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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED JANUARY 31, 1999

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 000-22823

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)

805-684-6614
(Registrant's telephone number, including area code)

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.

[X] 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 any amendment to this Form 10-K. [X]

The aggregate market value of the 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, 1999, was approximately $104,531,644. 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, 1999 was 30,124,393.

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 22, 1999.

QAD INC.

FISCAL YEAR 1999 FORM 10-K ANNUAL REPORT

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Forward Looking Statement

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. QAD undertakes 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 QAD files 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 2000.

PART I

ITEM 1. BUSINESS

QAD is a leading provider of supply-chain-enabled Enterprise Resource Planning, or ERP, software for mid-range and large multinational manufacturing companies. Our software solutions are designed to facilitate global management of resources and information to allow manufacturers to reduce order fulfillment cycle times and inventories, improve operating efficiencies between supply chain links and measure critical company performance criteria against defined business plan objectives. Our solution's flexibility and scalability also helps manufacturers adapt to growth, organizational change, business process reengineering, supply chain management and other challenges. In the latter part of fiscal 1999, we established QAD Global Services in response to customer requests for direct implementation and integration support from QAD.

QAD's principal products address ERP and supply chain needs. MFG/PRO software is specifically designed for deployment at the plant or operations levels of mid-range and multinational manufacturers in four targeted industry segments: automotive, consumer products, electronics/industrial, and medical. MFG/PRO software provides multinational organizations with an integrated ERP solution that is based on an open system, Internet-enabled manufacturing, distribution, financial, service/support management applications.

We currently are focused on extending our presence in multisite manufacturing by developing a line of optimized supply chain management solutions, named On/Q software. Our initial On/Q software product, Advanced Planning and Scheduling, or APS, is designed to improve asset utilization at every link of the supply chain. We released Advanced Planning and Scheduling in September 1998. We are designing another key On/Q application, On/Q Outbound Logistics, to allow for consolidation of orders, contract management, shipping and logistics management. Logistics is currently in development, and we expect our initial release to be commercially available in the latter part of 1999.

As of January 31, 1999, QAD had licensed QAD software at more than 4,000 sites in more than 80 countries. QAD's customers include Cargill, Colgate-Palmolive, Johnson Controls, Johnson & Johnson, Lucent Technologies, Philips Electronics, St. Jude Medical, Unilever, Lear Seating, Genzyme and Stryker.

"QAD", "Qwizard", "Q/LinQ" and "On/Q" are trademarks and "MFG/PRO" is a registered trademark of QAD. This Annual Report on Form 10-K also contains trademarks and registered trademarks of persons and companies other than QAD.

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 and delivery cycles. In addition, globalization has greatly increased the scope and complexity of multinational manufacturing organizations. Many organizations are reengineering, and will continue to reengineer, their

critical business processes and restructure their organizations to accommodate and exploit rapid changes in the business environment. As part of this process, businesses are seeking ERP software solutions that will enable them to better manage resources across the enterprise and facilitate the integration of various essential functions on a global basis. These functions include:

- sales management
- component procurement
- inventory management
- manufacturing control
- project management
- distribution
- transportation
- finance

While historically many companies have developed their ERP software internally, companies are increasingly deploying open system ERP applications developed by third parties which reduce internal software development costs and enable increased flexibility and interoperability across a broad range of hardware and software platforms.

While current ERP software enables the integration and management of critical data within enterprises, organizations increasingly are recognizing the need to deploy new software systems that manage the global supply chain by enhancing the flow of information to and from customers, suppliers and other business partners outside the enterprise. More recently, the availability and use of the Internet has created a demand for software that operates across the Internet and intranets. Customers are demanding applications and tools that allow them to link back-office ERP systems, with front-office Customer Relationship Management systems. They are also demanding enhanced capabilities for electronic business, especially business-to-business and business-to-customer electronic commerce.

We believe that the increasing complexity and diversity of customer requirements limits the ability of any single-vendor solution to fully meet the enterprise-wide needs of manufacturers. This has led to the emergence of three distinct segments within the enterprise software market:

- corporate
- plant/operations
- supply chain management

Corporate ERP solutions are primarily focused on the consolidated data management, financial and human resource needs of large Fortune 1000 companies. Leading vendors of corporate level solutions include Oracle, PeopleSoft, and SAP. While corporate ERP systems offer robust functionality, we believe that the very broad scope, significant cost and limited flexibility of many of these systems limit their effectiveness in addressing the needs of individual plants or divisions. In addition, this limited flexibility makes these systems difficult to deploy throughout the enterprise.

Plant/operations ERP solutions are primarily focused on the specific needs of mid-range manufacturing plants and distribution sites or the operations level of global companies. This ERP market segment needs to automate manufacturing planning, production control and distribution. Leading vendors of these ERP solutions include QAD, SAP, Baan, J.D. Edwards and Symix Systems. Given the diverse and constantly changing needs of

manufacturing and distribution sites, ERP users demand highly flexible, industry-specific plant/operations-level ERP solutions that can be deployed rapidly and cost-effectively across multiple sites on a global basis. Increasingly, they are also requiring Internet-enabled ERP.

Supply chain management solutions are designed to link a company more closely with customers, suppliers and other business partners in order to

optimize manufacturing and distribution processes, reduce costs and enhance customer satisfaction. Supply chain management functions include logistics and order management, advanced planning and scheduling, global purchasing, and sales and support management. Leading vendors in the supply chain management market include i2 Technologies, Industri-Matematik International, and Manugistics Group, as well as certain corporate-level ERP software vendors. We believe that supply chain management represents one of the greatest current opportunities for companies to reduce costs and enhance customer relationships.

Market Opportunity

The ARC Advisory Group, formerly Automation Research Company, believes the ERP market will grow at a compounded annual growth rate of nearly 25 percent through the year 2003. By focusing on four targeted vertical markets (automotive, consumer products, electronics/industrial and medical), we believe we can maximize our growth potential.

We also believe the market for ERP solutions and supply chain software will continue to grow over the next several years. However, our success depends on continued market acceptance of MFG/PRO and On/Q applications, as well as the ability to introduce new versions of QAD software products. Although demand for QAD software products has grown in recent years, there can be no assurance that it will continue to grow or that, even if the market does grow, businesses will continue to adopt QAD software.

The failure of the market for ERP software to grow, any reduction or slack in demand for MFG/PRO software or newly developed or to be developed On/Q software caused by increased competition in the market for ERP software, technological change, failure by QAD to introduce products, or new versions of products that are acceptable to the marketplace, or other similar factors, would have a material adverse effect on us.

We have spent, and intend to continue to spend, considerable resources educating potential customers about ERP and supply chain issues in general and about the features and functions of MFG/PRO and On/Q software in particular. However, we cannot be sure that these expenditures will enable QAD software to achieve any additional degree of market penetration or a higher level of market acceptance, nor can we be sure that any new software products we develop will achieve the market acceptance necessary to make our products profitable. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Products" below.

For the latter part of fiscal 1999, QAD sales, along with those of several of our competitors have been negatively impacted by the Asian financial crisis and concerns about Year 2000, or Y2K, readiness. We believe that these concerns have caused a change in capital spending patterns of manufacturers worldwide. However, we believe their remains a need for ERP and supply chain management solutions that meet customers' needs for plant/operations-level deployments and global supply chain management. As a result, we anticipate that once these concerns are addressed, manufacturers will return their focus to the significant benefits afforded to companies that integrate management of the enterprise. However, we cannot guarantee that this change in manufacturer's spending will occur, or that if spending does accelerate, that we will benefit from these changes.

Nonetheless, we believe that the adoption of open ERP and supply chain management solutions at the plant/operations-level will accelerate as potential customers transition from legacy systems in coming years. In addition, we believe that supply chain management represents a compelling market opportunity. To be successful in meeting customer requirements in these market segments, we believe ERP software vendors must:

- Offer localized, multilingual, multicurrency (including euro) functionality to support global deployments;

- Offer industry-specific product functionality and expertise in key vertical markets;

- Provide global service and support, both directly and through third parties;

- Offer ease of implementation and rapid time to benefit;

- Provide flexibility to meet the diverse needs and business practices of global, multisite manufacturing implementations;

- Interoperate and coexist with corporate-level ERP solutions and other supply chain management solutions;

- Address supply chain management challenges by offering Internet-enabled technology which integrates and optimizes interactions between companies and their customers, suppliers and other business partners;

- Develop and utilize advanced technologies to deliver superior product functionality; and,

- Offer enhanced capabilities for electronic business, especially business-to-business and business-to-customer electronic commerce.

We believe our products will continue to be the choice of manufacturers due to our products' fit with customer requirements for industry-specific functionality, flexibility, ease of implementation and Internet-readiness.

The QAD Solution

QAD is a leading provider of ERP software for multinational and other large manufacturing companies. Our principal product, MFG/PRO software, is a modular software program designed specifically to address the plant- and operations-level needs of mid-range and multinational manufacturers for flexible, interoperable and rapidly deployable ERP software solutions. Additionally, we are currently focused on extending our presence in multisite manufacturing by continuing to develop a line of supply chain solutions designed to serve the needs of multinational manufacturing companies. We meet customer requirements in our vertical markets by delivering the following:

- Global Solutions for Multinational Manufacturers. QAD focuses on the plant/operations-level ERP, mid-range and supply chain management requirements of mid-range and multinational manufacturers. Our MFG/PRO software incorporates multicurrency capabilities, is available in more than 20 languages and is tailored to local financial practices and requirements in many of our major markets. QAD's customers have deployed MFG/PRO software in more than 80 countries.

- Expertise and Functionality for Key Vertical Markets. We target and have achieved leadership positions in the automotive, consumer products, electronics/industrial and medical industries. We believe that our substantial expertise in these markets, together with our strategy of developing Internet-enabled ERP and supply chain software modules that address specific industry needs, provide us with a competitive advantage. For example, our software includes features that facilitate United States Food and Drug Administration, or FDA, compliance and validation for the medical industry; advanced pricing and promotion management for the consumer products industry; customer/supplier scheduling via electronic data interchange for the automotive industry; and product change control module for sophisticated engineering change management for the electronics/industrial industry.

