SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended October 31, 1997

OR

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

For the transition from _____ to _____

Commission File Number _____

QAD INC.
(Exact name of registrant as specified in its charter)

DELAWARE	77-0462381
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

6450 VIA REAL, CARPINTERIA, CALIFORNIA 93013
(805) 681-6614
(address, including zip code and telephone number including area code, of registrant's principal executive offices)

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes X . No .

The number of shares outstanding of the issuer's common stock as of the close of business on December 12, 1997 is 29,099,248

QAD Inc.
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Part I - Financial Information

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

	Three Months Ended October 31, 1996	Three Months Ended October 31, 1997	Nine Months Ended October 31, 1996	Nine Months Ended October 31, 1997
Revenue:				
License fees	$ 13,915	$ 29,616	$ 48,136	$ 73,723
Maintenance and other	9,891	14,406	29,341	44,032
Total revenues	23,806	44,022	77,477	117,755
Cost and expenses:				
Cost of revenues	6,341	11,842	20,381	30,561
Sales and marketing	11,197	17,154	37,308	49,360
Research and development	6,096	7,927	17,455	20,733
General and administrative	3,726	4,597	10,500	12,660
Total cost and expenses	27,360	41,520	85,644	113,314
Operating income (loss)	(3,554)	2,502	(8,167)	4,441
Other (income) expense:	400	(678)	1,079	(778)
Income (loss) before income taxes	(3,954)	3,180	(9,246)	5,219
Income tax expense (benefit)	(1,164)	1,795	(2,652)	2,532
Net income (loss)	$ (2,790)	$ 1,385	$ (6,594)	$ 2,687
Net income (loss) per share	$ (0.12)	$ 0.05	$ (0.28)	$ 0.10
Shares used in computation	23,479	29,739	23,439	26,256

See accompanying notes to the condensed consolidated financial statements

QAD Inc.
Condensed Consolidated Balance Sheets
(In thousands, except for number of shares)

Assets

	January 31, 1997	October 31, 1997 (unaudited)
Current assets:		
Cash and cash equivalents	$ 301	$ 65,078
Trade accounts receivable, net of allowances of $3,694 for January 31, 1997 and $5,081 for October 31, 1997	46,745	60,496
Income taxes receivable	--	968
Other current assets	6,928	6,050
Total current assets	53,974	132,592
Property and equipment, net	18,071	23,055
Capitalized software, net	1,065	1,235
Other assets, net	4,140	7,793
	$ 77,250	$ 164,675

Liabilities and Stockholders' Equity

Current liabilities:		
Notes payable and current installments of long-term debt	$ 8,465	$ 157
Accounts payable and accrued liabilities	22,142	24,402
Income taxes payable	741	--
Deferred revenue and deposits	28,602	33,097
Total current liabilities	59,950	57,656
Long-term debt, less current installments	5,036	73
Other deferred liabilities	1,460	1,695
Stockholders' equity:		
Preferred stock, no par value. Authorized 5,000,000 shares; none issued and outstanding		
Common stock, no par value. Authorized 150,000,000 shares; issued and outstanding 22,218,572 at January 31, 1997 and 29,099,248 at October 31, 1997	5,942	98,133
Retained earnings	7,539	10,226
Stockholders' receivable	(197)	(397)
Unearned compensation - restricted stock	(2,129)	(2,185)
Cumulative foreign currency translation adjustment	(351)	(526)
Total stockholders' equity	10,804	105,251
	$ 77,250	$ 164,675

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended October 31, 1996	Nine Months Ended October 31, 1997
Net cash provided by operating activities	$ 4,663	$ 442
Investing activities:		
Purchases of property and equipment	(2,695)	(9,289)

Purchase of investments	--	(3,000)
Net cash used in investing activities	(2,695)	(12,289)
Financing activities:		
Borrowings (repayments) of line of credit and debt, net	(2,607)	(13,266)
Proceeds from issuance of common stock	550	93,260
Repurchase of common stock	(532)	(2,958)
Loans to stockholders	(36)	(200)
Net cash provided by (used in) financing activities	(2,625)	76,836
Effect of exchange rate changes on cash and cash equivalents	(20)	(212)
Increase (decrease) in cash and cash equivalents	(678)	64,777
Cash and cash equivalents at beginning of period	1,463	301
Cash and cash equivalents at end of period	$ 785	$ 65,078

