying our QAD eQ product. Accordingly, an impairment loss of $2.1 million was recorded to the fiscal

year 2002 statement of operations related to the remaining book value of EEI goodwill and other intangible assets.

ACCOUNTING FOR STOCK OPTIONS

We account for our stock option grants in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations including Financial Accounting Standards Board Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation". As such, compensation expense is generally recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price or in connection with the modification to outstanding awards and or changes in grantee status that occur on or after July 1, 2000. Compensation expense related to stock options granted to non-employees is accounted for under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) which requires entities to recognize an expense based on the fair value of the related awards.

RECENT ACCOUNTING STANDARDS

In June 2001, Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) were issued. SFAS 141, among other things, requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with its provisions. SFAS 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS 121. SFAS 141 became effective June 30, 2001, and we are required to adopt the provisions of SFAS 142 effective February 1, 2002.

SFAS 142 requires reassessment of the useful lives and residual values of all intangible assets acquired in purchase business combinations and making any necessary amortization period adjustments by the end of the first interim period after adoption. For intangible assets having an indefinite useful life, any impairment loss to be measured as of the date of adoption is to be recognized as the cumulative effect of a change in accounting principle in the first interim period after adoption.

SFAS 142 also requires an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. We will then have up to six months from that date to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. If an indication exists that the reporting unit's goodwill may be impaired, the implied fair value of the reporting unit's goodwill must be compared to its carrying amount. This comparison is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in our consolidated statement of operations.

Unamortized goodwill was $8.3 million as of January 31, 2002. Amortization expense related to goodwill was $1.2 million, $1.1 million and $1.0 million for the fiscal years 2002, 2001 and 2000, respectively. We will complete the initial goodwill impairment assessment in fiscal year 2003 to determine if a transition impairment charge should be recognized under SFAS 142. At this time, it

is not practical to reasonably estimate whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

In August 2001, Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144) was issued. SFAS 144 supersedes both SFAS 121 and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (Opinion 30), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS 144 retains the fundamental provisions of SFAS 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS 121. SFAS 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS 121, an impairment assessment under SFAS 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS 142.

We are required to adopt SFAS 144 no later than the fiscal year beginning after December 15, 2001, and plan to adopt its provisions for the quarter ending April 30, 2002. We do not expect the adoption of SFAS 144 for long-lived assets held for use to have a material impact on our financial statements because the impairment assessment under SFAS 144 is largely unchanged from SFAS 121. The provisions of the statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. Therefore, management cannot determine the potential effects that adoption of SFAS 144 will have on our financial statements.

In November 2001, the Financial Accounting Standards Board issued Staff Announcement Topic D-103, "Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred" (SAT 103). SAT 103 requires companies to characterize reimbursements received for out-of-pocket expenses incurred as revenue in the statement of operations. Currently, we classify reimbursed out-of-pocket expenses as a reduction to the related expenses in the accompanying consolidated statements of operations.

SAT 103 is to be applied in financial reporting periods beginning after December 15, 2001, and we plan to adopt this announcement in the first quarter of fiscal year 2003. Comparative financial statements for prior periods will include reclassifications to comply with the guidance of this announcement. It will not affect net income or loss in any past or future period, but will increase both services revenue and other cost of revenue. We do not anticipate that the adoption of SAT 103 will have a material impact on total gross margin.

RECLASSIFICATIONS

Certain prior year balances have been reclassified to conform to current year presentation.

2. ACQUISITIONS

During fiscal years 2001 and 2000, we acquired a controlling interest in four businesses:

- ATOS Italy S.p.A., an Italy-based distributor, in July 2000.
- Enterprise Engines, Inc. (EEI), a California-based software technology development company, in December 1999.

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

The cost of acquisitions were $1.8 million and $3.2 million for fiscal years 2001 and 2000, respectively. All of the acquisitions were accounted for using the purchase method. Results of operations have been included in the financial statements since the respective dates of acquisition. Goodwill related to the acquisitions of $1.0 million and $3.3 million for fiscal years 2001 and 2000, respectively, have been amortized through January 31, 2002. Of the goodwill related to EEI, the remaining net balance at January 31, 2002, of $1.9 million was taken as an impairment loss.

Prior shareholders of these businesses have future remaining earnouts based on performance of up to $0.8 million which may be added to the purchase price during fiscal year 2003.

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

3. RESTRUCTURING CHARGES

During the past three years, we have implemented restructuring programs designed to strengthen operations and financial performance. Accordingly, restructuring charges (including adjustments) of $0.1 million, $5.1 million and $1.2 million were recorded for fiscal years 2002, 2001 and 2000, respectively. Below is a discussion of the respective restructuring programs.

During fiscal year 2000, we continued our fiscal year 1999 initiative which more closely aligned costs with sales expectations in response to changes in customers' manufacturing capital software spending patterns. The fiscal year 2000 program resulted in a $1.2 million charge that primarily related to employee termination costs and included an adjustment to the fiscal year 1999 restructuring charge. At January 31, 2001, the entire fiscal year 2000 restructuring charge was utilized.

During fiscal year 2001, we undertook several initiatives to strengthen operating and financial performance by sharpening the focus of our e-business and business intelligence solutions for multi-national customers. The related actions resulted in a $5.1 million charge taken in the third

quarter of fiscal year 2001 and included facility consolidations ($1.0 million), a reduction of approximately 150 employees, contractors and consultants across most regions and functions ($2.2 million) and associated asset write-downs ($1.9 million). As of January 31, 2002, $3.9 million of this charge was utilized and $1.0 million was adjusted downwards because final amounts required were lower than originally estimated. We expect to pay the remaining balance of $0.2 million, primarily consisting of lease obligations, by the end of fiscal 2007.

In fiscal year 2002, we continued our fiscal year 2001 initiative resulting in a $0.7 million and $0.4 million charge in the second quarter and fourth quarter, respectively. These charges primarily related to the reduction of office space in three of our North American locations. In addition, during fiscal year 2002, we recorded adjustments of $0.7 million and $0.3 million to the statement of operations in the second quarter and third quarter, respectively. These adjustments, totaling $1.0 million, were to the fiscal year 2001 restructuring accrual that primarily related to employee termination costs that were lower than originally anticipated. As of January 31, 2002, of the combined $1.1 million fiscal year 2002 restructuring charges, $0.3 million had been utilized. The remaining balance of $0.8 million, related to lease obligations, is expected to be paid through fiscal year 2007.

The following table presents the restructuring activities through January 31, 2002, resulting from each of the aforementioned programs:

	Lease Obligations	Employee Termination Costs	Asset Write-Downs	Total Restructuring
	(in thousands)			
Balances, January 31, 1999	$ 948	$ 261	$ 523	$ 1,732
Fiscal year 2000 activity:				
Net charge	$ 70	$ 892	$ 68	$ 1,030
Utilization	(720)	(913)	(591)	(2,224)
Adjustment	119	3	—	122
Balances, January 31, 2000	417	243	—	660
Fiscal year 2001 activity:				
Net charge	$ 1,033	$ 2,192	$ 1,851	$ 5,076
Utilization	(965)	(1,133)	(1,851)	(3,949)
Balances, January 31, 2001	485	1,302	—	1,787
Fiscal year 2002 activity:				
Net charge	$ 845	$ 209	$ 61	$ 1,115
Utilization	(189)	(615)	(61)	(865)
Adjustments	(157)	(865)	—	(1,022)
Balances, January 31, 2002	$ 984	$ 31	$ —	$ 1,015

4. COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS

	January 31, 2002	January 31, 2001
	(in thousands)	
Accounts receivable, net		
Accounts receivable	$ 68,492	$ 89,110
Less allowance for doubtful accounts and sales adjustments	(8,778)	(8,614)
	$ 59,714	$ 80,496
Other current assets		
Prepaid expenses	$ 3,590	$ 3,013
Other	7,945	9,588

	$ 11,535	$ 12,601
Property and equipment, net		
Computer equipment and software	$ 44,138	$ 43,726
Furniture and office equipment	13,599	13,732
Land and buildings	7,665	7,665
Leasehold improvements	6,204	4,853
Automobiles	215	428
Equipment under capital lease	119	333
	71,940	70,737
Less accumulated depreciation and amortization	(51,428)	(45,300)
	$ 20,512	$ 25,437
Capitalized software development costs, net		
Capitalized software development costs	$ 7,665	$ 13,544
Less accumulated amortization	(4,702)	(6,843)
	$ 2,963	$ 6,701
Other assets, net		
Goodwill	$ 13,432	$ 14,995
Other intangible assets	8,514	9,743
Less accumulated amortization and impairments	(11,837)	(7,632)
	10,109	17,106
Other assets	2,394	2,621
	$ 12,503	$ 19,727
Accrued expenses		
Accrued payroll	$ 12,397	$ 14,777
Accrued other	15,902	16,521
	$ 28,299	$ 31,298
Deferred revenue and other		
Deferred revenue	$ 57,241	$ 63,240
Other	1,613	499
	$ 58,854	$ 63,739

5. LONG-TERM DEBT

	January 31,	
	2002	2001
	(in thousands)	
Term loan	$ 13,000	$ 15,000
Promissory note	4,460	4,700
Capital lease obligations	42	215
Other	—	993
	17,502	20,908
Less current maturities	2,157	1,448
	$ 15,345	$ 19,460

In September 2000, we entered into a five-year senior credit facility with Foothill Capital Corporation (Facility). The maximum available amount of borrowings under the Facility is $30.0 million. The Facility is secured by certain assets of QAD Inc. We pay an annual commitment fee of 0.375% calculated on the average unused portion of the $30.0 million Facility. The Facility provides that we will maintain certain financial and operating covenants which include, among other provisions, maintaining minimum 12-month trailing earnings before interest, taxes, depreciation and amortization (EBITDA) and minimum consolidated net worth.

In December 2001, the Facility was amended. The minimum consolidated net worth covenant was replaced with a tangible net worth covenant. The quarterly minimum 12-month trailing EBITDA covenant was changed, reducing the applicable minimum covenant amounts. At January 31, 2002, we were in compliance with the covenants under the Facility. A new quarterly principal repayment schedule for the term loan was included in this amendment. The quarterly principal repayment ranges between $375,000 and $750,000 depending on the unrestricted cash and equivalents balance at the end of any given quarter.

The Facility includes a $15.0 million term loan with a five-year amortization schedule. Borrowings under the term loan portion of the Facility bear interest at the greater of the bank's prime rate plus 3.75% or a minimum of 8%. As of January 31, 2002, the rate for the term loan was 8.5% based on the bank's prime rate of 4.75%.

The Facility also includes a revolving credit facility (the revolving portion). The maximum borrowings under the revolving portion of the Facility are subject to a borrowing base calculation. Borrowings under the revolving portion of the Facility bear interest at a floating rate based on either the London Interbank Offering Rate (LIBOR) or prime plus the corresponding applicable margins, ranging from 2.50% to 3.75% for the LIBOR option or 0.25% to 1.25% for the bank's prime option, depending on the company's trailing 12-month EBITDA. The minimum rate is 8%. As of January 31, 2002, approximately $2.1 million was available and unused on the revolving portion of the Facility.

In November 1999, we raised an additional $5 million of long-term debt from First Credit Bank secured by our real property located in Summerland, California. The promissory note has a 5-year maturity, with a variable interest rate based on the bank's prime rate plus 2.50%. The rate as of January 31, 2002 was 7.25%. The principal amortizes at a rate of $20,000 per month, with the balance due in November 2004.

The aggregate maturities of long-term debt for each of the next five years and thereafter are as follows: $2.2 million in 2003; $1.8 million in 2004; $5.5 million in 2005; $8.0 million in 2006; with no additional maturities in 2007 and thereafter.