- Global Service and Support. We believe that a high level of global service and support is a critical component of our ERP and supply chain

solutions. In the latter part of fiscal 1999, we responded to customer requests for more direct involvement in their system solutions by establishing QAD Global Services. Working in concert with a global network of services alliance partners, QAD Global Services makes sure that QAD software users receive the right combination of software and services. QAD Global Services include: Technical Services, Implementation Services, Learning Services, and Support Services.

We offer product service and support directly through our sales and support offices in 20 countries and indirectly through our global network of implementation and systems integration partners and distributors.

- Ease of Implementation. The modular product design of QAD software, together with our focus and expertise in our key vertical markets, enables rapid product implementation, often within six months at a particular site. Because QAD product modules already include features designed to address the specific needs of customers in our targeted markets, customization of the software is minimized, a key differentiator for QAD. We develop many of these industry-specific features through customer-driven Development Groups established by our vertical units. As a result, customers are able to implement only those modules with functionality appropriate to their needs.

- Open Systems Solutions. QAD's ERP products are based on an open, client/server computing architecture. We believe that this architecture enables superior flexibility, scalability and interoperability and addresses the desire of customers to migrate critical business software to an open platform. QAD software operates in Windows NT and major UNIX environments and is compatible with Oracle and Progress databases. In addition, with the release of MFG/PRO 9.0, QAD applications operate over the Internet using a Web browser.

The QAD Strategy

QAD's objective is to expand our leadership position in providing plant/operations-level solutions to mid-range and multinational manufacturing companies, and to expand our reach by becoming a leading provider of supply chain management software solutions. The key elements of our strategy for achieving these objectives include the following:

- Maintain and Leverage Leadership in Plant-Level Manufacturing. QAD`s MFG/PRO software is a leading open systems ERP solution for plant-level deployments worldwide. As of January 31, 1999, we had MFG/PRO software at more than 4,000 licensed sites in more than 80 countries. We believe this is a substantial customer base from which we can leverage future sales. We target the sale of additional software applications to existing customers, as well as targeting sales to new customers. We will continue to aggressively pursue plant/operations-level opportunities in our targeted markets. In addition, we intend to leverage our installed base of MFG/PRO software customers in order to accelerate the adoption of On/Q software, our new supply chain management solution.

- Focus on Global Supply Chain Management Solutions. We believe that supply chain optimization represents one of the greatest current opportunities for companies to reduce costs and enhance customer relationships. We are developing On/Q software for this market. We released the initial On/Q product, Advanced Planning and Scheduling, in September 1998. We expect to follow this with the delivery of our On/Q Outbound Logistics product at the end of 1999. We intend to follow the release of On/Q Outbound Logistics with additional supply chain products, which will be released shortly thereafter. We believe that these new products, coupled with our strength in plant/operations-level ERP solutions and

QAD products' demonstrated ability to interoperate with other corporate applications, positions us to succeed in the emerging supply chain management marketplace.

- Leverage Alliances. We leverage the expertise of distribution, implementation and technology partners to meet the diverse needs of our customers. We augment our direct sales organization with a global network of approximately 30 distributors and numerous implementation providers. We plan to leverage our network of distributors and implementation providers to further penetrate our vertical markets. In the latter part of 1998, we established QAD Global Services in response to customer requests for direct implementation and integration support from QAD. While we believe the introduction of QAD Global Services did not materially affect our on-going relationships with third-party implementation and integration providers in fiscal 1999, we may in the future experience competitive situations with third-party implementation and integration providers that could impair these relationships. In addition, we have entered into a number of joint development agreements with third-party software developers who provide functionality that has been embedded into or integrated with QAD software to deliver a more complete solution for our targeted vertical markets.

- Maintain Technology Leadership. QAD was one of the first providers of open systems ERP software and we are committed to maintaining our technology leadership. Our technology strategy is focused on migrating our products to a component object architecture in order to enable customers to improve interoperability with existing software applications and to deploy and integrate new "best-of-breed" software applications across the enterprise. We believe interoperability will remain an important requirement of software applications as organizations seek fully integrated ERP solutions. We believe this object architecture will enable us to provide enhanced functionality in our new On/Q software. In addition, in September 1998 we became one of the first solution providers to introduce a plant/operations-level Advanced Planning and Scheduling Application together with an APS solution for supply chain optimizations.

- Realignment of Operations and Restructuring. During fiscal 1999, we believe our sales cycle was negatively impacted by manufacturers' concerns about a global economic slowdown and Y2K readiness. These concerns caused manufacturers to temporarily redirect capital spending toward modifying their existing systems, rather than implementing new enterprise software. In response to changes in manufacturing capital software spending patterns, we undertook a restructuring and re-alignment that would, among other things, more closely align costs with sales expectations. The restructuring is expected to reduce costs by more than $20 million annually.

As part of the realignment, we reduced our spending on research and development by transferring research and development personnel into revenue-generating positions within the newly created Global Services organization. In all, we reduced our workforce (excluding staff added from the acquisitions) by approximately 15 percent, adjusted administrative and marketing costs and narrowed our facilities expansion plans. In addition, the realignment expanded our vertical market and geographic accountability, making each group a profit center responsible for its own revenue and cost structures.

It is our belief that these actions will improve our competitiveness.

Products

QAD targets our ERP and optimized supply chain software to manufacturing companies within the automotive, consumer products, electronics/industrial, and medical industries.

Our products address the needs of mid-range and large multinational companies. MFG/PRO software provides companies with an integrated and Internet-enabled ERP solution

that includes manufacturing, distribution, financial and service/support management applications within an open systems environment. On/Q APS software optimizes supply chain functions and interoperates with MFG/PRO software.

MFG/PRO software is composed of an extensive set of manufacturing, distribution and financial modules designed to address the needs of customers in our vertical markets. This modular design enables our customers to select the modules appropriate to meet their specific operational needs. Some of these modules include unique industry-specific features that were developed in close cooperation with customers and we continue to involve customers by encouraging participation in our vertical development groups.

Our software supports multiple currencies and global tax management and is tailored to financial practices and requirements in many of our major geographic markets. MFG/PRO software supports more than 20 languages, including most major European languages, Japanese, Chinese and Korean.

MFG/PRO software operates in both host and distributed, client/server computing environments and supports single or multiple sites, as well as multiple production and operational processes. These capabilities enable mid-range and large multinational manufacturers to manage multiple hybrid production methods within a single organization or a single production site, and also provide the flexibility to adapt to additional sites and processes as an organization's business evolves.

We have a number of ongoing business alliances to extend the functionality of QAD software through the addition of integrated best-of-breed applications. We also have entered into a number of 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 Qwizard software reduces the time it takes to implement MFG/PRO and rollout training to employees. The application includes: a Business Modeler that allows customers to quickly model business practices and adapt them to MFG/PRO, customizable implementation tools, and self-paced interactive learning tools for users of MFG/PRO software. In addition, Qwizard software includes tools to design and customize the visual interface of MFG/PRO software to match the users' workflow and job responsibilities.

QAD sales have generally consisted of MFG/PRO software and related maintenance. With the introduction in September 1998 of On/Q APS, we have entered the market for supply chain management solutions. Our initial On/Q software product, APS, is designed to improve asset utilization at the plant/operations-level and at every link of the supply chain. The launch of QAD Global Services in the latter part of 1998, adds a broad range of services to our product mix. As a result, we anticipate an increased percentage of revenue in future periods will come from services, including QAD software implementation and training.

Products Under Development

We are currently developing additional On/Q optimized supply chain applications, as well as new e-business applications.

Our e-business applications support industry standard communications. These applications include:

- a Network User Interface, or NetUI, written in Java
- Q/LinQ messaging interface
- ECommerce Gateway

We believe our e-business applications will enable our customers to effectively link back-office ERP applications with front-office Customer

applications. They are being designed to also enhance our customers' ability to support business-to-business and business-to-customer applications.

- NetUI provides access to the full functionality of QAD software using a Web browser. NetUI is an easily deployed Java platform interface that minimizes internal system traffic and provides low-cost system access over a wide-area network. To enhance security, NetUI features password protection.

- Q/LinQ, an integration tool that works with commercially available messaging products and data mapping applications. This product can be used to provide interoperability between MFG/PRO and other software applications, even among multiple revision levels of the same or different products.

- ECommerce Gateway is our new offering in the Electronic Document Interchange, or EDI, space. This product features Internet downloadable mapping libraries, which prescribe the conversions necessary to enable Electronic Document Interchange between trading partners and MFG/PRO software. This product is designed to allow each trading partner's unique requirements to be captured in a tailored library and assessed on an as-needed basis when transactions with that partner are effected.

A key On/Q application, Outbound Logistics, is under development and scheduled for release in late 1999. On/Q Outbound Logistics is being designed to allow for consolidation of orders, contract management, shipping and logistics management. On/Q Outbound Logistics is being specifically designed to meet demand-side requirements of global multinationals, including complex high-volume order processing. Outbound Logistics also is being designed to provide cost-efficient consolidation and to support multilingual and multicurrency capabilities. In addition, our Outbound Logistics software solution also is being designed to be Internet enabled.

We plan to follow Outbound Logistics with additional On/Q optimized supply chain products. However, there are risks that one or more of our supply chain management solutions is not successfully developed in accordance with planned schedules or at all, or that if it is developed, that is might not achieve market acceptance. See "Factors That May Affect Future Results and Market Price of Stock-Supply Chain Solutions Under Development and Underlying Technology."