See accompanying notes to condensed consolidated financial statements

QAD Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The Condensed Consolidated Balance Sheets as of October 31, 1997 and January 31, 1997, the Condensed Consolidated Statements of Income for the three month and nine month periods ended October 31, 1997 and 1996 and the Condensed Consolidated Statements of Cash Flows for the nine month periods ended October 31, 1997 and 1996 have been prepared by the Company. In the opinion of management, all adjustments (which include reclassifications and normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at October 31, 1997 and for all periods presented, have been made.

Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's S-1 Registration Statement filed on August 6, 1997 with the Securities and Exchange Commission. The results of operations for the three and nine-month periods ended October 31, 1997 are not necessarily indicative of the operating results for the full year.

2. Recent Accounting Pronouncements

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position 97-2: SOFTWARE REVENUE RECOGNITION (SOP 97-2) which is effective for software transactions entered into in fiscal years beginning after December 15, 1997. The Company is currently evaluating the effect of this new statement.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards (SFAS) No. 130 REPORTING COMPREHENSIVE INCOME and SFAS No.131 DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION, these statements will affect the disclosure requirements for the fiscal 1999 annual financial statements. The Company is currently evaluating the effect of these new statements.

3. Initial Public Offering

On August 6, 1997, the Company completed its initial public offering of 5,750,000 shares of common stock. On August 11, 1997, the Company received approximately $80.2 million in proceeds from the offering (net of offering costs

of $6.1 million). $19.9 million of the proceeds was immediately used to repay and retire debt. Additionally, on August 12, 1997, the underwriters exercised their option to purchase 862,500 shares of the Company's common stock, for which the Company received additional proceeds of approximately $12.0 million (net of offering costs of $900,000).

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

This report contains forward-looking statements, which reflect the current views of the Company with respect to future events that will have an effect on its future financial performance. These statements include the words, "expects," "believes" and similar expressions. These forward-looking statements are subject to various risks and uncertainties, including those referred to under "Factors That May Affect Future Results" and elsewhere herein and contained in the Company's S-1 Registration Statement filed with the Securities and Exchange Commission. These factors, among other things, could cause actual results to differ materially from historical results or those currently anticipated.

RESULTS FOR THE QUARTERS ENDED OCTOBER 31, 1997 AND 1996:

TOTAL REVENUES. Total revenues for the three months ended October 31, 1997 increased 85% to $44.0 million from $23.8 million in the same period in fiscal 1997. The increase in total revenues was primarily due to continued growth in revenues generated from the Company's targeted vertical markets. License fees continue to be the Company's major revenue source, accounting for $29.6 million in revenues, ahead of $13.9 million in the prior year. For the three months ended October 31, 1997, maintenance and other revenue as a percentage of total revenues decreased to 33% as compared to 42% in the same period in 1996 due to relatively faster license revenue growth.

COST OF REVENUES. Cost of revenues consists primarily of charges incurred from reselling third-party databases (and their associated maintenance contracts) which are required to run MFG/PRO software, support costs associated with MFG/PRO software maintenance contracts, costs associated with the reproduction and delivery of the Company's software and with the performance of service contracts. During the three months ended October 31, 1997, cost of revenues increased 87% to $11.8 million (26.9% of total revenues) from $6.3 million (26.6% of total revenues) in the same period in fiscal 1997. The increase in absolute dollars and as a percentage of total revenues was due to significantly higher costs associated with reselling third-party databases.

SALES AND MARKETING. Sales and marketing expense consists primarily of salaries, commissions and associated fringe benefits, travel and entertainment expenses and promotional and advertising costs. During the three months ended October 31, 1997, sales and marketing expense increased 53% to $17.2 million (39.0% of total revenues) from $11.2 million (47.0% of total revenues). Increased expenses were primarily due to the expansion of the Company's global sales force and higher commissions expense (including $1.3 million in commissions payable to U.S. distributors, a new channel for the Company), as well as a salary restructure that affected all employees in the third quarter of fiscal 1997.