6. INCOME TAXES

Income tax expense is summarized as follows:

	Years Ended January 31,		
	2002	2001	2000
		(in thousands)	
Current:			
Federal	$ (23)	$ 52	$ 2,601
State	62	167	154
Foreign	2,091	2,353	1,521
Total	2,130	2,572	4,276
Deferred:			
Federal	—	3,007	(542)
Foreign	770	78	1,367
Total	770	3,085	825
	$ 2,900	$ 5,657	$ 5,101

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

	Years Ended January 31,		
	2002	2001	2000
		(in thousands)	
Statutory Federal income tax rate	34%	34%	34%
Computed expected tax benefit	$ (821)	$ (6,715)	$ (3,820)
State income taxes, net of Federal income tax expense	41	110	102
Incremental tax expense (benefit) from foreign operations	5,501	(2,481)	(507)
Foreign withholding taxes	658	423	768

Net change in valuation allowance	(4,107)	14,149	11,407
Non-deductible expenses	2,018	358	426
Research, AMT and foreign tax credits	(454)	(438)	(5,155)
Tax expense related to prior years	—	—	1,599
Other	64	251	281
	$ 2,900	$ 5,657	$ 5,101

Consolidated U.S. income before income taxes was $2.7 million for the fiscal year ended January 31, 2002, and the consolidated U.S. loss before income taxes was $13.5 million and $1.8 million for the fiscal years ended January 31, 2001 and 2000, respectively. The corresponding loss before income taxes for foreign operations was $5.1 million, $6.2 million, and $9.4 million for the fiscal years ended January 31, 2002, 2001 and 2000, respectively.

Withholding and U.S. taxes have not been provided on approximately $9.4 million of unremitted earnings of certain non-U.S. subsidiaries because such earnings are or will be reinvested in operations or will be offset by appropriate credits for foreign income taxes paid. Such earnings would become taxable upon the sale or liquidation of these non-U.S. subsidiaries or upon the remittance of dividends. Upon remittance, certain foreign countries impose withholding taxes that are then available, subject to certain limitations, for use as credits against our U.S. tax liability, if any.

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

	January 31,	
	2002	2001
	(in thousands)	
Deferred tax assets:		
Allowance for doubtful accounts and sales adjustments	$ 1,395	$ 1,534
Accrued vacation	724	989
Accrued commission	224	264
Alternative minimum tax (AMT) credits	348	303
Research and development credits	5,100	5,106
Foreign tax credits	2,393	2,537
Depreciation and amortization	762	1,458
Deferred revenue	176	2,974
Net operating loss carry forwards	24,440	28,356
Other	2,814	1,274
	38,376	44,795
Less valuation allowance	(36,664)	(40,771)
Net deferred tax assets	$ 1,712	$ 4,024
Deferred tax liabilities:		
Capitalized software development costs	$ 1,015	$ 2,299
State income taxes	21	57
Other	374	519
Total deferred tax liabilities	1,410	2,875
Total net deferred tax asset	$ 302	$ 1,149
Deferred taxes in other current assets	$ 889	$ 652
Non-current portion of deferred taxes	(587)	497
Total net deferred tax asset	$ 302	$ 1,149

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the

deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

We have net operating loss carryforwards, with various expiration dates, of $96.0 million as of January 31, 2002. At January 31, 2002 and 2001, the valuation allowance attributable to deferred tax assets was $36.7 million and $40.8 million, respectively, an overall decrease of $4.1 million. The decrease in the valuation allowance relates primarily to the realization of benefits associated with net operating losses.

7. 401(K) PLAN

We have a defined contribution 401(k) plan which is available to U.S. employees after 30 days of employment. Employees may contribute up to the maximum allowable by the Internal Revenue Code. We match 75% of the employees' contributions up to the first four percent. We may make additional contributions at the discretion of the board of directors. Participants are immediately vested in their employee contributions. Employer contributions vest over a five-year period. The employer contributions for fiscal years 2002, 2001 and 2000 were $1.1 million, $0.9 million and $1.1 million, respectively.

8. COMMITMENTS AND CONTINGENCIES

We lease certain office facilities, office equipment and automobiles under operating lease agreements. Total rent expense for fiscal years 2002, 2001 and 2000 was $7.9 million, $9.1 million and $9.5 million, respectively. Future minimum rental payments under non-cancelable operating lease commitments with a term of more than one year as of January 31, 2002, are as follows: $6.1 million in 2003; $4.5 million in 2004; $3.9 million in 2005; $2.3 million in 2006; $1.6 million in 2007; and $6.3 million thereafter.

We are 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 our consolidated results of operations or financial position.

9. BUSINESS SEGMENT INFORMATION

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

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

During fiscal year 2002, management changed certain cost allocations between Corporate and the regions. Prior year segment information has not been restated to reflect this change in composition, as it is impractical to do so.

During fiscal year 2001, management changed the methodology for assigning maintenance revenue to the regions. Fiscal year 2000 was restated to reflect this change.

	Years Ended January 31,		
	2002	2001	2000
	(in thousands)		
Revenue:			
North America	$ 81,443	$ 79,661	$ 94,270
EMEA	74,333	86,260	94,844
Asia Pacific	37,344	35,451	33,964
Latin America	10,889	12,703	16,184
	$ 204,009	$ 214,075	$ 239,262
Operating income (loss):			
North America	$ 13,362	$ 5,416	$ (1,961)
EMEA	561	(4,207)	1,988
Asia Pacific	(4,594)	(7,102)	(4,097)
Latin America	(5,153)	(2,614)	(760)
Corporate	(2,849)	(5,428)	(3,798)
Impairment Loss	(2,066)	—	—
Restructuring charge	(93)	(5,076)	(1,152)

	$ (832)	$ (19,011)	$ (9,780)

	Years Ended January 31,		
	2002	2001	2000
	(in thousands)		
Depreciation and amortization:			
North America	$ 615	$ 1,675	$ 1,594
EMEA	3,515	4,055	4,216
Asia Pacific	2,202	1,346	1,436
Latin America	1,484	929	1,053
Corporate	6,950	9,812	9,530
	$ 14,766	$ 17,817	$ 17,829

	January 31,	
	2002	2001
	(in thousands)	
Identifiable assets:		
North America	$ 72,889	$ 74,493
EMEA	53,888	73,556
Asia Pacific	26,167	26,345
Latin America	5,065	7,068
	$ 158,009	$ 181,462

10. EMPLOYEE STOCK OPTION, PURCHASE PLANS AND RESTRICTED STOCK AWARDS

Employee Stock Option Agreements

As of January 31, 2002 and 2001, options to purchase 5.3 million shares of common stock were outstanding under the 1997 Stock Incentive Program's Incentive Stock Option Plan. Outstanding options generally vest over a four-year period and have contractual lives of 8 years. Stock option activity is summarized as follows, in thousands, except exercise price:

	Shares	Weighted Average Exercise Price	Options Exercisable
Outstanding options at January 31, 1999	3,676	$ 5.45	642
Options issued	1,857	3.87	
Options exercised	(433)	1.39	
Options expired and terminated	(774)	4.99	
Outstanding options at January 31, 2000	4,326	$ 5.22	1,045
Options issued	2,820	4.39	
Options exercised	(290)	1.86	
Options expired and terminated	(1,521)	5.56	
Outstanding options at January 31, 2001	5,335	$ 4.84	1,368
Options issued	921	2.82	
Options exercised	(1)	1.68	
Options expired and terminated	(1,001)	4.27	
Outstanding options at January 31, 2002	5,254	$ 4.57	2,019

The following table summarizes information about stock options outstanding and exercisable at January 31, 2002:

Options Exercisable

Range of Exercise Price	Number of Options Outstanding (in thousands)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable (in thousands)	Weighted Average Exercise Price
$0.00 — $2.99	1,685	7.20	$ 2.26	85	$ 2.06
3.00 — 4.99	2,458	5.85	4.02	1,066	4.02
5.00 — 9.99	605	4.05	5.37	552	5.29
10.00 — 22.50	506	4.85	13.92	316	14.28
Total	5,254	5.98	$ 4.57	2,019	$ 5.89

SFAS 123 allows entities to continue to apply the provisions of APB 25 and provide pro forma net income (loss) and pro forma net income (loss) per share disclosures for employee stock option grants as if the fair value-based method defined in SFAS 123 had been applied. We have elected to continue to apply the provisions of APB 25 and provide the pro forma disclosure provisions of

SFAS 123. The fair value of the options at date of grant was estimated using the Black-Scholes model with the following assumptions:

	January 31,		
	2002	2001	2000
Expected life (years)	6.50	6.50	6.50
Interest rate	4.94%	5.41%	6.30%
Volatility	1.08	1.12	0.79
Dividend yield	$ 0.00	$ 0.00	$ 0.00

No compensation expense has been recognized for stock-based incentive compensation plans other than for restricted stock awards. If we had recognized compensation expense for stock- based employee compensation based upon the fair value of options granted, our net loss and related net loss per share for the fiscal years 2002, 2001 and 2000 would have been impacted as follows:

2002	As Reported	Pro Forma
Net loss	$ (5,313)	$ (9,565)
Basic and diluted net loss per share	(0.16)	(0.28)

2001	As Reported	Pro Forma
Net loss	$ (25,406)	$ (29,563)
Basic and diluted net loss per share	(0.76)	(0.88)

2000	As Reported	Pro Forma
Net loss	$ (16,336)	$ (23,454)
Basic and diluted net loss per share	(0.54)	(0.77)

1994 Stock Ownership Program

We established the QAD Inc. 1994 Stock Ownership Program covering 4,800,000 shares of our common stock. The 1994 program allows eligible employees to purchase shares of common stock at the market value of the common stock by direct cash payment or at 95% of the market value through payroll deduction. The 1994 program also allows for the granting of shares to employees. We have the right, but not the obligation, to repurchase shares at fair value upon the termination of employment. No shares were issued under the 1994 program during fiscal years 2002, 2001 or 2000.

1997 Stock Incentive Program

We have adopted the 1997 Stock Incentive Program. The 1997 program consists of seven parts:

- Incentive Stock Option Plan under which incentive stock options may be granted.
- Non-Qualified Stock Option Plan under which non-qualified stock options may be granted.
- Restricted Share Plan under which restricted shares of common stock may be granted.

- Employee Stock Purchase Plan which allows participating employees to purchase shares of common stock through payroll

deductions at 85% of the lower of the beginning or the ending calendar quarter share price.

- Non-Employee Director Stock Option Plan under which grants of options to purchase shares of common stock may be made to non-employee directors of QAD.
- Stock Appreciation Rights Plan under which SARs (as defined in the plan) may be granted.
- Other Stock Rights Plan under which (1) units representing the equivalent shares of common stock may be granted; (2) payments of compensation in the form of shares of common stock may be granted; and (3) rights to receive cash or shares of common stock based on the value of dividends paid with respect to a share of common stock may be granted.

The maximum aggregate number of shares of common stock subject to the 1997 program is 12 million shares. The 1997 program lasts 10 years from the date of adoption.

Total Compensation Cost Recognized for Stock-Based Compensation Plans

Total compensation cost recognized for stock-based employee compensation awards under restricted stock grants, net of cancellations, was $(12,000), $133,000 and $(240,000) for fiscal years 2002, 2001 and 2000, respectively.