Technology

We have developed MFG/PRO software with a commercially available, fourth generation language and tool set marketed by Progress Software that works with relational databases provided by Oracle and Progress. See "Factors That May Affect Future Results and Market Price of Stock-Dependence on Third-Party Products." MFG/PRO software is now taking advantage of advances in Progress Software that open up this fourth generation language to access by Sun's Java language and through the Microsoft ActiveX component model. With the release of our MFG/PRO version 9.0, MFG/PRO will feature an Internet-enabled Java user interface and a new architecture called QAD/Connects. We believe these features will:

- enable customers to improve connectivity with existing software applications
- enable customers to deploy and integrate new "best-of-breed" software applications across the enterprise
- provide important connectivity with the Internet and allow customers to conduct secure e-business transactions with trading partners

We are currently converting our MFG/PRO software modules to Java-interfaced Progress components. We believe this conversion effort will provide value to customers by making MFG/PRO accessible to new kinds of users.

In addition to MFG/PRO's traditional user who works inside the manufacturing enterprise, MFG/PRO version 9.0 will support secure access by trading partners, casual Internet shoppers and mobile users. Connectivity with e-business (through EDI and the Web) is another significant facet of the QAD/Connects architecture, and it is this connectivity that provides business-to-business and business-to-consumer access to MFG/PRO.

MFG/PRO software operates under the Windows NT and major UNIX operating systems. MFG/PRO software now supports distributed and mirrored databases, local and wide area networks and character-based, graphical, and Java Internet-enabled, thin-client user interfaces.

We also are reliant on the Java programming language in developing and supporting our Java user interface for MFG/PRO and our On/Q software products. The failure to successfully incorporate Java in new products, to convert MFG/PRO software to Java-interfaced Progress components, to extend the MFG/PRO Java user interfaces, or of Java or Enterprise Java Beans to achieve market acceptance could have a material adverse effect on us.

The On/Q Logistics software relies upon a technology being developed by Enterprise Engines. This technology provides the foundation upon which On/Q is being built and will execute.

Research and Development

MFG/PRO was originally introduced in 1986 and we have subsequently released a number of product versions and enhancements. In fiscal 2000, we will release MFG/PRO version 9.0, which is Internet enabled. Our principal research and development staff, which is augmented by third-party development resources, is focused on continuing updates and enhancements to our MFG/PRO software, as well as the continual migration of MFG/PRO software to component objects and to a Java user interface. We believe that Internet capability for our products will be important to the future success of our ERP and supply chain products. Accordingly, we have developed and will continue to develop Internet-enabled versions of our products through in-house and third-party development.

We also maintain a separate advanced technology development organization specifically focused on developing our On/Q software supply chain management solutions. In addition, Enterprise Engines is assisting in the development of QAD Logistics software. During the fiscal year ended January 31, 1999, we delivered our APS Product, which primarily consists of OEM components from Paragon Software. Meanwhile, because of the decision to utilize Enterprise Engine and Gemstone technology to create a more robust Java solution, Logistics was delayed until late 1999 from late 1998.

Due to rising research and development costs experienced in fiscal 1999, and the need for cost containment, we initiated a reorganization that resulted in the reduction of the research and development staff. Prior to the reorganization, their were approximately 340 employees in the research and development department. At January 31, 1999 research and development personnel totaled approximated 270, representing a reduction of 21 percent. Many of these employees were redeployed into our newly created Global Services organization where we believe their technical skills will be an asset for providing implementation and other support services to QAD customers.

There can be no assurance that we will be successful in converting our MFG/PRO software to Java-interfaced Progress Software components or extending the Java User Interface, on a timely basis, if at all. We similarly have no assurance that if this software is converted or developed it will achieve necessary market acceptance. We or our development partner, Enterprise Engines, might not be successful in developing any new products or enhancements. We may experience difficulties that delay or prevent successful development, introduction or sale of these products or our new products may not adequately meet the requirements of the marketplace or achieve market acceptance. See

"Management's

Discussion and Analysis of Financial Condition and Results of Operations", "Factors That May Affect Future Results and Market Price of Stock-Rapid Technological Change," and "Supply Chain Solutions Under Development and Underlying Technology."

Sales and Marketing

We sell and support our products through direct and indirect sales organizations located throughout the world.

Our indirect sales channel consists of approximately 30 distributors worldwide. We do not grant exclusive rights to any of our distributors. Our distributors 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 providers, hardware vendors and other third parties to identify sales opportunities on a global basis.

In fiscal 1999, after the departure of our vice president of sales and marketing, we restructured to strengthen our focus on our vertical markets and our ability to deliver regionally. Under the direction of the Chief Executive Officer, vertical marketing was decentralized, with vertical sales reporting directly to the Chief Executive Officer. Simultaneously, territorial structure was centralized under the direction of the Chief Financial Officer. In addition, strategic marketing was centralized under the direction of the President.

Our sales and marketing strategy includes developing demand for our products by creating visibility for QAD and awareness of our software. We participate in major computer and vertical market industry trade shows, sponsor regional and worldwide user conferences and regional alliance conferences, and advertise in leading business and targeted industry publications.

Our future success depends in part upon the productivity of our sales and marketing force, our ability to continue to attract, integrate, train, motivate and retain new sales and marketing personnel, and our ability to successfully maintain our distributor relationships and establish new relationships in the future. Competition for sales and marketing personnel in the ERP software industry is intense. Should we fail to hire qualified personnel in accordance with our plans or to establish and maintain or distributor relationships then we would be materially and adversely affected. See "Factors That May Affect Future Results and Market Price of Stock--Dependence Upon Development and Maintenance of Sales and Marketing Channels."

Following the conclusion of our initial public offering, we commenced discussions with certain of our distributors regarding possible acquisitions of controlling interests in those distributors. We have been pursuing this acquisition strategy to enhance the effectiveness and allegiance of existing distributors and provide capital to help those distributors meet our growth targets. During fiscal 1999, we acquired control of distributor organizations in Thailand, Poland, Mexico, the United Kingdom and the Netherlands. On a pro-forma basis, these acquisitions would have added approximately $48 million to QAD revenue for fiscal 1999.

Third-Party Implementation Providers

We have historically followed a strategy of utilizing third parties extensively to provide implementation and customization services to QAD customers. In addition to providing consulting, implementation and training services for QAD customers, these third parties also generate sales leads for QAD. Implementation and system integration services are provided by a network of consultants and system integrators, including Arthur Andersen, Deloitte & Touche, Ernst & Young, Integrated Systems & Services and TRW ISCS. In most

cases, our distributors also deliver consulting and integration services. All third-party providers are required to be certified in the applications and methodologies of QAD products.

We revised our service strategy in fiscal 1999 and purchased several of our distributors who provided third-party implementation and integration services, including the distribution assets of TRW Integrated Supply Chain Solutions in the United Kingdom and the Netherlands, CSBI in Poland, Iris-Ifec in Thailand, and Sistemas Integrados in Mexico. These purchases, coupled with our redeployment of personnel from research and development to implementation and integration positions in fiscal 1999, served as the foundation of QAD Global Services. The formation of QAD Global Services allow us to respond to customer requests for more direct involvement in their system solutions. QAD Global Services includes:

- Technical Services
- Implementation Services
- Learning Services and
- Support Services

In addition, we intend to provide implementation services for our new On/Q software products. We believe this service will be an important factor in ensuring the successful implementation of the initial installations of On/Q software and in successfully transferring knowledge to third-party implementation partners to enable them to provide necessary implementation services for future On/Q software installations.

We typically enter into separate agreements when working with installation and implementation partners that provide these partners with the non-exclusive right to promote and market QAD products, and to provide training, installation, implementation and other services for QAD products, within a defined territory for a specified period of time. Our installation and implementation partners generally are permitted to set their own rates for related 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 distributor partners that grant these partners the non-exclusive right, within a specified territory, to market, license, deliver and support QAD products. In exchange for granting distributors these rights, we receive a negotiated royalty fee for each license of our software products. We also rely on third parties, primarily distributors, for the development of localizations or interfaces appropriate for the territory in which the distributors operate. See "Factors That May Affect Future Results and Market Price of Stock-Reliance on and Need to Develop Additional Relationships with Third Parties."

Customers

We target the automotive, consumer products, electronics/industrial, and medical sectors worldwide. As of January 31, 1999, we had MFG/PRO software at more than 4,000 licensed sites in more than 80 countries. No one 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 in each of our target vertical markets that have each generated more than $400,000 in software license and maintenance revenue over the last three fiscal years:

Automotive

Aeroquip Corporation
Caterpillar
Daewoo
Delphi
Ford
Johnson Controls

Lear Seating
LucasVarity
Tower Automotive

Webasto

Consumer Products

Avery Dennison
Avon
Cargill
Coca-Cola
Gillette
Heinz
Quaker Oats
Sherwin-Williams
U.S. Sugar
Unilever

Electronics/Industrial

Courtaulds
Ingersoll-Rand
Matsushita
Philips
Price Pfister
Sauer Sundstrand
Schlumberger
Sun Microsystems
Synnex
Xerox

Medical

Alza
Arterial Vascular
C.R. Bard
Datex-Ohmeda
Genzyme
Johnson & Johnson
Maxxim Medical
Rexall
St. Jude Medical
Stryker

Customer Service and Support

We believe that providing a high level of customer service and support is essential to customer satisfaction and to our long-term success. QAD Global Services, including support services, is based primarily in several major regional centers. We also provide global service and support through our extensive network of alliance partners. This global presence helps us support customers and partners in different regions and time zones worldwide.

We also provide our customers with access to information and customer support services via the World Wide Web. Our Internet-enabled services facilitate the exchange of information seven days a week, 24 hours a day and provide customers with access to QAD support databases. These databases contain a wide variety of product information, customer support functionality, answers to frequently asked questions, and a search-enabled online knowledge base. In addition, ongoing training of support personnel, internal and external consultants and our alliance partners helps ensure that customers are up to date on the latest technologies and product enhancements offered by QAD.