RESEARCH AND DEVELOPMENT. Research and development expense consists primarily of salaries and associated fringe benefits, related overhead expenses and amounts paid to consultants and third party developers to supplement the product development efforts of the Company's in-house staff. During the three months ended October 31, 1997, research and development expense increased 30% to $7.9 million (18.0% of total revenues) from $6.1 million (25.6% of total revenues) in the same period during fiscal 1997. Increased expenses were due primarily to higher staffing for the development of On/Q software. Increased expenses were partially offset by funds that the Company received from third parties as a result of joint venture research and development projects.

In accordance with Statement of Financial Accounting Standards No. 86, the Company expenses software development costs as they are incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. To date, the establishment of technological feasibility of the Company's products and general release of such software has substantially coincided. Accordingly, the only costs capitalized relates to the translation of the Company's products into foreign languages once technological feasibility has been achieved.

GENERAL AND ADMINISTRATIVE. During the three months ended October 31, 1997, general and administrative expense increased 23% to $4.6 million (10.4% of total revenues) from $3.7 million (15.7% of total revenues) in the same period in fiscal 1997. The increase in spending resulted primarily from salary increases, accruals for a new 401k matching program (implemented August 1, 1997) and also hiring of additional personnel.

OTHER (INCOME) EXPENSE. Total other (income) expense is composed primarily of interest income and interest expense as well as other miscellaneous income and expense. During the three months ended October 31, 1997, other (income) expense increased to $(0.7) million from an expense of $0.4 million. The improvement was due to significantly reduced interest expense as the IPO proceeds were applied to the repayment and retirement of debt, and to interest income accruing from investment of the remaining proceeds in short -term investment-grade securities and money market instruments.

RESULTS FOR THE NINE MONTHS ENDED OCTOBER 31, 1997 AND 1996

TOTAL REVENUES. Total revenues for the nine months ended October, 1997 increased 52% to $117.8 million from $77.5 million for the same period in fiscal 1997. The increase in total revenue was due to the Company's strengthened global presence and continued growth of, and market penetration into the Company's targeted vertical markets. For the nine months ended October 31, 1997, license fee revenue continued to be the Company's major source of revenue, accounting for 63% of the total revenue. Maintenance and other revenue as a percentage of total revenues for the nine months ended October 31, 1997 decreased to 57% as compared to 63% in the same period in 1996 due to relatively faster license revenue growth.

COST OF REVENUES. During the nine months ended October 31, 1997, cost of revenues increased 50% to $30.6 million (26.0% of total revenues) from $20.4 million (26.3% of total revenues) for the same period in fiscal 1997. The increase in absolute dollars was related to both the higher volume of third-party databases resold and to increase personnel needed to provide support for the larger base of maintenance contracts generated.

SALES AND MARKETING. During the nine months ended October 31, 1997, sales and marketing expense increased 32% to $49.4 million (41.9% of total revenues) from $37.3 million (48.2% of total revenues) for the same period in fiscal 1997. The increase in absolute dollars was attributable to the expansion of the Company's global sales force.

RESEARCH AND DEVELOPMENT. During the nine months ended October 31, 1997, research and development expense increased 19% to $20.7 million (17.6% of total revenues) from $17.5 million (22.5% of total revenues) in the same period during fiscal 1997. This increase in expenses was due primarily to higher staffing for the development of On/Q software. Increased expenses were partially offset by funds that the Company received from third parties as a result of joint research and development projects.

GENERAL AND ADMINISTRATIVE. During the nine months ended October 31, 1997, general and administrative expense increased 21% to $12.7 million (10.8% of total revenues) from $10.5 million (13.6% of total revenues) in the same period in fiscal 1997. Increased expenses were due mainly to added personnel necessary to support the infrastructure created by global expansion and to salary increases. Additionally, the Company accrued charges for final payments to its now discontinued profit sharing plan and for its matching contributions to the new 401k plan implemented on August 1, 1997.

TOTAL OTHER (INCOME) EXPENSE. During the nine months ended October 31, 1997, other (income) expense increased to $ (0.8) million from an expense of $1.1 million. The increase was primarily due to reduced interest expense due to the repayment and retirement of debt using IPO proceeds and to interest income arising from the investment of the remaining proceeds of short-term securities and money market instruments.