11. QUARTERLY INFORMATION (UNAUDITED)

	Quarter Ended			
	April 30	July 31	Oct. 31	Jan. 31
	(in thousands, except per share data)			
Fiscal year 2002				
Total revenue	$ 51,301	$ 49,605	$ 49,582	$ 53,521
Gross profit	28,897	27,882	28,543	33,462
Operating income (loss)	(284)	(1,935)	(652)	2,039
Net income (loss)	(1,689)	(2,347)	(2,270)	993
Basic and diluted net income (loss) per share	(0.05)	(0.07)	(0.07)	0.03
Fiscal year 2001				
Total revenue	$ 51,597	$ 53,248	$ 50,024	$ 59,206
Gross profit	25,523	28,717	25,302	34,577
Operating income (loss)	(7,972)	(4,565)	(9,965)	3,491
Net income (loss)	(8,776)	(8,845)	(10,151)	2,366
Basic and diluted net income (loss) per share	(0.26)	(0.26)	(0.30)	0.07

12. STOCKHOLDERS' EQUITY

In December 1999, we issued, under a private placement, 2,333,333 shares of our common stock to Recovery Equity Investors II, L.P. for net consideration of $9.6 million. In conjunction with this placement, we issued a warrant to purchase 225,000 shares of common stock with an exercise price of $7.50. The exercise price and the number of shares may be adjusted periodically pursuant to the anti-dilution provisions of the agreement. The warrant remains outstanding and the exercise period expires in December 2003.

Schedule II

SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charged (Credited) to Costs and Expenses	Deletions(1)	Balance at End of Period
Allowance for doubtful accounts and sales adjustments				
Years ended:				
January 31, 2002	$ 8,614	$ 1,468	$ (1,304)	$ 8,778
January 31, 2001	6,290	3,461	(1,137)	8,614
January 31, 2000	8,024	(261)	(1,473)	6,290

(1) Actual write-offs and sales adjustments.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized, on April 26, 2002.

QAD INC.

By: /s/ KATHLEEN M. FISHER

Kathleen M. Fisher
Chief Financial Officer

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

Signature	Title	Date
/s/ PAMELA M. LOPKER Pamela M. Lopker	Chairman of the Board and President (Principal Executive Officer)	April 26, 2002
/s/ KARL F. LOPKER Karl F. Lopker	Director, Chief Executive Officer	April 26, 2002
/s/ KATHLEEN M. FISHER Kathleen M. Fisher	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	April 26, 2002
/s/ VALERIE J. MILLER Valerie J. Miller	Vice President, Corporate Controller (Principal Accounting Officer)	April 26, 2002
/s/ A. J. MOYER A. J. Moyer	Director	April 26, 2002
/s/ KOH BOON HWEE Koh Boon Hwee	Director	April 26, 2002

/s/ PETER R. VAN CUYLENBURG Peter R. van Cuylenburg	Director	April 26, 2002
/s/ JEFFREY A. LIPKIN Jeffrey A. Lipkin	Director	April 26, 2002

INDEX OF EXHIBITS

Exhibit Number	Exhibit Title
3.1	Certificate of Incorporation of the Registrant, filed with the Delaware Secretary of State on May 15, 1997(1)
3.2	Certificate of Amendment of Certificate of Incorporation of the Registrant, filed with the Delaware Secretary of State on June 19, 1997(1)
3.9	Bylaws of the Registrant(1)
4.1	Specimen Stock Certificate(1)
10.1	QAD Inc. 1994 Stock Ownership Program(1)
10.2	QAD Inc. 1997 Stock Incentive Program(1)
10.3	Form of Indemnification Agreement with Directors and Executive Officers(1)

10.4 Loan and Security Agreement between Greyrock Business Credit, a Division of Nations Credit Commercial Corporation ("GBC") and the Registrant dated July 3, 1996(1)
10.5 Schedule to Loan Agreement between GBC and the Registrant dated July 3, 1996(1)
10.6 Letter Agreement between the Registrant and GBC dated July 3, 1996(1)
10.7 Letter Agreement between the Registrant and GBC dated July 5, 1996(1)
10.8 Letter Agreement between the Registrant and GBC dated July 5, 1996(1)
10.9 Secured Promissory Note in the original principal amount of $4,000,000 made by the Registrant to the order of GBC dated July 3, 1996(1)
10.10 Trademark Security Agreement between GBC and the Registrant dated July 3, 1996(1)
10.11 Security Agreement in Copyrighted Works executed by the Registrant in favor of GBC dated July 3, 1996(1)
10.12 Deed of Trust with respect to real property located in Santa Barbara County, California executed by the Registrant in favor of GBC dated July 3, 1996(1)
10.13 Master License Agreement between the Registrant and Progress software Corporation dated June 30, 1995(1)†
10.14 Lease Agreement between the Registrant and Matco Enterprises, Inc. for Suites I, K and L located at 5464 Carpinteria Ave., Carpinteria, California dated November 30, 1992(1)
10.15 First Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites C and H located at 5464 Carpinteria Ave., Carpinteria, California dated September 9, 1993(1)
10.16 Second Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suite J located at 5464 Carpinteria Ave., Carpinteria, California dated January 14, 1994(1)
10.17 Third Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites B and C located at 5464 Carpinteria Ave., Carpinteria, California dated January 14, 1994(1)
10.18 Fourth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suite H located at 5464 Carpinteria Ave., Carpinteria, California dated February 15, 1994(1)

10.19 Fifth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. or Suites G and E located at 5464 Carpinteria Ave., Carpinteria, California dated September 12, 1994(1)
10.20 Sixth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites A, B, D, F and H, and Room A located at 5464 Carpinteria Ave., Carpinteria, California dated October 30, 1996(1)
10.21 Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 3 through 8 located at 6430 Via Real, Carpinteria, California dated November 30, 1993(1)
10.22 Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 3 through 8 located at 6430 Via Real, Carpinteria, California dated November 30, 1993(1)
10.23 Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for 6450 Via Real, Carpinteria, California dated November 30,1993(1)
10.24 Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for 6450 Via Real, Carpinteria, California dated November 30, 1993(1)
10.25 Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 1 through 5 located at 6460 Via Real, Carpinteria, California dated November 30, 1993(1)
10.26 Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 1 through 5 located at 6460 Via Real, Carpinteria, California dated November 30, 1993(1)
10.27 Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 7 and 8 located at 6440 Via Real, Carpinteria, California dated September 8, 1995(1)
10.28 Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 7 and 8 located at 6440 Via Real, Carpinteria, California dated September 8, 1995(1)
10.29 Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 9 and 10 located at 6440 Via Real, Carpinteria, California dated September 8, 1995(1)
10.30 Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 9 and 10 located at 6440 Via Real, Carpinteria, California dated September 8, 1995(1)
10.31 Multi-Tenant Office Lease Agreement between the Registrant and EDB Property Partners, LP III, successor to Laurel Larchmont Office, Inc. located at 10,000 Midlantic Drive, Mt. Laurel, New Jersey dated December 29, 1993(1)
10.32 Amendment to Multi-Tenant Office Lease Agreement between the Registrant and EDB Property Partners, LP III, successor to Laurel Larchmont Office, Inc. located at 10,000 Midlantic Drive, Mt. Laurel, New Jersey dated April 26, 1994(1)

10.33 Second Amendment to Multi-Tenant Lease Agreement between the Registrant and EDB Property Partners, LP III, dated May 30, 1995(1)
10.34 Third Amendment to Multi-Tenant Lease Agreement between the Registrant and EDB Property Partners L.P. I dated November 30, 1995(1)
10.35 Agreement and Plan of Merger between QAD California and the Registrant dated July 8, 1997(1)
10.36 Credit Agreement dated as of August 4, 1997 between the Registrant and Bank of America National Trust and Savings Association(2)
10.37 Standard Industrial Commercial Multi-Tenant Lease—Modified Net dated as of December 29, 1997 between the Registrant and CITO Corp.(2)
10.38 Value Added Reseller Agreement dated as of April 13, 1998 between the Registrant and Paragon Management Systems, Inc. (2)
10.39 Lease Agreement between the Registrant and Goodaston Limited for Unit 1 Phase 8 Business Park, The Waterfront Merry Hill, West Midlands, United Kingdom, dated April 30, 1996(2)
10.40 Credit Agreement between the Registrant and the First National Bank of Chicago dated April 18, 1999(3)
10.41 Related Facility Credit Agreement between the Registrant and The First National Bank of Chicago dated April 8, 1999(3)
10.42 Borrower Security Agreement between the Registrant and The First National Bank of Chicago dated April 18, 1999(3)

10.43	Second Amendment to Credit Agreement between QAD Inc. and The First National Bank of Chicago (incorporated by reference to exhibit 10.1 to QAD Inc.'s Current Report on Form 8-K filed June 25, 1999)(4)
10.44	Eight Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites I, K, L, C, J and Basement Room B located at 5464 Carpinteria Avenue, Carpinteria, California dated February 18, 1999(4)
10.45	Related Facility Credit Agreement between the Registrant and The First National Bank of Chicago(4)
10.46	Stock Purchase Agreement between the Registrant and Recovery Equity Investors II, L.P. dated December 23, 1999(5)
10.47	Registration Rights Agreement between the Registrant and Recovery Equity Investors II, L.P. dated December 23, 1999(5)
10.48	Stock Purchase Agreement between the Registrant and Enterprise Engines, Inc. dated December 15, 1999(5)
10.49	Non-Competition Agreement between the Registrant and David A. Taylor and Enterprise Engines, Inc. dated December 15, 1999(5)
10.50	Promissory Note between the Registrant and First Credit Bank dated November 8, 1999(5)
10.51	Deed of Trust between the Registrant and First Credit Bank dated November 8, 1999(5)

10.52	Ninth Amendment to office lease between the Registrant and Matco Enterprises, Inc. for Suites G an E located at 5464 Carpinteria Avenue, Carpinteria, California dated August 23, 1999(5)
10.53	Third Amendment to Credit Agreement between QAD Inc. and Bank One, NA(6)
10.54	Fourth Amendment to Credit Agreement between QAD Inc. and Bank One, NA(6)
10.55	Fifth Amendment to Credit Agreement between QAD Inc. and Bank One, NA(6)
10.56	Tenth Amendment to the office lease between the Registrant and MATCO Enterprises, Inc. for Suites G and E located at 5464 Carpinteria Avenue, Carpinteria, California dated August 1, 2000(7)
10.57	Eleventh Amendment to the office lease between the Registrant and MATCO Enterprises, Inc. for Suites I, J, K and L located at 5464 Carpinteria Avenue, Carpinteria, California dated November 16, 2000(7)
10.58	Loan and Security Agreement between the Registrant and Foothill Capital Corporation dated September 8, 2000(7)
10.59	SanFrancisco Technology License Agreement between the Registrant and International Business Machines Corporation dated November 30, 1999(8)†
10.60	Lease Agreement between the Registrant and The Wright Family C Limited Partnership for Building A located at 6410 Via Real, Carpinteria, California dated February 10, 2001(9)
10.61	Lease Renewal Letter dated February 21, 2001, related to Multi-Tenant Office Lease Agreement between the Registrant and EDB Property Partners, LP III, successor to Laurel Larchmont Office, Inc. located at 10,000 Midlantic Drive, Mt. Laurel, New Jersey dated December 29, 1993(1)(9)
10.62	First Amendment to the Loan and Security Agreement between the Registrant and Foothill Capital Corporation dated December 13, 2001(10)
10.63	Lease Agreement between the Registrant and Vof Forward Erenha for office space located at Beechavenue 125, 1119 RB Schiphol Rijk, The Netherlands, dated December 24, 2001
21.1	Subsidiaries of the Registrant
23.1	Consent of KPMG LLP

(1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (Commission File No. 333-28441).

(2) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended January 31, 1999 filed April 30, 1999 (Commission File No. 0-22823).

(3) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended April 30, 1999 filed June 14, 1999 (Commission No. 0-22823).