We also offer, for a fee, a comprehensive education and training program to our customers and end-users, as well as our implementation providers. Classes are offered through in-house facilities at QAD offices in various locations, as well as on-site training services at customer locations. We also assist implementation providers and customers in developing their own in-house support centers.

Competition

The ERP software market is highly competitive, rapidly changing and affected by new product introductions and other market activities of industry participants, including consolidations among industry participants. We compete in the ERP software market primarily on the basis of functionality, ease of use and implementation, technology (including connectivity and adaptability), time to benefit, supplier viability, service and cost. We intend to continue to acquire, develop and allocate our resources to focus on these targeted competitive areas, as well as to identify additional or different areas where we perceive competitive advantage.

We currently compete primarily with:

- vendors such as Baan, J.D. Edwards and Symix, that market software focused on the specific needs of manufacturing plants and distribution sites of multinational manufacturing companies;
- smaller independent companies that have developed or are attempting to develop advanced planning and scheduling software which complement or compete with ERP or supply chain solutions;
- internal development efforts by corporate information technology departments; and
- companies offering standardized or customized products on mainframe and/or mid-range computer systems.

We expect that competition for MFG/PRO software will increase as other large companies like Oracle and SAP, as well as other business application software vendors, enter the market for plant/operations-level ERP solutions. We may also face market resistance from potential customers with installed legacy systems because of the reluctance of these potential customers to commit the time, effort and resources necessary to convert to an open systems ERP solution or because of their own internal attempts to address Y2K readiness issues.

With our strategic entry into the supply chain management software market, we expect to meet substantial additional competition from companies presently serving that market, including i2, IMI and Manugistics. We also expect competition to come from broad-based solution providers like Baan, Oracle, PeopleSoft and SAP who state they are increasingly focusing on this segment. In addition, some of our competitors, such as Baan, Oracle, PeopleSoft and SAP, have well-established relationships with our current or potential customers. Further, as the supply chain management solution 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 our partners or potential partners.

Increased competition in these markets is likely to result in price reductions, reduced operating margins and loss of market share, any one of which could adversely affect us. Many of our 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. 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. 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 such parameters as 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. Payment terms are generally 30 days from the date of shipment. We have no patents or pending patent applications.

In order to facilitate the customization required by most of our customers, 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 non-permitted 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 believe that these measures afford only limited protection. Despite our efforts, it may be possible for third parties to copy certain portions of our products or reverse engineer or 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 do the laws of the United States. Accordingly, there can be no assurance that we will be able to protect our proprietary software against unauthorized third-party 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 have in the past been subject to claims of intellectual property infringement and may increasingly be subject to such 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 are not aware that any of our products infringes 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. 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 a material 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.

We have in the past and may in the future resell certain software, which we license from third parties. In addition, we have in the past and may in the future jointly develop software in which we 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: 1) provide us with the third-party software we require, 2) provide adequate functionality in our products, on terms that adequately protect QAD's proprietary rights, or 3) 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 and integrated. This could materially and adversely affect us. See "Products" and "Research and Development."

Employees

As of January 31, 1999, we had approximately 1,550 full-time employees of which approximately 270 were in research and development, 620 were in global services, 450 were in sales and marketing, and 210 were in administration and other. In addition, we contracted with approximately 70 temporary employees. Excluding the acquisitions, completed in fiscal 1999 we had approximately 1,110 full-time employees as of January 31, 1999. None of our workers are represented by collective bargaining agreements, with the exception of certain employees of our Netherlands subsidiaries who are represented by statutory Works Councils as required under the laws of the Netherlands. We believe that our employee relations are good.

Our success depends to a significant extent upon a limited number of key employees and other members of our senior management. There can be no assurance that we will be successful in attracting and retaining these personnel, and the failure to attract and retain such personnel could have a material adverse effect us. See "Factors That May Affect Future Results And Market Price Of Stock-Dependence Upon Key Personnel; Need to Hire Additional Personnel in All Areas."

Executive Officers of the Registrant

Set forth below is certain information concerning our executive officers as of March 31, 1999.

Name	Age	Position(s)
Pamela M. Lopker	44	Chairman of the Board and President
Karl F. Lopker	47	Chief Executive Officer
A. J. Moyer	55	Executive Vice President and Chief Financial Officer
Vincent P. Niedzielski	44	Executive Vice President, Research and Development
Barry R. Anderson	47	Executive Vice President, Administration
Roland B. Desilets	37	Vice President and General Counsel
Cheryl M. Slomann	34	Vice President, Corporate Controller and Chief Accounting Officer

Pamela M. Lopker founded QAD in 1979 and has been our Chairman of the Board and President since incorporation. 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.

Karl F. Lopker has served as Director and Chief Executive Officer since joining QAD in 1981. Mr. Lopker also serves as QAD's Assistant Treasurer. 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 and Pamela Lopker are married to each other.

A. J. Moyer has served as Executive Vice President and Chief Financial Officer since joining QAD in March 1998. Prior to joining QAD, Mr. Moyer served as Chief Financial Officer of Allergan, a specialty pharmaceutical company based in Irvine, California. Mr.

Moyer received his Bachelor of Science degree in Business Administration from Duquesne University. In 1973, he graduated from the Advanced Management Program at the University of Texas, Austin.

Vincent P. Niedzielski is Executive Vice President, 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.

Barry R. Anderson is Executive Vice President, Administration. He joined QAD in April 1997. Prior to joining QAD, Mr. Anderson was Chief Administrative Officer at the Bank South in Atlanta, Georgia. His previous experience also includes 10 years with Lanier Worldwide as Vice President, Human Resources, plus experience with ARAMCO (Arabian American Oil Company), Lockheed and Pan Am. Mr. Anderson received a Bachelor of Science degree in Business Management from Florida State University and a Juris Doctor degree from Atlanta Law School.

Roland B. Desilets joined QAD in 1993 as Regional General Counsel. In January 1998 he was named Corporate General Counsel. Prior to joining QAD, he was Patent Counsel with 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. He is the author of "Software Vendors' Exposure to Products Liability for Computer Viruses, " University of Southern California Computer/Law Journal, 1989.

Cheryl M. Slomann joined QAD in May 1998 as Vice President, Corporate Controller and Chief Accounting Officer. Prior to joining QAD, Ms. Slomann served nine years with Allergan, a specialty pharmaceutical company, in various financial positions, including Director, Corporate Financial Planning and Manager, Corporate Reporting. She began her career at the public accounting firm of Ernst & Young. Ms. Slomann is a Certified Public Accountant and received her Bachelor of Science degree in Business Administration/Accounting from the University of Southern California.

ITEM 2. PROPERTIES

QAD's executive offices are located at 6450 Via Real, Carpinteria, California 93013, the telephone number is (805) 684-6614. We also lease facilities to support our operations in several locations throughout the world.

Our corporate headquarters are located in Carpinteria, California in approximately 110,000 square feet of leased space in three facilities subject to leases with expiration dates ranging from 1999 to 2003. We own approximately 28 acres and 54,000 square feet of office space in a neighboring location, which also supports portions of our operations. We also own a 34-acre parcel located in Carpinteria, California, which is under consideration for developing as an additional facility.

Major offices are located in Mount Laurel, New Jersey; Sao Paulo, Brazil; Birmingham, United Kingdom; Hoofddorp, Netherlands; Hong Kong; China; Tokyo, Japan; and Sydney, Australia in space aggregating to approximately 114,000 square feet and subject to leases expiring on dates ranging from 2001 to 2011.

QAD has satellite offices in the Americas, Europe, Asia and Australia in space aggregating approximately 157,000 square feet and subject to leases expiring on dates

ranging from 2001 to 2003.

All of our leases have been negotiated with independent third parties on an arms length basis, and we believe they are on commercially reasonable terms. Total rent expense for the fiscal years 1997, 1998 and 1999 totaled $5.9

million, $6.5 million and $7.7 million, respectively. Our global presence is supported by offices located in the United States, Canada, Mexico, Brazil, The Netherlands, United Kingdom, Ireland, France, Germany, Poland, Turkey, Australia, Singapore, Japan, Korea, India and China (Hong Kong and Shanghai). We are currently engaged in a selective office consolidation process, having already vacated approximately 22,000 square feet, and we are seeking to sublet an additional 60,000 square feet worldwide. Although we have from time to time sought and will in the future seek new or expanded facilities for existing or additional offices, 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 may from time to time be 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. According to records of our transfer agent, we had approximately 429 stockholders of record as of January 31, 1999. The following table sets forth the low and high sale price as of the close of market of QAD's common stock in each of the fiscal quarters since our initial public offering.

	Low Sale Price	High Sale Price
Fiscal 1999:		
Fourth Quarter.....	$ 3.50	$ 7.00
Third Quarter.....	$ 2.87	$ 8.75
Second Quarter.....	$ 7.44	$15.00
First Quarter.....	$13.00	$17.38

	Low Sale Price	High Sale Price
Fiscal 1998:		
Fourth Quarter.....	$11.75	$15.75
Third Quarter.....	$13.63	$22.50

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 (in thousands, except per share data)

The following information was derived from our historical financial statements. Our financial statements for the fiscal years ended January 31,

1997, 1998 and 1999 with the accompanying notes and the related report of KPMG LLP are included evidence in this Annual Report on Form 10-K. The selected financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" below and our financial statements and related notes. Effective February 1, 1996, we changed our financial reporting year end from December 31 to January 31.