LIQUIDITY AND CAPITAL RESOURCES

On August 6, 1997, the Company completed its initial public offering of common stock, selling 5,750,000 shares at $15.00 per share. Net proceeds to the Company were approximately $80.2 million. Additionally, on August 12, 1997, the Company sold, through exercise of the underwriters' options, an additional

862,500 shares of the Company's common stock, for which the Company received additional net proceeds of approximately $12.0 million. Prior to the initial public offering the Company has financed its operations and met its capital expenditure requirements through cash flows from operations as well as short and long term borrowings.

At October 31, 1997, the Company had approximately $65.1 million in cash and cash equivalents. Cash flows provided by operating activities were $0.4 million and $4.7 million for the nine months ended October 31, 1997 and 1996, respectively. Cash used in investing activities aggregated $12.3 million and $2.7 million in the nine months ended October 31, 1997 and 1996, respectively and was primarily related to

the purchase of computer equipment and office furniture in both periods. Cash flows from financing activities totaled $76.8 million and $(2.6) million for the nine months ended October 31, 1997 and 1996, respectively and were comprised of proceeds from the offering and the repayment of borrowings. At October 31, 1997, the Company had no material commitments for capital expenditures.

At October 31, 1997, the Company had working capital of $74.9 million. Accounts receivable, net of allowance for doubtful accounts, increased to $60.5 million from $46.7 million at January 31, 1997. The Company's accounts receivable days' sales outstanding ("DSO"), calculated on a quarterly basis has demonstrated seasonal fluctuations. For the three months ended October 31, 1997, DSO was 124 which represents an increase from 86 days for the three months ended January 31, 1997. The Company believes that the days' sales outstanding are higher than desired and the Company is focusing on its credit and collection processes to improve cash flows and working capital. Total deferred revenue increased to $33.1 million at October 31, 1997 from $28.6 million at January 31, 1997 primarily as a result of increased billings of maintenance agreements.

During the quarter, the Company used $19.9 million from the proceeds of its initial public offering to retire all of its debt, including a revolving credit agreement (with available borrowings of approximately $20 million) and its fixed asset and real estate loan agreements. At October 31, 1997, the Company had obligations of approximately $230,000 outstanding under capital leases with various credit institutions. The capitalized leases are secured by property and equipment.

On August 4, 1997, the Company signed a new revolving credit agreement with Bank of America, which expires on August 4, 1999. The maximum available amount of borrowings under the revolving credit agreement is $20 million. The Company may take out a Base Rate Loan or an Offshore Rate Loan. Both loans are unsecured. The total amount of available borrowings under the revolving credit agreement as of December 12, 1997 was approximately $20 million. Borrowings under the Offshore Rate Loan bear interest on a floating rate based upon the IBOR rate (interbank borrowing rate which is offered by Bank of America's Grand Cayman Branch to other offshore banks) divided by a calculation of 1.00 less the maximum reserve requirements issued by the FRB with respect to Eurocurrency funding, which would result in an interest rate of 6.875% at October 31, 1997. Borrowings under the Base Rate Loan bear interest at the higher of (a) 0.50% per annum above the latest Federal Funds Rate; and (b) the rate of interest in effect for such day as publicly announced from time to time by the Bank in San Francisco, California, as its "reference rate", which would result in an interest rate of 8.5% at October 31, 1997.

The Company believes that the net proceeds from the offering, the available borrowings under its new revolving credit agreement and cash generated by operations, will satisfy the Company's working capital requirements for at least the next 12 months.