(4) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended July 31, 1999 filed September 14, 1999 (Commission No. 0-22823).

(5) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2000 (Commission No. 0-22823).

(6) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended April 30, 2000 filed June 13, 2000 (Commission No. 0-22823).

(7) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended October 31, 2000 filed December 15, 2000 (Commission No. 0-22823).

(8) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2001 (Commission No. 0-22823),

(9) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended April 30, 2001 filed June 14, 2001 (Commission No. 0-22823).

(10) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended October, 31, 2001 filed December 14, 2001 (Commission No. 0-22823).

(†) Certain portions of exhibit have been omitted based upon a request for confidential treatment. The omitted portions have been separately filed with the Securities and Exchange Commission.

QuickLinks

ITEM 2. PROPERTIES
ITEM 3. LEGAL PROCEEDINGS
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

INDEPENDENT AUDITORS' REPORT
QAD INC. CONSOLIDATED BALANCE SHEETS AS OF JANUARY 31, 2002 AND 2001 (IN THOUSANDS, EXCEPT FOR SHARE DATA)
QAD INC. CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED JANUARY 31, 2002, 2001 AND 2000 (IN THOUSANDS, EXCEPT PER SHARE DATA)
QAD INC. CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JANUARY 31, 2002, 2001 AND 2000 (IN THOUSANDS)
QAD INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Schedule II SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS

Exhibit 10.63

OFFICE SPACE LEASE AGREEMENT

and other premises for business use *contrary to* article 7A:1624 BW (Dutch Civil Code)

In accordance with the model drawn up by the Raad voor Onroerende Zaken (Dutch Real Estate Council) in February 1996.
This model may only be referred to, if the text that has been inserted, added or changed is clearly recognizable as such. Additions and deviations should preferably be detailed under the heading "Extraordinary stipulations".
The Council denies all liability for any detrimental effects arising from the use of the model text.

The undersigned

Vof Forward Erenha, with registered offices in Rijsenhout, represented in this matter by Messrs. H van Luling and C.H.D.J.M. van Duin, Master of Laws, hereafter referred to as the **'lessor'**
and
QAD Netherlands B.V., with registered offices in Nieuwegein, and principal place of business at Fultonbaan 20, 3449 NE Nieuwegein hereafter referred to as the **'lessee'**

- registered in the Trade Register in **Utrecht**
- under number **30152748**
- represented by **QAD Europe B.V.,** registered in the trade register in Amersfoort under number 34081924, represented in this matter by **Mr. C.D. Kemme**

agree the following

Article 1—The accommodation, occupancy and use

1.1 This lease agreement pertains to the business premises, hereafter referred to as "the accommodation', consisting of approx. **3,336 m2 of office/business space** (including the lessee's share of the shared areas), known locally as: Gebouw Euro, Beechavenue ongenummerd te Schiphol Rijk (Oude Meer) (Plot 6000, location D), as well as **84 (eighty four) parking places**, of which 73 parking spaces are located in the car park area under the deck and 11 on top of the deck, as detailed in the drawing and/or description attached to this deed, which has been certified by both parties and which is an integral part of this agreement, and in the technical description which forms an integral part of this agreement as Appendix 2. Recorded in the Land Register under: Gemeente Haarlemermeer, Section AK, number 1470 (partial) and 1471 (partial).

The floor area for let is divided up as follows in the building:

– ground floor	*:769 m2 floor area for let;*
– 1st floor	*:743 m2 floor area for let;*
– 2nd floor	*:806 m2 floor area for let;*
– 4th floor	*:781 m2 floor area for let;*
– 5th floor	*:237 m2 floor area for let;*

1.2 The accommodation may only be used as office/business space with corresponding parking places.

1.3 The lessee is not permitted to use the accommodation for purposes other than described in 1.2, without prior written permission from the lessor. Permission to use the accommodation for other purposes may not be refused without reasonable grounds.

1.4 The maximum load capacities of the floor(s) of the accommodation amount to**:**

– level- 1:	1,000 kg/m2;
– level 0 (ground floor):	650 kg/m2;
– level 1 - 4:	400 kg/m2.

Article 2—Terms and Conditions

2.1 The general terms and conditions for office space lease agreements and other premises for business use, *contrary to* article 7A:1624 BW (Dutch Civil Code), filed and registered at the Office of the District Court in 's Gravenhage on the 29th of February 1996 under no. 34/1996, referred to hereafter as 'general terms and conditions' are an integral part of this agreement. The contents of these general terms and conditions are known to both parties. The lessee has received a copy of these general terms and conditions.

2.2 The terms and conditions mentioned in 2.1 are applicable except where it has been explicitly deviated from them in this agreement or where they cannot be applied to the accommodation.

Article 3—Duration of the agreement, prolongation and termination

3.1 This agreement is made for a period of **5 (five)** years, commencing on **May 1 2002** and continuing up to and including **30 April 2007**.

3.2 Once the period described in 3.1 has passed, this agreement will be continued for a further period of **5 (five)** years, and therefore until **30th April 2012**.

3.3 This agreement may be ended by giving notice towards the end of a lease period, with observance of a notice period of at least **12 (twelve)** months.

3.4 Notice of termination must be given by bailiff's writ of by registered letter.

3.5 Premature termination of this agreement is possible under the conditions detailed in section 7 of the general terms and conditions.

Article 4—Payment obligation, payment period

4.1 The lessee's payment obligation consists of:

- the rent;
- the payment of charges for additional services and facilities plus the turnover tax due;
- the turnover tax due over the rent, or a corresponding amount consistent with 15.2 and 15.3 of the general terms and conditions, in the event that parties have agreed a rental sum subject to turnover tax.

4.2 The rent amounts to **€ 651,174.60 (*f* 1,435,000.—)** annually
in words: **six hundred and fifty one thousand, one hundred and seventy four euro and sixty eurocent** (one million, four hundred and fifty three thousand guilders), *allocated as follows:*

– 3,336 m2 of floor space for lease office/business space level — 1	€583,107.57 / f 1,285,000.—
– 84 parking places	€ 68,067.03 / f 150,000.—
Total annual rent	€651,174.60 / f 1,435,000,—

The quantities of square meters shown are floor space for let according to NEN 2580.

4.3 The first rent payment is due on **May 1st 2003**, and thereafter on **May 1st** of each subsequent year, reviewed in accordance with 4.1 up to and including 4.2 of the general terms and conditions.

4.4 The charges for additional services and facilities will be determined according to article 12 of the general terms and conditions. These charges are invoiced under a fixed installment prepayment system with a periodic settlement payment as described in article 12.

4.5 The payments that the lessee must pay to the lessor are to be made in advance in successive payment periods as shown in 4.6 and must be fully paid up before or on the first day of the corresponding period.

4.6 The sum due for each payment period of three calendar months consists of

• the rent	€162,793.65 / *f* 358,750.—
• the prepayment of the charges for additional services and facilities provided by or on behalf of the lessor	€ 18,922.64 / *f* 41,700.—
Total	€181,716.29 / *f* 400,450.—

in words; **one hundred and eighty one thousand, seven hundred and sixteen euro and twenty nine eurocent** (four hundred thousand, four hundred and fifty guilders). These amounts are exclusive of turnover tax.

4.7 In view of the date of commencement of the lease, the first payment period corresponds to the period from **May 1st 2002 up to and including June 30th 2002** and the amount due over the first period is **€ 121,144.19 (*f* 266,966.66)**, exclusive of turnover tax. The lessee will pay this amount inclusive of turnover tax before or on **May 1st 2002.**

Article 5—Turnover tax

5.1 All sums mentioned in this agreement are exclusive of turnover tax. The lessee owes turnover tax over the charges for additional services and facilities. This also applies to the rent, if rent subject to turnover tax has been opted for. The turnover tax is invoiced by the lessor and must be paid at the same time as the rent and the charges for additional services and facilities, or advances on those charges.

5.2 The parties agree that the lessor will invoice turnover tax on the rent to the lessee.

5.3 If it has been agreed that turnover tax will invoiced additionally to the rent, the lessee grants the lessor and the lessor's legal successors by this present agreement an irrevocable power of attorney to submit a request (request opting for taxed rent) in the lessee's name according to article 11, paragraph 1 sub b, 5e of the "Wet op de Omzetbelasting 1968" (Dutch Turnover Tax Act 1968). If so requested, the lessee will sign and send the request back to the lessor within 14 days or receipt from the lessor for this purpose.

Article 6—Services and facilities

6. The parties agree on the following additional services and facilities provided by or on behalf of the lessor:

a. janitor service (subscription), electricity consumed, fuel consumed, water consumed, measurement of usage, operation, repair of breakdowns, certification costs and so on with regard to:

1. elevator(s);
2. window washing system(s);
3. air conditioning unit(s) / ventilation unit(s);
4. central heating system(s);
5. hot water system(s);
6. high pressure water installation(s);
7. low voltage electrical system(s);
8. emergency power system(s);
9. (parking) garage equipment;
10. fire extinguisher units and filling
11. all other installations / equipment;

b. supply of water, gas and electricity, including the costs of meter hire;

c. heating and hot water supply, including the costs of chimney sweeping, boiler cleaning, meter installations, breakdown repairs etc;

d. air conditioning and ventilation, including the cost of chemicals;

e. lighting, including the costs of bulbs and TL tubes;

f. glass insurance for all window panes;

g. washing of the windows on the outside;

h. washing of the windows of the general and service rooms as well as the arcade roof on the outside and the inside;

i. other services and facilities;

j. handling and administrative fee for services and facilities amounting to 5% of the total costs plus turnover tax;

k. turnover tax over the costs of services and facilities

l. all management costs; pro-rated to the share of the accommodation in the Business Park, in this case the contribution to the Schiphol-Rijk Business Park Co-operative Society.

A number of the items included above under the so-called "service costs", can, with the lessor's consent, be undertaken and paid for by the lessee directly. Further agreements in this respect can be made between the lessor and the lessee and recorded in writing.

Article 7—Bank guarantee

7.1 The amount of the bank guarantee according to 8.1 of the general terms and conditions amounts to **€ 216,242,39 (*f* 476,535,50)**
in words: **two hundred and sixteen thousand, two hundred and forty two euro and thirty nine eurocent** (four hundred and seventy six thousand, five hundred and thirty five guilders and fifty cents)

This bank guarantee must be taken out with a bank with registered offices in the Netherlands and which is registered as a credit institution as determined in the Wet Toezicht Kredietwezen (Dutch laws regarding supervision of credit institutions), in accordance with the ROZ (Dutch Real Estate Council) model attached.

7.2 The lessee is entitled to convert the bank guarantee referred to in paragraph 1 of this article to a deposit from the date of signature of this agreement.

Article 8—Supervisor

8. The lessor will act as supervisor, until otherwise announced by the lessor,

Article 9—Extraordinary Stipulations

BTW (Dutch Value Added Tax or turnover tax)

9.1.1 Article 4.1, third dash, is replaced by: "the turnover tax due over the rent or the amount corresponding to the stipulations of 9.1.2 up to and including 9.1.8 of the extraordinary stipulations. The stipulations of 15.2 and 15.3 of the general terms and conditions which form an integral part of this agreement are herewith explicitly declared not to apply".

9.1.2 The lessee and the lessor explicitly declare that the rent has been agreed based on the premise that the lessee will permanently use the accommodation for at least the minimum percentage prescribed or to be prescribed by the law for activities which are subject to BTW (Dutch VAT) deduction. The lessee declares that he will use the property for purposes for which input tax is totally or nearly totally credited (presently known as the so-called 90% or 70% criterion).