	Year Ended December 31,		Year Ended January 31,		
	1994	1995	1997	1998	1999
Statement of Operation Data:					
Revenue	$66,360	$89,949	$126,444	$170,770	$193,344
Operating income (loss)	4,084	(2,646)	2,720	14,695	(34,806)
Net income (loss)	2,878	(686)	1,000	9,856	(35,921)
Basic net income (loss) per share	0.14	(0.03)	0.05	0.38	(1.22)
Diluted net income (loss) per share	$ 0.12	$ (0.03)	$ 0.04	$ 0.38	$ (1.22)

	December 31,		January 31,		
	1994	1995	1997	1998	1999
BALANCE SHEET DATA:					
Cash and equivalents and short-term cash investments	$ 1,706	$ 1,519	$ 301	$ 70,082	$ 19,078
Working capital (deficiency)	2,271	(2,814)	(5,976)	79,258	20,743
Total assets	44,361	68,466	77,250	190,506	200,055
Notes payable, long-term debt and capital lease obligations	4,767	9,610	8,465	143	7,166
Notes payable, long-term debt and capital lease obligations, less current portion	4,677	7,341	5,036	39	6,526
Total stockholders' equity	$11,993	$11,732	$10,804	$112,375	$ 79,429

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 included elsewhere in this Annual Report on Form 10-K. Effective February 1, 1996, we changed its financial reporting year end from December 31 to January 31.

Overview

Founded in 1979, QAD is a leading provider of ERP software for multinational and other large manufacturing companies. In 1986, we commercially released our open systems ERP application, MFG/PRO software. Since that time, we have introduced several new generations of our open systems MFG/PRO software, and have significantly expanded our operations. As of January 31, 1999, we had approximately 1,550 full time employees, direct sales and support offices in 20 countries, approximately 30 distributors worldwide and more than 4,000 licensed sites in more than 80 countries. Our total revenue has grown significantly in recent years, increasing from $66.4 million in the year ended December 31, 1994 to $193.3 million and in the year ended January 31, 1999.

We derive revenue from license fees, maintenance and services and other products. License fees are primarily derived from the licensing of our software products and also include fees from third-party software sold in conjunction with QAD software. Maintenance and other revenue consist primarily of maintenance contracts and, to a lesser extent, revenue from consulting, training and other services.

License fee revenue is recognized upon shipment of the software, provided there are no vendor obligations to be fulfilled and collectibility is probable within a 12-month period from the date of shipment. Typically, our software licenses do not include significant vendor obligations. Maintenance revenue for ongoing customer support and product updates typically represents 15 percent of the software license list price (net of any distributor discounts) and is recognized ratably over the term of the maintenance period, which is typically 12 months. Service revenue is derived mainly from training, consulting and manual sales and is recognized as the services are performed.

We have historically followed a strategy of relying on our network of third-party distribution and implementation alliances to provide hardware, consulting and implementation services. In fiscal 1999, we pursued a strategy of acquiring distributors. Our revenue related to license fees and maintenance contracts as a percentage of total revenue remained relatively stable between 89 percent to 92 percent for the years ended December 31, 1993 through the year ended January 31, 1999. However, we anticipate revenue from services will increase as a percentage of total revenue as a result of these recent acquisitions and as a result of our decision to establish QAD Global Services. Further, we anticipate that as we continue to release our On/Q software and directly provide services related to these products, service revenue will increase both in absolute dollars and as a percentage of total revenue.

Contracts for our products and services range from $50,000 to several million dollars, depending on the number of sites, the number of users and the number of services offered. No single customer has accounted for greater than 10 percent of our total revenue in any of the last three fiscal years. However, it is not uncommon to conclude a multi-million dollar contract with a single customer.

During fiscal year 1997 through fiscal year 1999, we significantly increased our sales and marketing, service and support and research and development staffs. These increases resulted in substantial growth in the number of full-time employees (from approximately 520 at December 31, 1995, to approximately 1,550 at January 31, 1999), the

scope of our financial and operating systems and the geographic distribution of our direct sales and support operations (from 12 to 20 countries). These investments were incurred in connection with our strategy to establish and maintain a leadership position as a global supplier of ERP solutions at the plant/operations level as well as to enter new markets such as supply chain management software. We believe that these investments were essential in the development of our products and operations.

We record revenue primarily in United States dollars. Foreign currency transaction and translation gains and losses are recorded in accordance with Statement of Financial Accounting Standards (SFAS) No. 52. In the fiscal years 1997, 1998 and 1999, foreign currency transaction (gains) and losses totaled $(407,000), $(879,000) and $61,000, respectively. We have not previously undertaken hedging transactions to cover our currency exposure, but may implement programs to mitigate foreign currency exposure risk in the future as management deems appropriate. See "Factors That May Affect Future Results and Market Price of Stock - Risks Associated With International Operations".

Results of Operations

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

Year Ended January 31,

	1997	1998	1999
Revenue:			
License fees	68%	66%	55%
Maintenance and other	32	34	45
Total revenue	100	100	100
Cost and expenses:			
Cost of revenue	23	24	31
Sales and marketing	42	39	47
Research and development	20	17	25
General and administrative	13	11	13
Restructuring charge	-	-	2
Total cost and expenses	98	91	118
Operating income (loss)	2	9	(18)
Other (income) expense	1	(1)	-
Income (loss) before income taxes	1	10	(18)
Income tax expense	0	4	1
Net income (loss)	1%	6%	(19%)

Total Revenue. Total revenue for fiscal year 1999 was $193.3 million, which was an increase of $22.5 million or 13 percent over fiscal year 1998. This increase was primarily due to an increase in maintenance revenue from the growing installed base and the acquisition of four of our distributors, which added incremental revenue of approximately $12.4 million. These increases were partially offset by manufacturers' decisions to delay capital spending due to concerns of a global economic slowdown and Y2K readiness. Total revenue for fiscal year 1998 was $170.8 million, which was an increase of $44.4 million or 35 percent over fiscal year 1997. This increase was primarily due to continued market penetration into our targeted vertical markets and expansion into new geographical markets. Maintenance and other revenue has increased as a percentage of total revenue from 32 percent in fiscal year 1997 to 34 percent and 45 percent in fiscal years 1998 and 1999, respectively. This shift relates to an increase in maintenance revenue from the growing installed base, as well as a new emphasis on services beginning late in fiscal year 1999 with the acquired distributors and the launch of our QAD Global Services business.

Cost of Revenue. Cost of revenue as a percentage of total revenue increased to 31 percent in fiscal year 1999 from 24 percent in fiscal year 1998. This increase was

primarily due to the higher costs associated with reselling third-party databases, as well as a higher cost structure related to our expanding services business. Cost of revenue, as a percentage of total revenue in fiscal year 1998 was 24 percent, which was consistent with the 23 percent ratio for fiscal year 1997.

Sales and Marketing. Sales and marketing expense increased 39 percent to $91.1 million in fiscal year 1999 from $65.8 million in fiscal year 1998, and increased 26 percent in fiscal year 1998 from $53.2 million in fiscal year 1997. The increase during the three-year period was primarily due to the expansion of our global sales force, opening and supporting global sales offices, increased marketing expense to promote the QAD name and products and increased commission expense related to higher revenue.

Research and Development. Research and development expense increased 65 percent to $48.3 million in fiscal year 1999 from $29.3 million in fiscal year 1998, and increased 15 percent in fiscal year 1998 from $25.4 million in fiscal year 1997. The increases were primarily due to enhancements to MFG/PRO software, including the ongoing migration of MFG/PRO software to object-oriented technology. In addition, the increases were due to increased staffing and associated support related to development of On/Q software, our supply chain management product.

General and Administrative. General and administrative expense increased 31 percent to $25.4 million in fiscal year 1999 from $19.4 million in fiscal year 1998, and increased 22 percent in fiscal year 1998 from $15.9 million in

fiscal year 1997. These increases were primarily the result of costs associated with the expansion of our administrative infrastructure to support the growing operations, as well as the amortization of intangible assets related to the fiscal year 1999 acquisitions.

Restructuring Charge. In response to changes in manufacturing capital software spending patterns during fiscal 1999, we undertook a restructuring and re-alignment that would, among other things, more closely align costs with sales expectations. As part of the re-alignment, we reduced spending on research and development including the transfer of research and development personnel into revenue-generating positions within our QAD Global Service Organization. In all, we reduced our workforce (excluding staff added from the acquisitions) by approximately 15 percent, adjusted administration and marketing costs and narrowed our facilities expansion plans. We recorded a restructuring charge of $4.3 million for the fiscal year 1999. This charge included the costs associated with the consolidation of certain facilities ($3.3 million) and a reduction of approximately 230 positions across a broad cross-section of our operations ($1.0 million).

Total Other (Income) Expense. Total other (income) expense was $(23,000), $(2,320,000) and $997,000 in fiscal years 1999, 1998 and 1997, respectively. The decrease from fiscal year 1998 to 1999 was primarily the result of a $1.5 million write-down to adjust an equity investment to the current estimated fair market value, as well as a $940,000 change in foreign currency transaction and remeasurement (gains) and losses from ($879,000) in fiscal year 1998 to $61,000 in fiscal year 1999. The increase from fiscal year 1997 to 1998 was primarily the result of significantly reduced interest expense as the proceeds of our initial public offering 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.

Income Tax Expense. We recorded income tax expense of $1.1 million, $7.2 million and $723,000 in the years ended January 31, 1999, 1998 and 1997, respectively. Our effective income tax rates were (3) percent in the year ended January 31, 1999 and 42 percent in the years ended January 31, 1998 and 1997. QAD's effective income tax rate historically has benefited from the United States research and development tax credit and tax benefits generated from export sales made from the United States. We have available tax benefits associated with net operating loss carryforwards aggregating $14.9 million at January 31, 1999. See note 8 to the financial statements.

Liquidity and Capital Resources

We have historically financed our operations and met our capital expenditures requirements through cash flows from operations, sales of equity securities and short-term borrowings. As of January 31, 1999, we had working capital and cash, cash equivalents and short-term cash investments of $20.7 million and $19.1 million, respectively as compared to $79.3 million and $70.1 million as of January 31, 1998. The declines were primarily due to the cash used in operations, capital expenditures and acquisition of businesses.

Accounts receivable, net of allowance for doubtful accounts, increased to $95.3 million at January 31, 1999 from $75.7 million at January 31, 1998. Accounts receivable days' sales outstanding increased slightly to 131 days at January 31, 1999 from 126 days at January 31, 1998. We believe the days' sales outstanding are higher than desired and we are focusing on sales terms and collection processes to improve cash flows and working capital.