FACTORS THAT MAY AFFECT FUTURE RESULTS OF OPERATIONS

QAD wishes to caution the reader that the factors below, along with the factors set forth in the Company's S-1 could affect QAD's actual results causing results to differ materially from those in any forward-looking statement. These factors include the following:

1) HISTORICAL FLUCTUATIONS IN QUARTERLY RESULTS AND POTENTIAL FUTURE SIGNIFICANT FLUCTUATIONS
   The Company's quarterly revenue, expenses and operating results have varied significantly in the past, and the Company anticipates that such fluctuations will continue in the future as a result of a number of

factors, many of which are outside the Company's control. The factors affecting these fluctuations include demand for the Company's products and services, the size, timing and structure of significant licenses by customers, market acceptance of new or enhanced versions of the Company's software products and products that operate with the Company's products, the publication of opinions about the Company, its products and technology by industry analysts, the entry of new competitors and technological advances by competitors, delays in localizing the Company's 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 the Company or its competitors, customer order deferrals in anticipation of product enhancements or new product offerings by the Company or its competitors, the timing of the release of new or enhanced versions of the Company's software products and products that operate with the Company's products, changes in the method of product distribution (including the mix of direct and indirect channels), product life cycles, changes in the mix of products and services licensed or sold by the Company, customer cancellation of major planned software development programs and general economic factors.

A significant portion of the Company's revenue in any quarter may be derived from a limited number of large, non-recurring license sales. The Company expects to continue to experience from time to time large, individual license sales, which may cause significant variations in quarterly license fees.

Like many software companies, the Company typically realizes a significant portion of its software license revenue in the last month of the quarter and in the last quarter of the year. However, unlike a number of the Company's competitors, the Company does not derive material revenue from the provision of services in connection with its license sales. As a result, a greater proportion of the Company's revenue tends to be less predictable and to occur later in the quarter and in the year than the revenue of competitors who provide such services.

Based upon the factors described above, the Company believes that its quarterly revenue, expenses and operating results are likely to vary significantly in the future, that period-to-period comparisons of its results of operations are not necessarily meaningful and that, as a result, such comparisons should not be relied upon as indications of future performance. Moreover, although the Company's revenue has generally increased in recent periods, there can be no assurance that the Company's revenue will grow in future periods, at past rates or at all, or that the Company will be profitable on a quarterly or annual basis. The Company has in the past experienced and may in the future experience quarterly losses.

2) SALES CYCLE ASSOCIATED WITH A CUSTOMER'S PURCHASE OF THE COMPANY'S SOFTWARE
Because the license of the Company's 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 the Company's products is generally lengthy (with a typical duration of four to 15 months), varies from customer to customer and is subject to a number of significant risks over which the Company has little or no control. These risks include customers' budgetary constraints, timing of budget cycle, concerns about the introduction of new products by the Company or its competitors and general economic downturns which can result in delays or cancellations of information systems investments. Due in part to the strategic nature of the Company's products, potential customers are typically cautious in making product acquisition decisions. The decision to license the Company's products generally requires the Company to provide a significant level of education to prospective customers regarding the uses and benefits of the Company's products, and the Company must frequently commit substantial presales support resources. The Company is almost completely reliant on third parties for implementation and systems integration services, which may cause sales cycles to be lengthened or result in the loss of sales. The uncertain outcome of the Company's sales efforts and the length of its sales cycles could 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 the Company is 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 a material adverse effect on the Company's quarterly operating results.

3) THE COMPANY'S SEASONALITY OF OPERATING RESULTS

The Company has generally realized lower revenue (i) in July and August, due primarily to reduced economic activity in Europe during the summer months and (ii) to a lesser extent, in the first two months of the calendar year, due to the concentration by some customers of purchases in the fourth quarter of the calendar year and their consequently lower purchasing activity during the immediately following months. Notwithstanding the change in the Company's fiscal year end from December 31 to January 31 and the recent changes in the Company's planning and compensation systems, the Company anticipates that such seasonality will continue to cause significant quarterly fluctuations in the Company's operating results.

4) PRODUCT CONCENTRATION

The Company has historically derived substantially all of its revenue from the licensing and maintenance of the Company's MFG/PRO software. . The Company expects that such revenue will continue to represent substantially all of the Company's revenue for the foreseeable future. The Company's success depends on continued market acceptance of the Company's MFG/PRO software, as well as the Company's ability to introduce new versions of MFG/PRO software and other products to meet the evolving needs of its customers. Although demand for MFG/PRO software has grown in recent years, management believes that the market for ERP software is still developing and there can be no assurance that it will continue to grow or that, even if the market does grow, businesses will continue to adopt MFG/PRO software. The failure of the market for ERP software to continue to grow, any reduction in demand for MFG/PRO software as a result of increased competition in the market for ERP software, technological change, failure by the Company to introduce new versions of products acceptable to the marketplace or other similar factors would have a material adverse effect on the Company's business, operating results and financial condition.