9.1.3 Should the lessee not use the accommodation (any more) for activities which are subject to BTW (Dutch VAT) deduction according to paragraph 9.1.2, then the lessee will no longer be liable to pay the lessor BTW over the rent, however, from the date that the rent is no longer subject to BTW, in addition to the rent exclusive of BTW, the lessee is liable to pay the lessor a separate amount to compensate him fully for:

1. The BTW which is no longer deductible on the operational costs for the accommodation and/or investments therein as a consequence of the lapsing of the taxed rent.

2. The BTW which, the lessor must pay back to the tax authorities and/or can no longer reclaim from the tax authorities as a consequence of the lapsing of the taxed rent, due to recalculation in the sense of article 15, paragraph 4 of the Wet op de Omzetbelasting 1968 (Dutch Turnover Tax Act 1968) or review in the sense of articles 11 up to and including 13 of the Uitvoeringsbeschikking Omzetbelasting 1968 (Dutch Turnover Tax Implementation Decree 1968).

3. All other damages which the lessor suffers as a consequence of the lapsing of the taxed rent.

9.1.4 Whenever the situation described in 9.1.3 arises, the lessor will inform the lessee which sums are required to be paid to the tax authorities by the lessor and will provide insight into the other damages in the sense of 9.1.3.

The lessor will cooperate if the lessee wishes to have the lessor's statement checked by an independent chartered accountant. The costs of this are for the account of the lessee.

The financial disadvantage suffered by the lessor due to the lapsing of the taxed rent must be paid by the lessee at the first request of the lessor.

9.1.5 Article 5.3 (request opting for taxed rent) is herewith declared invalid. The levying of turnover tax over the rent will take place in accordance with the Besluit van de Staatssecretaris van Financiën (Decree of the Dutch State Secretary of Finance) dated March 24 1999 under number VB 99/571. The starting date for rent subject to turnover tax is the same as the date of commencement of the lease agreement, which is May 1 2002. The commencement date of the lessee's financial year is: **February 1**.

9.1.6 The lessee is bound to inform the lessor, by means of a signed declaration, whether he has used the accommodation during the last financial year for purposes subject to full or nearly full deduction of BTW (at least 90%) in accordance with article 15 of the Wet op de omzetbelasting 1968 (Dutch Turnover Tax Act 1968), within four weeks of the end of his financial year in which he started to rent the accommodation (even if the accommodation is entirely or partially used by a third party).

Furthermore, the lessee is bound to inform the lessor, by means of a signed declaration, if the accommodation (even if the accommodation is entirely or partially used by a third party) in any subsequent financial years has not been used for purposes subject to full or nearly full deduction of BTW (at least 90%) in accordance with article 15 of the Wet op de omzetbelasting 1968 (Dutch Turnover Tax Act 1968), within four weeks of the end of the financial year concerned.

In both instances, the lessor is bound to send a copy of the declaration to the Tax Inspector within the same period of time.

9.1.7 Should the lessee not comply with the obligation to provide information described above or should it be established in hindsight that his base assumptions were not correct and that the lessor, in hindsight, has wrongfully levied BTW over the rent, then the lessee is in default and the lessor is entitled to claim financial damages arising from this situation from the lessee. These financial damages are the entire sum of BTW owed by the lessor to the tax authorities in this instance plus interest and any other costs incurred, as well the BTW which the lessor cannot deduct.

The stipulations of this paragraph provide for a compensation payment arrangement in the event that the taxed rent should come to an end retrospectively, in addition to the arrangements described in 9.1.3 and 9.1.4. The extra damages for the lessor, arising from such a retrospective change, are claimable forthwith, completely and in one installment from the lessee. The lessor will cooperate if the lessee wishes to have the lessor's statement of these extra damages checked by an independent chartered accountant. The costs of this are for the account of the lessee.

9.1.8 The stipulations of 9.1.3, 9.1.5 and 9.1.7 are equally applicable if the lessor after termination of the lease agreement, whether this be premature or not, is first confronted by damages due to the lapsing of the taxed rent agreed between the parties, such damages being claimable forthwith, completely and in one installment from the lessee.

9.2 **Prolongation**

The lessor and the lessee agree that, in departure from and in addition to the stipulations of article 3.3, the lease agreement may only be terminated by the lessee.

Consequently the next period from May 1 2007 up and including April 30 2012 can be seen as an option right of the lessee. As of May 1 2012 both parties have the right to terminate the lease agreement, in observance of the stipulations in article 3.4.

9.3 **Assessment of changes in market rental value**

Notwithstanding any rent increase on the basis of 4.3 of the lease agreement, each of the parties is authorized to request a change of rent in accordance with market value. Such a change may take place for the first time on May 1 2007 and subsequently after a period of at least 5 (five) years after the last rent change in accordance with market value. If one of the parties wishes to make use of this authority, he must inform the other party thereof by registered letter with confirmation of delivery, 12 (twelve) months at the latest before the rent change must take effect.

If the parties are unable to reach an agreement over the change in rent in accordance with market value within two months of receipt of this letter, then the rent will be decided by three experts. When assessing the rent, the experts must be instructed to consider all the agreements made between the parties with regard to the accommodation and the circumstances of the case in question, such as the situation, size, layout and quality of the accommodation and the facilities in an around the accommodation, as well as mutually agreed rent or rent decided by the court for comparable business premises.

Each party will appoint one of these three experts within fourteen days after the request for this made by one of the parties has reached the other party. An expert will make known whether or not he accepts the assignment within eight days of the date of order.

The third expert will be appointed by these two experts within eight days of them accepting their appointment. The judgment of the third expert is decisive if the experts are unable to reach agreement over the rent. Should one of the parties remain in default with regard to the appointment of an expert or should the experts appointed by the parties be unable to appoint a third expert, then the most interested party can request the Chairman of the Chamber of Commerce of Trade and Industry responsible for the area in which the accommodation is situated to appoint the expert(s).

Each party will bear the costs of the expert he appoints. Half of the costs of the third expert will be born by each party. The experts will be instructed to bring out their report within six weeks after their appointment has become official.

Once the rent has been changed in accordance with market value, the next rent indexation will take place on the date as agreed in 4.3 of the lease agreement on condition that that rent indexation will be made proportional to the period which has passed from the date of the rent change in accordance with market value.

The rent established in this way will at no time be lower than the original rent.

When establishing the rent any direct or indirect work carried out to the building at the cost of QAD as mentioned in art. 11.5 (including extra work and furnishing) may not be considered, so that the new rent must always be decided on the basis of the state in which the building would be should this work not have been carried out.

9.4 **Amendments to the general terms and conditions**

9.4.1 Article 1.2 of the general terms and conditions should read as follows; "The accommodation is handed over and accepted in the condition as indicated in the certified description belonging to this agreement, to be drawn up at the moment the accommodation is made available.

9.4.2 Article 2.8 of the general terms and conditions is completely changed and reads as follows:

"The lessee is permitted to place an illuminated sign against or on the building of which the accommodation is a part, in order to display his own name and logo. The lessee has the first choice regarding the location of this name sign. This illuminated sign will comply with the guidelines of the authorized (government) bodies in terms of size and intensity and will be agreed with the building's architect and must be approved by the lessor. The lessor will only grant permission for illuminated signs with respect to other lessees after the lessee (QAD) has given permission for this in writing, such in order to protect the corporate identity of the lessee (QAD). The aforementioned permission will not be withheld on unreasonable grounds".

9.4.3 Article 2.10.1.b of the general terms and conditions is completely changed and reads as follows:

"to impose higher loads on the floors of the accommodation and of the building or complex of which it is a part, than those indicated in the lease agreement".

9.4.4 Supplementary to 2.10.2 of the general terms and conditions, the parties agree that permissions in the sense of this paragraph may not be withheld on unreasonable grounds.

9.4.5 in 4.1 of the general terms and conditions "1995=100" should be read instead of "1990=100".

9.4.6 Supplementary to article 7.2 of the general terms and conditions both the parties agree that before terminating the agreement the lessor will make his intention known to the lessee. The lessee is granted a reasonable period following this announcement in order to nullify the reason for termination.

9.5 **Subletting/allowing third parties occupancy**

The lessee has the right to fully or partially sublet and/or fully or partially grant occupancy of the accommodation to a third party, such after informing and having received permission to do so from the lessor and having assessed the sub lessee against the zoning ordinance in force. The lessor will answer the request for permission adequately and within a reasonable period of time and permission will not be refused on unreasonable grounds.

9.6 **Changes to and in the accommodation**

9.6.1 The lessor gives the lessee permission to make a number of changes to and in the accommodation, namely:

– the air conditioning system;

– any other changes to be taken up by mutual agreement.

With regard to the maintenance and repair of the accommodation, any extra costs arising from these changes will be charged to the lessee. These changes will not be undone by the lessee at the end of the lease, such contrary to article 5.1 of the general terms and conditions.

9.6.2 The lessor grants the lessee permission to fit:

- a kitchen;

- carpeting;
- a reception desk;

- data cables;
- partitions;
- any other changes to be taken up by mutual agreement.

The lessee and lessor will consult further with respect to the nature and the placement. Upon termination of the lease the procedure according to 5.1 of the general terms and conditions will be followed, notwithstanding the stipulations determined below in this paragraph.

The lessee has the right to install his own reception desk on the ground floor in the main entrance hall. The lessee will take receive and give directions to visitors to the building for other lessees. Other lessees are permitted to place a name sign in the main entrance hall on the ground floor after the lessee (QAD) has granted written permission for this. The aforementioned permission will not be refused on unreasonable grounds.

If the lessee terminates the lease agreement, the lessee and the lessor can agree which furnishings are not required to be removed as well as which furnishings are not required to be returned to the original state.

The lessee is permitted to get in touch with the estate agent acting for the lessor in order to determine whether potential lessees are inclined to take over the furnishings mentioned in this paragraph 9.6.2.

9.7 **Right of first refusal**

The lessee has the so-called "right of first refusal" regarding the first leasing of the office space which is still available in the Euro building on the 3rd floor amounting to 806m2 of floor space for let with the corresponding 21 parking places, 18 of which are situated in the car parking area under the deck and 3 of which on top of the deck, as well as the area in the basement amounting to 731m2 of floor space for let with the corresponding 20 parking places, 17 of which are situated in the car parking area under the deck and 3 of which on top of the deck.

Before leasing this area to a third party, the lessor will inform the lessee of this in writing. Should the lessee wish to exercise this right, then he must inform the lessor of this by letter within 15 days of receipt of the information from the lessor.

If the decision is positive the additional area will be leased from the commencement date of the lease agreement in force by means of a rider clause under the same terms and conditions as the agreement in force.

Should the commencement date of the agreement in force have already passed, then the commencement date of the rider clause will be the first day of the following calendar month.

For the entire duration of the lease agreement with the lessee, the remaining areas in the building will not be leased to any of the following companies / organizations:

SAP, Baan, JD Edwards, Siebel, Ariba, i2 Technologies and Commerce One.

9.8 **Conduits: shafts etc.: tolerance obligation etc.**

If and in as much as there are conduits, service shafts and/or meter cupboards and suchlike for the remaining business areas situated in the accommodation or solely accessible from the accommodation, the lessee undertakes on behalf of the lessor to ensure that these conduits, service shafts and/or meter cupboards and suchlike are accessible and remain accessible at all times.

The stipulations of article 10 of the general terms and conditions, amongst others, apply unimpaired with regard to inspections and/or work in/on these conduits, service shafts and/or meter cupboards and suchlike.