Net cash provided by (used in) operating activities was ($21.1) million, $9.9 million and $7.4 million in the fiscal years 1999 and 1998 and 1997, respectively. Net cash used in investing activities was primarily related to the purchase of property and equipment and the fiscal year 1999 acquisition of businesses and aggregated $46.0 million, $16.8 million and $3.4 million in the fiscal years 1999 and 1998 and 1997, respectively. Net cash provided by (used in) financing activities was primarily related to proceeds from the fiscal year

1998 initial public offering, as well as proceeds and payment of borrowings and totaled $13.4 million, $76.8 million and $(4.5) million in fiscal years 1999 and 1998 and 1997, respectively. At January 31, 1999, we did not have any material commitments for capital expenditures.

Subsequent to January 31, 1999, we entered into a secured credit agreement with The First National Bank of Chicago, which expires on April 18, 2002. The maximum amount that can be borrowed under this credit agreement is subject to terms of the borrowing base, up to a maximum of $30 million. This credit agreement can be terminated voluntarily by QAD. This credit agreement is secured by certain QAD assets. Borrowings under this credit agreement bear interest equal to the LIBOR rate plus 2.25 percent or ABR. ABR is the higher of the corporate base rate or the Federal Funds Effective Rate plus 0.50 percent. We pay an annual commitment fee of 0.50 percent calculated on the average unused portion of the $30 million credit line.

We believe that the cash on hand and net cash provided by operating activities, supplemented as necessary with borrowings available 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 for the next 12 months.

Recent Accounting Pronouncements

In 1998, the AICPA provided further guidance on recognizing revenue on software transactions by issuing SOP No. 98-9, "Modification of SOP No. 97-2, Software Revenue Recognition, With Respect to Certain Transactions." In fiscal year 2000, we will recognize software license revenue in accordance with SOP No. 97-2, as modified by SOP No. 98-9. We believe the adoption of SOP No. 98-9 will not have a material impact on our financial condition or results of operations.

The AICPA issued SOP No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which is effective for financial statements for fiscal years beginning after December 15, 1998. We have adopted this SOP with no material impact on our financial condition or results of operations.

The Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." We adopted SFAS No. 131 for fiscal year 1999. Appropriate disclosures are presented in Note 11 to the financial statements.

Year 2000 Compliance

Our business operations are significantly dependent upon the same proprietary software products we license to customers. Our management believes it has successfully addressed Y2K readiness in our proprietary software products and does not anticipate any business interruptions associated with these applications. To ensure that we have adequately addressed exposures related to the Y2K and we are Y2K ready, we have established a Y2K program that includes business partners and other third-party relationships. We define systems as "Y2K ready" if they are either "Y2K compliant" or otherwise will operate without any substantial decrease in performance as a result of processing date data into the next century. "Y2K compliant" means the system must perform fault-free in the processing of date and date related data (including calculating, comparing and sequencing) by all software of components individually and in combination, upon installation. Fault-free performance includes the manipulation of this data with dates prior to, through and beyond January 1, 2000.

Our Y2K program consists of these five phases:

1) Assessment, which identifies the magnitude of Y2K exposure, a process that includes estimating the business risk of not becoming Y2K compliant, determining our potential areas for Y2K exposure, and developing an internal definition of compliance;

2) Planning, which details corporate planning efforts, including inventorying and analyzing our systems for Y2K impact and developing contingency plans for systems that pose unusual compliance issues;
3) Resources, which ensures that funds and resources are sufficient, given the magnitude of the Y2K plan. This is facilitated by obtaining funds through internal mechanisms and assessing staff capacity for remediation and testing;
4) Technology, which executes the work needed to repair or retire existing systems through a process which includes programming, code testing, user testing data conversion and program implementation; and
5) Reporting, which includes providing status of program activities to business and regulatory bodies.

We have completed the first three phases and are near completion of our fourth phase in addressing the readiness of our information technology (IT) systems, excluding our proprietary software products which QAD believes to be generally Y2K compliant currently. We are in the "Resources" phase with regard to our state of readiness for areas classified as non-IT systems. We are almost complete with the fourth phase, which encompasses "Technology" for third-party products that constitute material relationships. We expect to have substantially completed all five phases by October 31, 1999.

As of January 31, 1999, the direct costs incurred to remediate Y2K issues were not material. Cost directly attributed to our overall Y2K program is estimated to be approximately $1.8 million.

Significant uncertainty exists in the software industry concerning the potential effects associated with Y2K readiness. Although we currently offer software products that are designed and have been tested to be ready for the Year 2000, there can be no assurance that our software products contain all necessary date code changes. Furthermore, it has been widely reported that a significant amount of litigation surrounding business interruptions will arise out of Y2K issues. It is uncertain whether, or to what extent, this type of litigation may affect us. Additionally, third-party software, computer and other equipment used internally may materially impact us if it is not Y2K compliant. Our operations may be at risk if our suppliers and other third parties fail to adequately address the problem or if software conversions result in system incompatibilities. This issue could result in system failures, the generation of erroneous information, and other significant disruptions of business activities. To the extent that either QAD or a third-

party vendor or service provider on which we rely does not achieve Y2K readiness, we may be adversely impacted. As part of the five-phase process outlined above, we are developing specific contingency plans in connection with the assessment and resolution of the risks identified. We have established certain IT contingency plans, and we are continuing to develop additional plans regarding each specific area of risk associated with this issue as part of our Y2K program. We also hold insurance coverage for errors and omissions, which includes coverage for customer claims associated with Y2K issues.

International Operations

We have reassessed and we continue to closely monitor our international business risks due to the recent economic conditions in the Asian, Yugoslavian and Russian markets. Although we do not anticipate that these conditions will materially impact our business, there can be no assurance that the current economic conditions in such markets will not worsen or that the situation will not negatively impact us.

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, and 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 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 QAD, 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 our pricing policies or those of our competitors, customer order deferrals in anticipation of product enhancements or new product offerings by us or those of 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 (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.

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, which 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 QAD products.

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 a material 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 because orders are generally shipped as they 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 harder to predict and may have lower profit margins than direct sales.

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

In fiscal year 1999, we implemented various changes designed to mitigate the quarterly fluctuations in our operating results. These changes included the hiring of additional financial personnel, including a new Chief Financial Officer, a Vice President - Corporate Controller, and Vice President - Tax and Treasury, the changing of our planning systems to incorporate quarterly performance goals and quarterly forecasting procedures and inclusion of quarterly financial incentives into our sales compensation structure. In addition, as the percentage of revenue derived from maintenance and services increases and the less predictable license fees become a smaller proportion, these quarterly fluctuations should diminish.

There can be no assurance that these changes will alleviate the quarterly or other fluctuations in our financial results. Moreover, although our revenue has generally increased in recent periods, there can be no assurance that our revenue will grow in future periods, at past rates or at all, 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.

In future periods, our operating results may be below the expectations of stock market analysts and investors. If this occurs, the price of our common stock could be materially adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risks Associated with Sales Cycle

Because the license 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 QAD 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 we have little or no control. These risks include customers' budgetary constraints, timing of budget cycle, concerns about the introduction of new products by QAD or our competitors and general economic downturns which 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. The decision to license QAD products generally requires us to provide a significant level of education to prospective customers regarding the uses and benefits of QAD products, and we must frequently commit substantial presales support resources. We have historically relied on third-parties for implementation and systems support services, which in the past caused sales cycles to be lengthened and may have resulted in the loss of sales. Since the launch of QAD Global Services in late 1998, we no longer rely exclusively on third-parties for implementation and systems integration services, which should significantly mitigate these risks. However, uncertain outcome of our sales efforts and the length of our 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 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 a material adverse effect on our quarterly operating results. See "Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations."

Product Mix

We have historically derived substantially all of our revenue from the licensing and maintenance of MFG/PRO software and third-party software. In the fiscal years 1998 and

1999, this revenue equaled approximately 91 percent and 89 percent, respectively, of our total revenue. As a result of our acquisition of distributors in fiscal 1999, as well as the launch in the latter part of 1998 of QAD Global Services, we expect that revenue from services will increase from approximately six percent of revenue to 20 to 25 percent of total revenue. In addition, if we are successful in releasing the remainder of our planned On/Q software components, we anticipate that the demand for service revenue will increase accordingly.

Dependence on Third-Party Products

Our MFG/PRO software is written in a programming language that is proprietary to Progress Software. 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, market, distribute and license QAD software products. The

Progress agreement also provides for continued software support from Progress through June 2002 without charge to QAD. Progress may only terminate the Progress agreement upon adjudication of QAD as bankrupt, our liquidation or other similar event, or if we have ceased business operations in full. Under a separate value-added reseller agreement we have the right to distribute Progress software products. Other than for a material breach by us, the VAR agreement may not be terminated on less than 12 months notice by Progress.

Our success is dependent upon Progress continuing to develop, support and enhance this programming language, our tool set 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 delays of this sort could have a material adverse effect on us. The increased market acceptance of programming languages other than Progress in our market or our inability to adapt our software to such other languages could have a material adverse effect on us.

MFG/PRO software employs Progress programming interfaces, which allow MFG/PRO software to operate with Oracle database software. However, our software programs do not run within programming environments other than Progress and our customers must acquire rights to Progress software in order to use MFG/PRO software.

Our On/Q software products, which include the available APS products and Outbound Logistics, which is currently under development, are not dependent upon Progress technology but are dependent on Enterprise Engines Inc.'s technology. See "Supply Chain Solution Under Development and Underlying Technology."

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 re-seller agreements contain strict confidentiality and non-disclosure provisions for the service provider, end user and third-party developer and 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 such third-party software providers or such third party installation, implementation and development partners or to failure of such third party software providers to develop and support their software could have a material 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 may give 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 object-oriented technology as well as our ability to develop products that will operate across the Internet. There can be no assurance 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, or that our products will achieve market acceptance. Any failure to successfully develop and market product enhancements or new products could have a material adverse effect on us.