5) DEPENDENCE ON PROGRESS PRODUCTS

The Company's MFG/PRO software is written in a programming language that is proprietary to Progress Software Corporation ("Progress"). The Company has entered into a license agreement with Progress (the "Progress Agreement") that provides the Company and each of its subsidiaries, among other things, with the perpetual, worldwide, royalty-free right to use the Progress programming language to develop, market, distribute and license the Company's software products. The Progress Agreement also provides for continued software support from Progress through June 2002 without charge to the Company. Progress may only terminate the Progress Agreement upon the Company's adjudication as bankrupt, its liquidation or other similar event, or if the Company has ceased business operations in full. The Company's success is dependent upon Progress continuing to develop, support and enhance this programming language, its tool set and database, as well as the continued market acceptance of Progress as a standard database program. The Company has 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 such delays could have a material adverse effect on the Company's business, operating results and financial condition. MFG/PRO software employs Progress programming interfaces, which allow MFG/PRO software to operate with Oracle Corporation ("Oracle") database software. However, the Company's software programs do not run within programming environments other than Progress and the Company's customers must acquire rights to Progress Software in order to use MFG/PRO software. The Company's On/Q software products, the initial application of which are currently under development and is expected to be commercially available in the second half of 1998, are not dependent upon Progress technology. The failure of Progress to continue its relationship with the Company or to develop, support or enhance its programming language in a manner competitive with enhancements of other present or future programming languages, the increased market acceptance of programming languages other than Progress in the Company's market or the Company's inability to adapt its software to such other languages could have a material adverse effect on the Company's business, operating results and financial condition.

6) RAPID TECHNOLOGICAL CHANGE

The market for the Company's 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 may give rise to new customer requirements and new industry standards. The Company's future success will depend upon its ability to continue to enhance its 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, the Company believes its future success will depend on its ability to convert its products to object-oriented technology as well as its ability to develop products that will operate across the Internet. There can be no assurance that the Company 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, or that its products will achieve market acceptance. The Company's failure to successfully develop and market product enhancements or new products

could have a material adverse effect on the Company's business, operating results and financial condition.

7) SUPPLY CHAIN SOLUTIONS UNDER DEVELOPMENT AND UNDERLYING TECHNOLOGY
A significant element of the Company's strategy is its development of On/Q software, a series of new products targeted to the supply chain management needs of manufacturing companies. Over the past year, the Company has devoted substantial resources to developing its On/Q software. The Company's first On/Q software product, Logistics, is currently under development and is anticipated to be commercially available in the second half of 1998. Although the Company has performed preliminary tests on its Logistics software, it has not completed its development or commenced beta testing, nor has the product been implemented in a commercial setting. There can be no assurance that Logistics or any other of the Company's planned On/Q software products will achieve the performance standards required for commercialization or that such products will achieve market acceptance or be profitable. If Logistics or the Company's other planned supply chain management software products do not achieve such performance standards or do not achieve market acceptance, the Company's business, operating results and financial condition would be materially and adversely affected.

On/Q software is being designed based upon object-oriented technology. Object-oriented applications are characterized by technology, development style and programming languages that differ from those used in traditional software applications, including the current version of MFG/PRO software. The Company believes that new 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 the Company's targeted industry segments. The Company is also currently in the process of converting its MFG/PRO software modules to object-oriented technology where the Company believes such conversion will add value. There can be no assurance that the Company will be successful in developing its new supply chain management software or converting its MFG/PRO software to object-oriented technology on a timely basis, if at all, or that if developed or converted such software will achieve market acceptance. The failure to successfully incorporate object-oriented technology in new products or convert MFG/PRO software to object-oriented technology could have a material adverse effect on the Company's business, operating results and financial condition.