9.9 **Final delivery report at the commencement and termination of the lease agreement/penalty for late delivery.**

9.9.1 The accommodation will be delivered/made available to the lessee by the lessor in the condition it is in on the delivery date/ date of availability to be decided by the lessor. The condition of the accommodation and the date of delivery/date of availability are laid down in a final delivery report which will be drawn up in duplicate and dated and undersigned by both parties, of which each party will receive a specimen. The date of delivery/ date of availability will be May 1 2002 at the latest.

9.9.2 Should final delivery take place after May 1 2002, the lessor will be liable to pay a penalty of € 378.91 (*f* 835.—) per day, for each calendar day later after May 1 2002 that the accommodation is delivered.

9.9.3 Upon termination of the lease agreement, the procedure according to 5 of the general terms and conditions will be followed, notwithstanding the stipulations of article 9.6 of this lease agreement, on the understanding that article 1.2 of 5 in the general terms and conditions should be read as "the final delivery report as mentioned in 9.9" of this agreement.

Duly drawn up in duplicate and signed on 24/12/01 in Den Haag by:

The lessor:	**The lessee:**
VOF Forward Erenha	Qad Netherlands B.V.
H. van Luling	C.D.Kemme
mr. C.H.D.J.M. van Duin	

Appendices:

- the general terms and conditions as referred to in 2.1
- the technical description of the accommodation dated August 15 2000
- drawings of the accommodation belonging to the technical description
- the certified final delivery / availability report to be made up later by the parties in the sense of article 10.1

Lessor's initials: Lessee's initials:

GENERAL TERMS AND CONDITIONS FOR OFFICE SPACE LEASE AGREEMENTS
and other premises for business use contrary to article 7A:1624 BW (Dutch Civil Code)

In accordance with the model drawn up by the Raad voor Onroerende Zaken (Dutch Real Estate Council) on February 29 1996 and filed and registered at the Office of the District Court in "s Gravenhage under no. 34/1996. The Council denies all liability for any detrimental effects arising from the use of the model text. The headings above the articles of these general terms and conditions are purely intended to improve readability. The content and scope of an article under a particular heading is not therefore limited only to that indicated by the heading concerned.

The accommodation

1.1 The installations and fixtures present in the accommodation are understood to form part of the accommodation, in as much as they are not excluded in the certified description ancillary to this agreement.

1.2 The accommodation is made available for occupation and accepted in the condition described in the certified description ancillary to this agreement or, in the absence thereof, is accepted to be in good condition and free of defects at the commencement of the lease.

Occupancy

2.1 For the entire duration of the lease agreement, the accommodation may only in fact be used by the lessee himself, in a proper manner and exclusively for the purpose described in the lease agreement. The lessee must take into account existing restricted rights and requirements set or to be set by government bodies or by public utilities. The lessee must also provide and maintain an adequate level of furnishings and inventory in the property.

2.2 The lessee will act in accordance with the law and local regulations as well as complying with customary practice in respect of leasing and letting, government regulations, public utility and insurance regulations and, if applicable, the regulations of the Bureau voor Sprinklerbeveiliging (Dutch centre for sprinkler systems) and of the Stichting Nederlands Instituut voor Lifttechniek (Dutch Institute of elevator technology) and other official bodies authorized to issue the required certificates. Likewise the lessee will act upon verbal and written instructions made by or on behalf of the lessor in the interests of proper usage of the accommodation and the internal and external spaces, installations and fixtures of the building or complex of which the accommodation is a part. This includes instructions in respect of upkeep, appearance, noise levels, public order, fire safety, parking and the correct operation of installations and the building or complex of which the accommodation is a part.

2.3 The lessee may not cause nuisance or inconvenience by his use of the accommodation, or of the building or complex of which the accommodation is a part and will ensure that third parties present at his behest also do not so.

2.4 The lessee has the right to and a duty to use the common facilities and services which are available or will be made available in the interests of the proper functioning of the complex of which the accommodation is a part.

Licenses

2.5.1 The lessee is bound to ensure the necessary licenses and/or dispensations required for the activities, for which the accommodation is to be used, are obtained. Refusal or withdrawal thereof will not lead to dissolution or nullification of the lease agreement or to any other action against the lessor.

2.5.2 If alterations or modifications to the accommodation in respect of 2.5.1 are necessary, whether these are prescribed by the authorities or not, the lessee (notwithstanding the stipulations of 2 .6 and 2.10) is responsible for ensuring that all relevant requirements set or to be set by the authorities are met during the execution of the alterations, as well as obtaining the licenses required, whilst all costs of the alterations or modifications are for the account of the lessee.

Environment

2.6.1 If an environmental investigation of the accommodation is instituted at the commencement of or during the course of the lease agreement, and subsequently an equivalent investigation during the course of the lease agreement or directly after the termination of the lease agreement, reveals high concentrations of one or more substances under, in or around the accommodation other than those which were the subject of the earlier investigation, then the lessee is bound to reimburse the damages caused by the contamination and he is liable for costs incurred by the lessor for neutralizing the contamination or other measures taken.

The lessee indemnifies the lessor in this respect against claims from third parties, including government bodies.

2.6.2 The stipulations of 2.6.1 do not apply if the lessee can demonstrate that the contamination has been neither caused through the actions or omissions of himself, of his personnel or of persons or things under his supervision, nor through circumstances which can be attributed to the lessee.

2.6.3 The lessor does not indemnify the lessee against (official) warrants for further investigations or for taking measures.

Refuse/chemical waste

2.7 In the event of government guidelines or regulations being in force with regard to (sorting and) offering refuse for collection, or such guidelines and regulations laid down by other competent authorities, then the lessee is bound to fully comply with these instructions at all times. The lessee is liable for all financial consequences, criminal charges and other possible consequences arising from not complying or not fully complying with this obligation.

Advertising

2.8 If the accommodation is part of a building or complex, the lessor has the right to place (illuminated) signs and other advertising materials on the roofs or outside walls, or in the gardens and the land belonging to that building or complex, both for his own purposes and for the purposes of the lessee or third parties.

The lessor will consider the interests of the lessee when exercising this right.

Apartment right

2.9.1 If the building or complex, of which the accommodation is a part, is or will be split up in apartment rights, then the lessee is bound to comply with the provisions arising from the deed of division and the division regulations regarding the use thereof. The same applies should the building or complex be or become owned by a cooperative society.

2.9.2 The lessor, in as much as he is able to, will not be a party to the bringing about provisions which are contrary to the lease agreement.

2.9.3 The lessor will ensure that the lessee come into possession of the provisions regarding use referred to in 2.9.1.

Prohibitory stipulations and rules of procedure

2.10.1 The lessee is not permitted:

a. to hold items in, on or against or in the direct surroundings of the accommodation, which are detrimental to the environment, such as malodorous, flammable or explosive items, unless these form a part of the normal occupational or business activities;

b. to impose higher loads on the floors of the accommodation, or of the building or complex of which it is a part, than those permitted by the construction or indicated in the lease agreement;

c. to use the accommodation in a way that may cause contamination of the ground or other environmental contamination, structural damage to the accommodation or damage to the appearance of the accommodation, including the use of means of conveyance which can cause damage to floors and walls;

d. to make changes or modifications in, on or against the accommodation which are contrary to government and public utility regulations, contrary to the provisions under which the owner of the accommodation acquired ownership thereof, contrary to other restricted rights, or which cause nuisance to other lessees or neighbors or hinder their occupation.

2.10.2 Without first gaining the lessor's prior consent, the lessee is not permitted:

a. to make changes or modifications in, on or against the accommodation, including making holes in the outside walls;

b. to hold or affix items in, on or against the accommodation or in the direct surroundings of the accommodation, including name signs, advertising, boards, announcements, publications, buildings, wooden structures, racks, packaging materials, goods, automatic dispensers, lighting, sun blinds, aerials and accessories, flag poles, etc., nor to black out windows;

c. to enter or to allow others to enter the services and technical installation rooms, the roofs and roof leads, gutters and all rooms and places of the accommodation or of the building or complex of which it is a part, which are not open for general use, unless this is for carrying out work or repairs, which the lessee is bound to do under the provisions of this agreement;

d. to park or store vehicles in places other than those designated for that purpose.

2.10.3 The lessor is in no way liable for the changes and modifications referred to under 2.10.2 a and b.

2.10.4 The lessee is bound to keep fire extinguishers and hoses and escape-routes free of obstacles at all times.

2.10.5 If an elevator, moving walkway, escalator or automatic door mechanism belongs to the accommodation or one or more of these items are used to gain access to the accommodation, then the use of these items is explicitly at the user's own risk. All regulations, set by or to be set by the lessor or on behalf of the lessor, by the installers involved and by the authorities, must be exactly complied with. The lessor may—if necessary and for as long as required—take these items out of service without incurring liability for compensation or reduction of the rent in respect of the lessee.

2.10.6 If items affixed by the lessee (including advertisements or other signs) must be temporarily removed for maintenance or other work on the accommodation, or respectively the building or complex of which it is a part, then the costs of removal, any storage costs and costs of reinstalling will be for the account and risk of the lessee, irrespective of whether the lessor has consented to the installation of the items referred to.

Requests/Permission

2.11.1 If the lessee, having signed this agreement, should desire a change and/or supplement to any stipulation in this agreement, then the lessee must request this in writing.

2.11.2 If and in as much as any stipulation in this agreement requires the consent of the lessor, then this will only be seen to have been given, when made in writing.

2.11.3 Any consent granted by the lessor is non-recurrent and does not apply to other or subsequent cases. The lessor has the right to make his consent subject to conditions.

Subletting

3.1 Without prior consent of the lessor, the lessee is not permitted to let, sublet or allow third parties to use the complete accommodation or a part thereof, nor to transfer the lease rights partly or fully to third parties or to a partnership or a legal person.

3.2 In the event that the lessee violates the above stipulation, he will forfeit an immediately payable penalty to the lessor for each calendar day that the transgression lasts, equal to twice the daily rent current for the lessee at that time, notwithstanding the lessor's right to demand compliance or termination, as well as compensation.

Rent Reviews

4.1 A rent review in accordance with 4.3 of this lease agreement will be effected based upon the change of the monthly price index according to the consumer price index (CPI) series CPI-Werknemers Laag (CPI-Employees Low) (1990 = 100), published by the Centraal Bureau voor Statistiek (Dutch Central Statistical Office).

The rent review will be calculated according to the following formula; the reviewed rent is equal to the current rent on the date that the rent is reviewed, multiplied by the index figure for the calendar month four months prior to the calendar month in which the rent is reviewed, divided by the index figure for the calendar month sixteen months prior to the calendar month in which the rent is reviewed.

4.2 The rent will not be changed if the review would lead to a lower rent than the last current rent. In that case the last current rent remains unchanged, until the next review period when the index figure of the calendar month four months prior to the calendar month in which the rent is reviewed, is higher than the index figure for the calendar month four months prior to the calendar month in which the rent was increased. In that case the index figures of the months referred to in the last sentence are used to calculate the rent increase.

4.3 The reviewed rent applies, even if not explicitly made known to the lessee.

4.4 Should the CBS (Dutch Central Statistical Office) discontinue the publication of the index figure referred to, or should the method of calculation change, then a modified index figure or one which is as comparable as possible will be used. Should parties not be in agreement with this, the most interested party may request a ruling from the director of the CBS (Dutch Central Statistical Office) which is binding for both parties. Any costs incurred will be split equally between the parties.

Termination of the agreement or occupancy

5.1 With the exception of any legal rights he may have, the lessee is bound to hand the accommodation over to the lessor, to his full satisfaction, upon termination of the lease agreement or occupancy, in the original state, laid down in the certified description drawn up at the beginning of the agreement as described in 1.2 and in the absence thereof in good condition, fully vacated, free of occupancy and rights of usage and properly cleaned along with all keys, keycards etc. The lessee is bound to remove all items installed by him in, on or against the accommodation or taken over from the previous lessee or occupant at his own cost.