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, which could have a material 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 such products. As a result, the life cycles of QAD software products are difficult to estimate. We must respond to developments rapidly and incur substantial product development expenses. Any failure to anticipate or respond adequately to technology developments 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 such new releases, could materially and adversely affect us. See "Business-Products" and "Third-Party Implementation Providers."

Supply Chain Solutions Under Development and Underlying Technology

A significant element of our strategy is our development of On/Q software, a series of new products targeted at the supply chain management needs of manufacturing companies. Over the past three fiscal years, we have devoted substantial resources to developing our On/Q software and working with third parties to develop software components which may be included as part of or encapsulated within On/Q software. Our first On/Q software product, APS, was released in September 1998. We have not performed preliminary tests on our follow on product, Outbound Logistics, nor have we completed development or commenced beta testing of Outbound Logistics. Therefore, there can be no assurance that Outbound Logistics or any other of our planned On/Q software products developed by us or third parties will achieve the performance standards required for commercialization or that these products will achieve market acceptance or be profitable. If Outbound Logistics or our other planned supply chain management software products do not achieve such performance standards or do not achieve market acceptance, we would be materially and adversely affected.

We are currently working jointly with Enterprise Engines, Inc. of San Mateo, California, to develop On/Q Outbound Logistics. On/Q Outbound Logistics is being designed and built using the object-oriented technology of Sun Microsystems - Enterprise Java Beans. On/Q depends on the commercial success of platforms that support Enterprise Java Beans in Application Server environments such as the Gemstone/J Application Server supplied by Gemstone of Beaverton, Oregon. Similar to the way our MFG/PRO software is

dependent upon Progress language and database technology, our new On/Q software is dependent on Java, Enterprise Java Beans, Gemstone, and technology supplied by EEI. See "Factors That May Affect Future Results and Market Price of Stock-Reliance on and Need to Develop Additional Relationships with Third Parties."

Object-oriented applications, such as On/Q Outbound Logistics, 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. 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. There can be no assurance that we will be successful in developing our new supply chain management software on a timely basis, if at all, or that if developed this software will achieve market acceptance.

Market Concentration

We have made a strategic decision to concentrate our sales and marketing in four primary vertical industry segments: automotive, consumer products, electronics/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 QAD's products to achieve or maintain substantial market acceptance for our software products in one or more of these segments could have a material adverse effect on our product and business strategy in that segment and on our business, operating results and financial condition. If any of the industry segments we target experiences a material downturn in expansion or in prospects for future growth, that downturn would similarly adversely affect the demand for our products and our business. See "Business-Sales and Marketing."

Dependence 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 jointly own approximately 63 percent of QAD's outstanding common stock. The loss of one or more of these or other key individuals could have a material adverse effect on QAD. We do not currently have key individual insurance. See "Business-Executive Officers of the Registrant."

Dependence Upon Development and Maintenance of Sales and Marketing Channels

We sell and support our products through direct and indirect sales organizations throughout the world. We have made significant expenditures in recent years in the expansion of our sales and marketing force, primarily outside the United States, and we plan to continue to expand our sales and marketing force. 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 is intense. There can be no assurance that we will be successful in hiring such personnel in accordance with our plans. Neither can there be assurance that our recent and other 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, there can be no assurance that our 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 our current and potential competitors. If we were unable to develop and manage our sales and marketing force expansion effectively, QAD's business, operating results and financial condition would be materially adversely affected.

Our indirect sales channel consists of approximately 30 distributors worldwide. We do not grant exclusive distribution rights to any of our distributors. Our distributors 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 distributors and enter into relationships with additional distributors in order to expand the distribution of our products. There can be no assurance that current or future distributors will provide the level and quality of expertise and service required to successfully license QAD software products, that we will be able to maintain effective, long-term relationships with distributors, or that selected distributors will continue to meet our sales needs. Further, there can be no assurance that these distributors 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. This may become more likely as we compete with some of our distributors through our own acquisition of distributors. Any failure to

maintain successfully our existing distributor relationships or to establish new relationships in the future would have a material adverse effect on us. In addition, if any of our distributors exclusively adopts a product other than QAD software products, or if any distributor materially reduces its sales efforts relating to QAD software products or materially increases such support for competitive products, we could be materially and adversely affected. See "Business-Sales and Marketing."

Reliance on and Need to Develop Additional 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 systems integration services exclusively for our products and in many instances such firms have similar, and often more established, relationships with our principal competitors. We expect to continue to utilize third-party system integrators.

Beginning in the fourth quarter of fiscal 1999, we created QAD Global Services to offer implementation and integration 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 customer's needs for implementation and installation 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.

Organizations providing consulting and systems integration and implementation services in connection with QAD software products include Arthur Andersen, Deloitte & Touche, Ernst & Young, Origin Technology, Sligos and STCS Systems. In most cases distributors also will deliver consulting and systems integration services. These and other third parties may not provide the level and quality of service required to meet the needs of our customers, we may not be able to maintain an effective, long-term relationship with these third parties, or these third parties may not continue to meet the needs of our customers. Further, there can be no assurance 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 a material 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 materially reduce their support of QAD software products and technology or materially increase such support for competitive products or technology, we could be materially and adversely affected.

We typically enter into separate agreements with each of our installation and implementation partners that provide these 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 those 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 contain strict confidentiality and non-disclosure provisions for the service provider, end user and third-party developer and 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 installation, implementation and development partners or the failure of these third-party software providers to develop and support their software could have a material adverse effect on us. See "Business-Sales and Marketing," "Third-Party Implementation Providers" and "Proprietary Rights and Licensing."

Risks Associated With International Operations

We derived approximately 42 percent, 39 percent and 48 percent of our total revenue from sales outside the United States in the fiscal years 1997, 1998 and 1999, respectively. Of our more than 4,000 licensed sites in more than 80 countries as of January 31, 1999, over 70 percent are outside the United States.

To date, our revenue from international operations has primarily been denominated in United States dollars. We generally price our products in United States dollars and over 90 percent of our sales in the fiscal years 1997, 1998 and 1999, were denominated in United States dollars, with the remainder in approximately ten different currencies. We expect that a growing percentage of our business will be conducted in currencies other than the United States dollar. 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 other currencies in which we generate revenue could materially adversely affect us. While we may in the future change our pricing practices, an increase in the value of the United States dollar relative to foreign currencies could make QAD software products more expensive and, therefore, less competitive in other markets. Fluctuations in currencies relative to the United States dollar will affect period-to-period comparisons of our reported results of operations. In the fiscal years 1997, 1998 and 1999, foreign currency transaction (gains) and losses totaled $(407,000), $(879,000) and $61,000, respectively. Due to the constantly changing currency exposures and the volatility of currency exchange rates, there can be no assurance that we will not experience currency losses in the future, nor can we 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Control by Principal Stockholders

As of January 31, 1999, Pamela and Karl Lopker jointly beneficially own approximately 63 percent of QAD's outstanding common stock. Current directors and executive officers as a group own approximately 66 percent of the common stock. The Lopkers currently constitute two of the five directors and therefore have significant influence in directing the actions of the Board of Directors.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is submitted as a separate section of this Annual Report on Form 10-K. See Item 14.

ITEM 9. CHANGE 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, or the Commission, within 120 days after the end of our fiscal year 1999. 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 1999.

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 "Security Ownership of Certain Beneficial Owners and Management Ownership" 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 1999.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions are 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 1999.

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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(A) 2. FINANCIAL STATEMENT SCHEDULES

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

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

(A) 3. EXHIBITS

The following exhibits are filed herewith or are incorporated by reference to exhibits previously filed with the Commission. QAD shall furnish copies of exhibits for a reasonable fee (covering the expense of furnishing copies) upon request.

EXHIBIT NUMBER	EXHIBIT TITLE
3.1	Certificate of Incorporation of the Registrant, filed with the Delaware Secretary of State on May 15, 1997*
3.2	Certificate of Amendment of Certificate of Incorporation of the Registrant, filed with the Delaware Secretary of State on June 19, 1997*
3.9	Bylaws of the Registrant*
4.1	Specimen Stock Certificate*
10.1	QAD Inc. 1994 Stock Ownership Program*
10.2	QAD Inc. 1997 Stock Incentive Program*
10.3	Form of Indemnification Agreement with Directors and Executive Officers*
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*
10.5	Schedule to Loan Agreement between GBC and the Registrant dated July 3, 1996*

10.6	Letter Agreement between the Registrant and GBC dated July 3, 1996*
10.7	Letter Agreement between the Registrant and GBC dated July 5, 1996*
10.8	Letter Agreement between the Registrant and GBC dated July 5, 1996*
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*
10.10	Trademark Security Agreement between GBC and the Registrant dated July 3, 1996*
10.11	Security Agreement in Copyrighted Works executed by the Registrant in favor of GBC dated July 3, 1996*
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*

10.14 Master License Agreement between the Registrant and Progress Software Corporation dated June 30, 1995*+

10.15 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*

10.16 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*

10.17 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*

10.18 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*

10.19 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*

10.20 Fifth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites G and E located at 5464 Carpinteria Ave., Carpinteria, California dated September 12, 1994*

10.21 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*

10.22 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*

10.23 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*

10.24 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*

10.25 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*

10.26 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*

10.27 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*

10.28 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*

10.29 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*

10.30 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*

10.31 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*

10.32 Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 1 and 2 located at 6430 Via Real, Carpinteria, California dated September 8, 1995*

10.33 Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 1 and 2 located at 6430 Via Real, Carpinteria, California dated September 8, 1995*

10.34 Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 1 through 7 and 10 located at 6420 Via Real, Carpinteria, California dated January 27, 1997*

10.35 Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 1 through 7 and 10 located at 6420 Via Real, Carpinteria, California dated January 27, 1997*

10.36 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*

10.37 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*

10.38 Second Amendment to Multi-Tenant Lease Agreement between the Registrant and EDB Property Partners, LP III, dated May 30, 1995*

10.39 Third Amendment to Multi-Tenant Lease Agreement between the Registrant and EDB Property Partners L.P. I dated November 30, 1995*

10.40 Agreement and Plan of Merger between QAD California and the Registrant dated July 8, 1997*

10.41 Credit Agreement dated as of August 4, 1997 between the Registrant and Bank of America National Trust and Savings Association*

10.42 Standard Industrial Commercial Multi-Tenant Lease--Modified Net dated as of December 29, 1997 between the Registrant and CITO Corp.*

10.43 Value Added Reseller Agreement dated as of April 13, 1998 between the Registrant and Paragon Management Systems, Inc.