8) DEPENDENCE UPON DEVELOPMENT AND MAINTENANCE OF SALES AND MARKETING CHANNELS
The Company sells and supports its products through direct and indirect sales organizations throughout the world. The Company has made significant expenditures in recent years in the expansion of its sales and marketing force, primarily outside the United States, and plans to continue to expand its sales and marketing force. The Company's future success will depend in part upon the productivity of its sales and marketing force and the ability of the Company to continue to attract, integrate, train, motivate and retain new sales and marketing personnel. Competition for sales and marketing personnel in the software industry is intense. There can be no assurance that the Company's sales and marketing organization will be able to compete successfully against the significantly more extensive and better funded sales and marketing operations of many of the Company's current and potential competitors. If the Company were unable to develop and manage its

sales and marketing force expansion effectively, the Company's business, operating results and financial condition would be materially adversely affected.

The Company's indirect sales channel consists of over 40 distributors worldwide. The Company does not grant exclusive rights to any of its distributors. The Company's distributors primarily sell independently to companies within their geographic territory but may also work in conjunction with the Company's direct sales organization. The Company will need to maintain and expand its relationships with its existing distributors and enter into relationships with additional distributors in order to expand the distribution of its products. The failure by the Company to maintain successfully its existing distributor relationships or to establish new relationships in the future would have a material adverse effect on the Company's business, results of operations and financial condition.

9) COMPETITION

The ERP software market is highly competitive, rapidly changing and affected by new product introductions and other market activities of industry participants. The Company currently competes primarily with (i) other vendors of software focused on the specific needs of manufacturing plants and distribution sites of multinational manufacturing companies, which include Baan Company N.V. ("Baan"), J.D. Edwards & Company ("J.D. Edwards") and Systems Software Associates, Inc. ("SSA"), (ii) smaller independent companies that have developed or are attempting to develop advanced

planning and scheduling software which complement or compete with ERP or manufacturing resource planning solutions, (iii) internal development efforts by corporate information technology departments and (iv) companies offering standardized or customized products on mainframe and/or mid-range computer systems. The Company expects that competition for its MFG/PRO software will increase as other large companies such as Oracle and SAP AG ("SAP"), as well as other business application software vendors, enter the market for plant-level ERP solutions. With the Company's strategic entry into the supply chain management software market, the Company can expect to meet substantial additional competition from companies presently serving that market, such as i2 Technologies, Inc. ("i2"), Industri-Matematik International, Inc. ("IMI") and Manugistics, Inc. ("Manugistics"), as well as from broad based solution providers such as Baan, Oracle, PeopleSoft, Inc. ("PeopleSoft") and SAP that the Company believes are increasingly focusing on this segment. In addition, certain competitors, such as Baan, Oracle, PeopleSoft and SAP, have well-established relationships with present or potential customers of the Company. The Company may also face market resistance from potential customers with large installed legacy systems because of their reluctance to commit the time, effort and resources necessary to convert to an open, client/server-based software solution. Further, as the client/server market continues to develop, companies with significantly greater resources than the Company may attempt to increase their presence in these markets by acquiring or forming strategic alliances with competitors of the Company. Increased competition is likely to result in price reductions, reduced operating margins and loss of market share, any one of which could materially adversely affect the Company's business, operating results and financial condition. Many of the Company's present or future competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition and a larger installed base of customers than the Company. As a result, they may be able to respond more quickly to new or emerging technologies and to changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products, than can the Company. The Company believes that the principal factors on which it competes in the ERP software market are functionality, ease of use and implementation, technology, time to benefit, supplier viability, service and cost. The Company intends to continue to acquire, develop and allocate its resources to focus on these targeted competitive areas, as well as to identify additional or different areas where the Company perceives competitive advantage. There can be no assurance that the Company will be able to compete successfully with existing or new competitors or that competition will not have a material adverse effect on the Company's business, operating results and financial condition.