The lessor is not liable to pay compensation for any items which are not removed.

5.2 The lessor has the right to deem the lease terminated, if the lessee had ended occupancy with or without due notice without having handed the keys over to the lessor, and to gain entrance to the accommodation at the cost of the lessee and take possession thereof, without the lessee having any right to compensation of damages or any other rights.

5.3 All items which the lessee has apparently relinquished by leaving them behind in the accommodation when he in fact left the accommo- dation, may be removed by the lessor, at his discretion, without incurring any liability, at the cost of the lessee, unless the lessor is aware that the next lessee has taken over such items.

5.4 A timely inspection of the accommodation should take place, carried out jointly by both parties, before the termination of occupancy or of the lease agreement.

The parties will draw up a report of this inspection, in which the findings are noted. Also any work still to be carried out in respect of any necessary repairs noted during the inspection, or in respect of overdue maintenance to be paid for by the lessee, will be laid down along with the way in which this should be done.

5.5 If the lessee, having been given all due opportunity to do so, does not make an appointment for the inspection within a reasonable period of time and/or does not cooperate with the recording of the findings and agreements in the inspection report, then the lessor is authorized to carry out the inspection without the lessee being present and to draw up the report which is then binding for both parties. The lessor will make a copy of this report available to the lessee without delay.

5.6 The lessee is bound to carry out the work recorded in the inspection report, or to have this work carried out by others, within the period agreed to in the report—or within a period to be further agreed between both parties- to the full satisfaction of the lessor.

If the lessee, even after notice of default, remains fully or partly negligent in meeting of the obligations arising from the report, then the lessor has the right to have this work carried himself and to charge all cost to the lessee.

5.7 For the period necessary for repairs, calculated from the date of termination of the lease agreement, the lessee will owe the lessor an amount calculated according to the last current rent and increased with the cost of extra services or deliveries, notwithstanding the lessor's claim to compensation of further damage or costs.

Damage

6.1 The lessee is bound to timely take all necessary measures to avoid and restrict damage to the accommodation, such as damage arising from electrical short-circuits, fire, leakage, storm, frost or any other weather conditions, and the passage of gases or liquids in or out of the accommodation. The lessee is furthermore bound to inform the lessor immediately if any such damage or an event as described in 6.5 should occur or be imminent.

6.2 Where the lessee is able to do so, the above applies also to the appearance of the building or complex of which the accommodation is a part.

6.3 The lessee has a responsibility with respect to the lessor for all damage and losses to the accommodation unless the lessee can prove that he, the persons he has allowed into the accommodation, his personnel and the persons for whom he is liable, are not to blame for such damage or loss, or that he cannot be charged with negligence in that respect.

6.4 The lessee indemnifies the lessor from all fines which can be imposed upon him for negligence or actions of the lessee.

6.5 The lessor is not liable for damage caused to the person or property of the lessee or of third parties—and the lessee indemnifies the lessor from claims by third parties in that respect—by the occurrence of or by the consequences of visible and invisible defects in the accommodation or in the building or complex of which it is a part, or by the occurrence of or as a consequence of weather conditions, of blockages of access to the accommodation, or interruptions in the supply of gas, water, electricity, heat, ventilation or air-conditioning, by breakdowns of the technical installations and equipment, by the passage of gases or liquids in and out of the accommodation, by fire, by explosions and other events, by disruption of the peaceful enjoyment of the lease agreement and by disruption or shortcomings of services and facilities, all with the exception of cases of damage arising from gross negligence of the lessor with respect of the state of repair of the accommodation or of the building or complex of which it is a part.

6.6 The lessor is not liable for consequential loss suffered by the lessee nor for damages arising from the activities of other lessees or from restrictions in the usage of the accommodation caused by third parties, unless in the case of gross negligence of the lessor in this respect.

Premature termination, breach of contract

7.1 If the lessee

– does not pay the sums owed at the times agreed;

– discontinues his occupation or business in the accommodation fully or for a major part;

– does not comply with any other stipulation of the lease agreement;

– does not observe any condition applying to a permission granted by the lessor;

– loses the free disposal over all his assets or a part of his assets;

– in the event he is not a natural person, loses his corporate personality, is dissolved, or is liquidated de facto;

– is declared bankrupt;

– offers a settlement outside a liquidation procedure, or if the lessee's goods are seized;

– should pass away;

the lessor is entitled to end the agreement prematurely. Notice of termination will only be given if required by the law.

7.2 The lessee is in breach of contract if a single payment is missed or if just one of the circumstances described above should occur.

7.3 The lessee is bound to reimburse all damages, costs and interest as a consequence of the circumstances described in 7.1 and as a consequence of premature termination of the lease agreement, also in the event of bankruptcy and suspension of payments.

The rent, the reimbursement of additional services and facilities, such as heating costs, turnover tax and other sums owed, the costs of re-leasing and all cost of actions taken by the lessor in the law courts and extra-judicially, including those for legal advice arising from the circumstances described under 7.1, are considered to be included in such damages in all events.

7.4 The determinations of 7.1 up to an including 7.3 do not prevent the lessor from exercising his other rights, including demanding his right to performance with damage compensation.

Bank Guarantee

8.1 As security that he will properly meet the obligations arising from the lease agreement, the lessee will provide the lessor with a bank guarantee upon signature of the lease agreement, in accordance with a model designated by the lessor, amounting to the sum shown in the lease agreement, commensurate to the payment obligation of the lessee with respect to the lessor, including turnover tax at the current rate. This bank guarantee should be made valid for prolongation of the lease agreement including any reviews thereof, and for a period of six months subsequent to the date that the accommodation is in actual fact vacated, concurrent with the lease agreement being terminated. The bank guarantee must additionally apply for legal successors of the lessor.

8.2 The lessee has no right to deduct any amount in respect of the bank guarantee.

8.3 In the event that the bank guarantee must be used, the lessee will ensure that a new bank guarantee is raised at the first request of the lessor, which meets the stipulations in 8.1 and 8.4, bringing the guaranteed sum back to the full amount.

8.4 The lessee is bound to take out a new bank guarantee corresponding to the new payment obligation immediately following the lessor's request to do so, when the rent, charges for services and facilities or the advance payment thereof and the turnover tax at the current rate are increased.

8.5 If the lessee does not comply with the obligations described in this article, he is liable to pay the lessor a directly payable penalty for each offence of *f* 500.—per calendar day that he is in default, after he has been notified of default by registered letter.

Maintenance and upkeep

For the account of the lessor

9.1 Unless it is work that must be viewed as small and daily repairs in the sense of the law (article 7A:1619 BW (Dutch Civil Code)), or work on items which have not been installed by the lessor or on behalf of the lessor in, on or against the accommodation, the following is for the account of the lessor:

a. maintenance, repair and renewal of the constructional elements of the accommodation, such as foundations, columns, beams, load bearing floors, roofs, roof leads, load bearing walls, outside facades;

b. maintenance, repair and renewal of stairs, staircase steps, sewers, gutters, outside door and window frames, and suchlike. In the case of sewers the stipulations of 9.2.4 remain undiminished in force;

c. replacement of parts and renewal of technical installations such as the elevator installation, central heating and high pressure water systems;

d. outside paintwork.

For the account of the lessee

9.2.1 All other maintenance, repair and renewal are for the account of the lessee, such as;

a. external maintenance if and in as much as these is work that must be viewed as small and daily maintenance in the sense of the law (article 7A:1619 BW (Dutch Civil Code)), as well as internal maintenance not covered by the stipulations of 9.1, notwithstanding the further stipulations here below;

b. maintenance, repair and renewal of locks and hinges, mirrors, windows and other glass panes, both inside and outside;

c. maintenance, repair and renewal of roller shutters, Venetian blinds, awnings and other sun shades;

d. maintenance, repair and renewal of switches, power points, bell systems, lamps, lighting (including armatures), carpeting, curtains, drapes and upholstery, internal paintwork, kitchen sinks, sanitation;

e. maintenance, repair and renewal of pipe work and valves of gas, water and electricity from the meter or main connection valve including all ancillary items, except for renewal due to normal wear and tear;

f. maintenance, repair and renewal of boundary partitions as well maintaining the gardens and the grounds;

g. daily maintenance and repair (and replacement of minor parts) of the technical installations belonging to the accommodation;

9.2.2 Maintenance, repair and renewal of items installed by or on behalf of the lessee, on account of a provisional sum made available to him by the lessor, are for the account of the lessee.

9.2.3 Furthermore the costs of cleaning and maintaining cleanliness of the accommodation, both internally and externally, including the cleaning of windows, door and window frames and facades of the accommodation are for the account of the lessee.

9.2.4 In addition the costs of emptying grease traps, cleaning and unblocking pits, gutters, and all drains/sewers of the accommodation up to the local authority main drainage system, sweeping chimney stacks and cleaning ventilation ducts.

9.3 If the lessee, after receiving a reminder, neglects to carry out maintenance, repair and renewal for which he is responsible—or if the such maintenance, repair and renewal in the opinion of the lessor has been carried out poor or incompetently—the lessor is entitled to carry out or have carried out such maintenance, repair and renewal at the costs and risk of the lessee.

If delay of the work for the account of the lessee cannot be tolerated, the lessor is entitled to carry this out or have this carried out without delay, at the cost of the lessee.

9.4 In the case of maintenance, repair and renewal work to be carried out by the lessor, the lessor will consult the lessee beforehand in order to take the interests of the lessee into consideration as much as possible. If the lessee requests such work to be done outside of normal working hours, then the extra costs of this are for the account of the lessee.

9.5 The lessee is responsible for the correct and competent use of the accommodation including all the technical installations in the accommodation. The lessee is responsible for entering into service contracts at his own cost and risk. Service contracts with regard to the installations must be approved by the lessor. With regard to maintenance the above applies except in as much as 12.2 is applicable.

9.6 The lessee will inform the lessor of defects in the accommodation without delay.

9.7 If the lessee and the lessor agree that the items which are for the account of the lessee according to this article will not carried out by order of the lessee but by order of the lessor, then the costs thereof will be invoiced to the lessee by the lessor. In a number of instances the lessor will enter into maintenance contracts for that purpose.

Alterations

10. If the lessor judges it necessary to carry out or have carried out maintenance, repair and renewal, including extra facilities and alterations, renewal work or other work in, on or against the accommodation or the building or complex of which the accommodation is a part or to adjoining buildings, or if this is necessary due to (environmental) requirements of the government or public utilities, the lessee will tolerate the work and measures and any possible inconvenience, without being able to demand any damage compensation or reduction in the payment obligation or termination of the lease agreement, even if this work takes longer than forty days, notwithstanding however the stipulations of article 7A:1589 BW (Dutch Civil Code). The lessor will take the interests of the lessee into account as much as possible during the carrying out of the work.

Lessor access

11.1 If the lessor wishes to have the accommodation valued, or wishes to have carry out work in the sense of 2.6, 5, 9.3 or 10, the lessee is bound to provide access to the lessor or those persons who will approach the lessee for this purpose and make it possible for them to carry out the work seen as necessary.

11.2 For the execution of the stipulations of the first paragraph, the lessor and all persons to be appointed by him are entitled to have access to the accommodation, after first consulting the lessee, on working days between 07.00 and 17.30 hours.

In emergencies the lessor is entitled to enter the accommodation without first consulting the lessee, if necessary outside of the times notified above.

11.3 In the case of the intended sale or auctioning of the accommodation and after termination of the lease agreement, the lessee is bound, without any compensation, during at least two working days per week, following the prior announcement of the lessor or his appointed representative, to provide access to the accommodation for viewing. He will tolerate the usual "for rent" or "for sale" signs or posters on or in the area of the accommodation.