10) RELIANCE ON AND NEED TO DEVELOP ADDITIONAL RELATIONSHIPS WITH THIRD PARTIES

The Company has established strategic relationships with a number of consulting and systems integration organizations that it believes are important to its worldwide sales, marketing, service and support activities and the implementation of its products. The Company is particularly reliant on third parties for installation and implementation of its products because the Company, unlike a number of its competitors, does not provide these services. If the Company is unable to train adequately a sufficient number of system integrators or, if for any reason, any such integrators terminate their relationship with the Company or do not have or devote the resources satisfactory to provide necessary consulting and implementation of the Company's products, the Company's business, operating results and financial condition could be materially and adversely affected. The Company expects to continue to rely upon such third parties, particularly installation and implementation service providers, for marketing and sales, lead generation, product installation and implementation, customer support services, product localization, end-user training assistance in the sales process and after-sale training and support. These relationships also assist the Company in keeping pace with the technological and marketing developments of major software vendors, and, in certain instances, provide it with technical assistance for its product development efforts. Organizations providing such consulting and systems integration and implementation services in connection with the Company's products include Arthur Andersen LLP, Deloitte & Touche LLP, Ernst & Young LLP, Integrated Systems & Services, LLC and Strategic Information Group International, Inc. in the United States, BDM Largotim US, Inc., CSBI S.A., Origin Technology in Business Nederland B.V. and Sligos S.A. in Europe and Iris Ifec Co., Ltd and STCS Systems Pte Ltd in Asia. In most cases distributors will also deliver consulting and systems integration services. The Company will need to expand its relationships with these parties and enter into relationships with additional third parties in order to expand the distribution of its products. . The failure by the Company to maintain its existing relationships or to establish new relationships in the future, or the failure of such third parties to meet the needs of the Company's customers, would have a material adverse effect on the Company's business, results of operations and financial condition. In addition, if such third parties exclusively adopt a product or technology other than the Company's products or technology, or if such third parties materially reduce their support of the Company's

products and technology or materially increase such support for competitive products or technology, the Company's business, operating results and financial condition will be materially and adversely affected.

The Company typically enters into separate agreements with each of its installation and implementation partners that provide such partners with the non-exclusive right to promote and market the Company's products, and to provide training, installation, implementation and other services for the Company's products, within a defined territory for a specified period of time (generally two years). Although the Company's installation and implementation partners do not receive fees for the sale of the Company's software products, they generally are permitted to set their own rates for such services and the Company typically does not collect a royalty or percentage fee from such partners on services performed. The Company also enters into similar agreements with its distribution partners that grant such partners the non-exclusive right, within a specified territory, to market, license, deliver and support the Company's products. In exchange for such distributors' services, the Company grants a discount to the distributor for the license of its software products. The Company also relies on third parties for the development or inter-operation of key components of its software so that users of the Company's software will obtain the functionality demanded. Such research and product alliances include software developed to be sold in conjunction with the Company's software products, technology developed to be included in or encapsulated within the Company's software products and numerous third-party software programs that generally are not sold with the Company's software but inter-operate directly with the Company's software through application program interfaces. The Company generally enters into joint development agreements with its third-party software development partners that govern ownership of the technology collectively developed. Each of the Company's partner agreements and third-party development agreements contain strict confidentiality and non-disclosure provisions for the service provider, end user and third-party developer and the Company's third-party development

agreements contain restrictions on the use of the Company's technology outside of the development process. The failure of the Company to establish or maintain successful relationships with such third-party software providers or such third-party installation, implementation and development partners or the failure of such third-party software providers to develop and support their software could have a material adverse effect on the Company's business, operating results and financial condition.

Part II - Other Information
QAD Inc.

Item 1 - Legal Proceedings
None

Item 2 - Changes in Securities
See discussion in Management's Discussion and Analysis

Item 3 - Defaults upon Senior Securities
None

Item 4 - Submission of Matters to a Vote of Security Holders
None

Item 5 - Other Information
None

Item 6 - Exhibits and Reports on Form 8-K

a) Exhibits
27 Financial Data Schedule (filed only electronically with the SEC)

b) Reports on Form 8-K
No reports on Form 8-K were filed during the third quarter of 1997

Signature

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

QAD INC.
(Registrant)

Date: December 12, 1997 By: /s/ KARL F. LOPKER

Karl F. Lopker
Chief Executive Officer and
Chief Financial Officer

<ARTICLE> 5
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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AS OF OCTOBER 31, 1997 AND THE CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE QUARTER ENDED OCTOBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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