Costs of services and facilities

12.1 In addition to the rent, the costs of water and energy consumption for the accommodation, including the costs of entering into a supply agreement and the meter hire, as well as any other costs and fines which are invoiced by the public utility companies, are for the account of the lessee. The lessee must enter into supply agreements with the companies involved himself, unless the accommodation does not have its own connection point and the lessor provides this as part of the agreed extra services and facilities.

12.2 If both parties have agreed on additional services and facilities to be provided by or on behalf of the lessor, the lessor will set the payment thereof owed by the lessee on the basis of the costs which are incurred by the services and facilities and the administrative costs incurred in this respect. This applies to both the technical installations as well as other services and facilities. If the accommodation is a part of a building or complex and the services and facilities are shared with other parts belonging to that building or complex, the lessor will determine the lessee's share of the costs of the services and facilities on a reasonable basis. When doing this, the lessor is not required to take into account the fact that the lessee does not make use of one or more of these services or facilities. If one or more parts of the building or complex are not in use, the lessor when determining the lessee's share will ensure that this is no higher than when the building or complex would be fully occupied.

12.3 The lessor will provide the lessee each year with a specified statement of the costs of the services and facilities, detailing the way they have been calculated and, in as much as applicable, the lessee's share in the costs.

12.4 At the end of the lease agreement a statement will be provided over the period, for which this has not yet occurred. This last statement will be provided at the latest within 14 months of the date upon which the previous statement was made available. Neither the lessee nor the lessor will claim premature settlement.

12.5 The sum, according to the statement over the period concerned and taking the advance prepayments into account, which has been underpaid by the lessee or excessive payments received by the lessor, will be paid or returned respectively within one month of the statement being supplied. This obligation will not be suspended, in the event of the correctness of the statement being challenged.

12.6 The lessor is entitled to change or to stop services and facilities, having first consulted the lessee.

12.7 The lessor is entitled to prematurely adjust the advance payments on the charges owed by the lessee for the services and facilities in the light of the expected costs, in the sense of 12.6 amongst other things.

12.8 In the event that the supply of heat and/or hot water is included in the services and facilities, the lessor can, having first consulted the lessee, adjust the way in which the consumption is established and as a consequence, the lessee's share in the costs of the consumption.

12.9 If the consumption of heat and /or hot water is determined using meters and a dispute should arise over the lessee's share in these costs due to the meters not functioning or incorrectly functioning, then the lessor will consult a company specialized in measuring and determining heat and hot water consumption, who will establish the lessee's share in the costs. This will also occur in the event of damage, destruction, or fraud with regard to the meters, notwithstanding all other rights the lessor has against the lessee in that case, such as the right to repair or renewal of the meters and compensation for the damages suffered.

12.10 Except in the case of gross negligence, the lessor is not liable for any damage whatsoever resulting from the non-functioning or incorrect supply of the aforementioned services and facilities.

Neither will the lessee claim rent reduction in such cases.

Costs

13. In all cases where the lessor issues a summons, notice of default or a bailiff's writ on the lessee, or in the case of procedures against the lessee to force him to observe the agreement or to vacate the accommodation, the lessee is bound to reimburse all costs thereby incurred to the lessor, both in court and extra-judicially—with the exception of court costs which a court has directed the lessor to pay. In anticipation the costs incurred between the parties are set at an amount that is no lower than the usual rates charged by bailiffs of the court.

Payments

14.1 The payment of the rent and all other payments owed pursuant to this lease agreement will be deposited on or transferred by bank transfer to a bank account to be advised by the lessor, on the due dates at the latest and in legal Dutch tender—without any delay, discount, deduction or offset against an outstanding claim the lessee has or means he has against the lessor. The lessor is free to make changes in the place or means of payment, by notifying the lessee in writing. The lessor is entitled to decide to which account receivable arising from the agreement a payment received from the lessee is allotted, unless the lessee explicitly indicates otherwise when making payment. In this last case, article 6:50 BW (Dutch Civil Code) does not apply.

14.2 In each instance that a sum owed by the lessee in accordance with the lease agreement is not paid promptly on the date due, the lessee forfeits to the lessor by law a directly payable fine of 2% per month of the sum owed with a minimum of *f* 250.—per calendar month, whereby each calendar month that has begun counts as a full month.

Taxes, charges, levies, premiums etc.

15.1 If it has been agreed that turnover tax will be paid over the rent, the lessor will submit the request opting for taxable rent, in the sense of 5.2 of the lease agreement, to the tax inspector concerned.

15.2 If the request opting for taxable rent is not granted, then the lessee will owe the lessor an amount extra to the rent which corresponds to the amount of turnover tax that would have been due, had the request opting for taxable rent been granted.

If a request opting for taxable rent is granted at a later date than initially requested, the lessee owes the lessor an amount extra to the rent which corresponds to the amount of turnover tax due, from the agreed date of commencement up to the date of commencement of the taxable rent.

15.3 If the lessee can demonstrate that the request for taxable rent is not granted at all or not granted on the requested date due to default by the lessor, he will not owe the amount of turnover tax due in the sense of 15.2.

Other taxes, charges, levies, premiums etc.

15.4 The following are for the account of the lessee, even if the lessor receives the tax assessment:

a. real estate tax and water board charges or polder charges with regard to the actual use of the accommodation and the actual use of the service rooms, general areas and the so-called common areas;

b. other existing or future taxes, municipal taxes on encroachments on or above public land, charges, levies and retributions with regard to the accommodation and items belonging to the lessee, with the exception of the real estate tax and the water board charges or polder charges with regard to ownership rights as well as sewerage charges;

c. environmental levies including the surface water pollution levy and the contribution to the cost of purifying waste water and all other contributions with regard to protecting the environment;

15.5 If in connection with the nature of the occupation or business of the lessee or his business activities in the accommodation, or the building or complex of which the accommodation is a part, a higher than normal fire insurance premium for the building or inventory and goods is charged to the lessor or other lessees of the building or complex, the lessee will pay the excess above the normal premium to the lessor or other lessees.

The lessor and the other lessees are free in their choice of insurance company, the establishing of the insured value and the judgment whether the premium owed is reasonable.

'Normal premium' is defined as the premium that the lessor or lessee can negotiate with a respectable and well-known insurer registered in the Netherlands for insuring the accommodation, respectively the inventory and goods, against fire risk on the date directly prior to this lease agreement being entered into, without making allowances for the nature of the occupation or business of the lessee or his business activities in the accommodation, as well as—for the duration of the lease agreement—each revision of this premium, which is not a consequence of a change in the nature or size of the insured risk.

Severalty

16.1 If various (natural or legal) persons are joint lessee, these are always jointly and severally liable in all respects with regard to the lessor, for all obligations arising from the lease agreement.

Deferment of payment or remission by the lessor in respect of one of the lessees, or a proposal to that effect, applies only to that lessee.

16.2 The obligations in the lease agreement are several with respect to heirs and successors of the lessee.

Late delivery

17.1 If the accommodation is not available on the date agreed in the lease agreement, due to the accommodation not yet being fully constructed—unless explicitly so requested by the lessee—, due to the previous occupant not having vacated on time, or if the lessor has not yet received the licenses required by the authorities, the lessee is not liable to pay rent or additional charges for services and facilities until the date that the accommodation is made available to him, and all his other obligations and the agreed payment installments are correspondingly postponed. Rent indexation remains unchanged.

17.2 The lessor is not liable for damages suffered by the lessee due to late delivery, unless he can be charged with gross negligence.

17.3 The lessee cannot demand dissolution, unless the late delivery has been caused intentionally or by negligence on behalf of the lessor and has resulted in such a long delay, that the lessor cannot reasonably demand that the agreement valid in its original form.

Data Protection Act

18. If the lessee is a natural person, the personal details of the lessee may have been recorded by the lessor and administrator (if any) in a data base for personal details.

Domicile

19.1 From the date of commencement of the rent, all announcements by the lessor to the lessee with regard to this lease agreement, will be sent to the address of the accommodation.

19.2 The lessee is bound to inform the lessor without delay, if he in fact ceases to carry out his business in the accommodation and apprise him of a new domicile in the Netherlands.

19.3 In the event the lessee should leave the accommodation without apprising the lessor of a new domicile in the Netherlands, the address of the accommodation will be seen as the domicile of the lessee.

Complaints

20. The lessee will submit complaints and requests in writing. This may be done verbally in urgent cases. In such cases the lessee will confirm the complaint or request in writing as soon as possible.

Administrator

21. If the lessor has appointed or appoints an administrator, the lessee will contact the administrator with all circumstances relevant to the agreement.

Final provision

22. If a part of the agreement or of these general terms and conditions is null and void or voidable, this does not affect the validity of the remaining part of the agreement or of these general terms and conditions. In place of the part which is null and void or voidable, the stipulation or stipulations will apply, which in a legally permissible way most closely approach what the parties would have agreed, had they been aware that the part in question was null and void or voidable.

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Exhibit 21.1

QAD Inc.
SUBSIDIARIES OF QAD INC.

Name	Place of Incorporation
Enterprise Engines, Inc.	California
QAD Asia Limited	Hong Kong
QAD Australia Pty Ltd.	Australia
QAD (Bermuda) Ltd.	Bermuda
QAD Bilgisayer Yazilim Ltd.	Turkey
QAD Brasil Limitada	Brazil
QAD Brazil Inc.	Delaware
QAD Canada ULC	Canada
QAD China Inc.	Delaware
QAD China Ltd.	China
QAD Europe B.V.	The Netherlands
QAD Europe GmbH	Germany
QAD Europe Ltd.	United Kingdom
QAD France eurl	France
QAD I&I Co., Ltd.	Thailand
QAD India Inc.	Delaware
QAD Ireland Limited	Ireland
QAD Italy S.p.A.	Italy
QAD Japan Inc.	Delaware
QAD Korea Inc.	Delaware
QAD Netherlands B.V.	The Netherlands
QAD Ortega Hill, LLC	Delaware
QAD Polska Sp. z o.o.	Poland
QAD Singapore Private Ltd.	Singapore
QAD Sistemas Integrados Casa de Software, S.A. de C.V.	Mexico
QAD Sistemas Integrados Servicios de Consultoria, S.A. de C.V.	Mexico
QAD Software South Africa (Pty) Ltd.	South Africa
QAD United Kingdom Ltd.	United Kingdom
QAD USVI Inc.	US Virgin Islands

QuickLinks

Exhibit 21.1 QAD Inc. SUBSIDIARIES OF QAD INC.

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Exhibit 23.1

AUDITORS' REPORT ON SCHEDULE AND CONSENT OF INDEPENDENT AUDITORS

The Board of Directors of
QAD Inc.:

The audits referred to in our report dated March 1, 2002, included the related financial statement schedule as of January 31, 2002 and for each of the years in the three-year period ended January 31, 2002, included in the annual report on Form 10-K of QAD Inc. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We consent to incorporation by reference in the registration statements (No. 333-66610, No. 333-48381 and No. 333-35367) on Form S-8 of QAD Inc. of our report dated March 1, 2002, relating to the consolidated balance sheets of QAD Inc. and subsidiaries as of January 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and comprehensive loss and cash flows for each of the years in the three-year period ended January 31, 2002, which report appears in the January 31, 2002, annual report on Form 10-K of QAD Inc.

KPMG LLP

Los Angeles, California
April 26, 2002

QuickLinks

Exhibit 23.1

AUDITORS' REPORT ON SCHEDULE AND CONSENT OF INDEPENDENT AUDITORS