10.44 Lease Agreement between the Registrant and Goodaston Limited for Unit 1 Phase 8 Business Park, The Waterfront Merry Hill, West Midlands dated April 30, 1996

21.1 Subsidiaries of the Registrant*

23.1 Consent of KPMG LLP and opinion on Schedule II

27.1 Financial Data Schedule

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

(+) 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.

(B) REPORTS ON FORM 8-K

On November 17, 1998 QAD filed a current report on Form 8-K under Item 2 relating to the Registrant's acquisition of certain assets of TRW Integrated Supply Chain Solutions. No financial statements were required. The acquisition agreement was filed as an Exhibit to the Form 8-K.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
QAD Inc.:

We have audited the accompanying consolidated balance sheets of QAD Inc. and subsidiaries as of January 31, 1998 and 1999 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three year period ended January 31, 1999. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting

the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of QAD Inc. and subsidiaries as of January 31, 1998 and 1999 and the results of their operations and their cash flows for each of the years in the three year period ended January 31, 1999 in conformity with generally accepted accounting principles.

KPMG LLP

Los Angeles, California
March 5, 1999, except for
Note 7 which is
as of April 26, 1999

QAD Inc.
Consolidated Balance Sheets
As of January 31, 1998 and 1999
(in thousands, except for number of shares)

	1998	1999
Assets		
Current assets:		
Cash and equivalents	$ 70,082	$ 16,078
Short-term cash investments	-	3,000
Accounts receivable, net	75,683	95,344
Other current assets	10,442	19,680
Total current assets	156,207	134,102
Property and equipment, net	25,717	36,835
Capitalized software development costs, net	2,416	8,646
Other assets, net	6,166	20,472
Total assets	$190,506	$200,055
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable and capital lease obligations,	$ 143	$ 7,166
Accounts payable	15,060	16,314
Accrued expenses	18,110	29,933
Deferred revenue and deposits	43,636	59,946
Total current liabilities	76,949	113,359
Notes payable and capital lease obligations, less current portion	39	6,526
Other deferred liabilities	1,132	581
Minority interest	11	160
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 29,096,269 shares and 29,703,500 shares at January 31, 1998 and 1999, respectively	29	30
Additional Paid-in-Capital	97,209	99,566
Retained earnings (accumulated deficit)	17,395	(18,526)
Receivable from stockholders	(397)	(54)
Unearned compensation-restricted stock	(1,510)	(970)
Accumulated other comprehensive loss	(351)	(617)
Total stockholders' equity	112,375	79,429
Total liabilities and stockholders' equity	$190,506	$200,055

See accompanying notes to consolidated financial statements.

QAD Inc.
Consolidated Statements of Operations

For the years ended January 31, 1997, 1998 and 1999
(in thousands, except per share data)

	1997	1998	1999
Revenue:			
License fees	$ 85,753	$113,447	$105,928
Maintenance and other	40,691	57,323	87,416
Total revenue	126,444	170,770	193,344
Cost and expenses:			
Cost of revenue	29,158	41,551	59,015
Sales and marketing	53,194	65,785	91,128
Research and development	25,434	29,317	48,332
General and administrative	15,938	19,422	25,361
Restructuring charge	-	-	4,314
Total cost and expenses	123,724	156,075	228,150
Operating income (loss)	2,720	14,695	(34,806)
Other (income) expense:			
Interest income	(49)	(1,785)	(2,152)
Interest expense	1,654	1,064	602
Other (income) expense	(608)	(1,599)	1,527
Total other (income) expense	997	(2,320)	(23)
Income (loss) before income taxes	1,723	17,015	(34,783)
Income tax expense	723	7,159	1,138
Net income (loss)	$ 1,000	$ 9,856	$(35,921)
Basic net income (loss) per share	$0.05	$0.38	$(1.22)
Diluted net income (loss) per share	$0.04	$0.38	$(1.22)

See accompanying notes to consolidated financial statements.

QAD Inc.
Consolidated Statement of Stockholders' Equity
For the years ended January 31, 1997, 1998 and 1999
(in thousands, except for number of shares)

	Common Stock and Additional Paid-in-Capital		Retained Earnings (Accumulated Deficit)	Receivable from Stock holders	Restricted Stock		Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Income (Loss)
	Shares	Amount			Shares	Amount			
Balance, January 31, 1996	20,978,754	$ 2,223	$ 6,539	(151)	-	$ -	$ 412	$ 9,023	-
Comprehensive Income:									
Net Income			1,000					1,000	$ 1,000
Translation Adjustments							(763)	(763)	(763)
Total Comprehensive Income									$ 237
Common Stock Issued:									
Under stock purchase plan	793,438	1,411	-	-	-	-	-	1,411	
Under stock options	105,000	185	-	-	-	-	-	185	
Under performance awards	108,062	256	-	-	-	-	-	256	
Under restricted stock awards	559,066	2,584	-	-	(559,066)	(2,584)	-	-	
Common stock earned under restricted stock awards	-	-	-	-	149,954	455	-	455	
Common stock repurchases	(325,748)	(717)	-	-	-	-	-	(717)	
Receivable from stockholders	-	-		(46)	-	-	-	(46)	
Balance January 31, 1997	22,218,572	5,942	7,539	(197)	(409,112)	(2,129)	(351)	10,804	
Comprehensive Income:									
Net Income			9,856					9,856	$ 9,856
Translation Adjustments							-	-	-
Total Comprehensive Income									$ 9,856
Common Stock Issued:									
Under initial public offering (net of offer costs)	6,612,500	90,516	-	-	-	-	-	90,516	

Under stock purchase plan and incentive plan	251,129	2,413	-	-	-	-	-	2,413	
Under stock options	299,000	709	-	-	-	-	-	709	
Under performance awards	50,060	431	-	-	-	-	-	431	
Under restricted stock awards	20,400	194	-	-	(20,400)	(194)	-	-	
Common stock earned under restricted stock awards	1,536	-	-	-	208,296	663	-	663	
Tax benefit associated with stock option exercise	-	523	-	-	-	-	-	523	
Common stock repurchases	(334,528)	(3,340)	-	-	-	-	-	(3,340)	
Restricted stock awards cancelled	(22,400)	(150)	-	-	22,400	150	-	-	
Receivable from stockholders	-	-	-	(200)	-	-	-	(200)	
Balance January 31, 1998	29,096,269	97,238	17,395	(397)	(198,816)	(1,510)	(351)	112,375	
Comprehensive Income:									
Net Loss			(35,921)					(35,921)	$(35,921)
Translation Adjustments							(266)	(266)	(266)
Total Comprehensive Loss									$(36,187)
Common Stock Issued:									
Under stock purchase plan and incentive plan	372,153	1,804	-	-	-	-	-	1,804	
Under stock options	282,050	38	-	-	-	-	-	38	
Under restricted stock awards	-	305	-	-	-	(305)	-	-	
Common stock earned under restricted stock awards	7,267	-	-	-	62,382	447	-	447	
Tax benefit associated with stock option exercise	-	1,553	-	-	-	-	-	1,553	
Common stock repurchases	(5,739)	(944)	-	-	-	-	-	(944)	
Restricted stock awards cancelled	(48,500)	(398)	-	-	48,500	398	-	-	
Receivable from stockholders	-	-	-	343	-	-		343	
Balance January 31, 1999	29,703,500	$99,596	$(18,526)	$ (54)	(87,934)	$ (970)	$(617)	$ 79,429	

See accompanying notes to consolidated financial statements.

QAD Inc.
Consolidated Statements of Cash Flows
For the years ended January 31, 1997, 1998 and 1999
(in thousands)

	1997	1998	1999
Cash flows from operating activities:			
Net income (loss)	$ 1,000	$ 9,856	$(35,921)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	5,345	6,921	11,055
Provision for doubtful accounts and sales returns	3,432	4,370	3,627
Loss on disposal of equipment	25	82	698
Asset write-off	-	-	3,060
Minority interest	(16)	(79)	(45)
Compensation expense under stock awards	1,044	1,361	320
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(14,941)	(33,508)	(8,420)
Other assets	(3,307)	(2,534)	(13,309)
Accounts payable	2,991	3,375	2,629
Accrued expenses	4,137	5,577	4,739
Deferred revenue and deposits	7,708	14,467	10,451
Net cash provided by (used in) operating activities	7,418	9,888	(21,116)
Cash flows from investing activities:			
Purchase of property and equipment	(3,443)	(13,561)	(17,670)
Acquisitions of businesses, net of cash acquired	-	-	(25,176)
Investment in equity securities	-	(3,000)	-
Purchase of short-term cash investment	-	-	(3,000)
Other, net	83	(209)	(179)
Net cash used in investing activities	(3,360)	(16,770)	(46,025)
Cash flows from financing activities:			
Proceeds from notes payable and capital lease obligations	84,841	9,648	12,363
Reduction of notes payable and capital lease obligations	(90,131)	(22,967)	(252)
Proceeds from initial public offering	-	90,516	-
Issuance of common stock for cash	1,596	3,122	1,842
Repurchase of common stock	(717)	(3,340)	(944)
Receivable from stockholders	(46)	(200)	343
Net cash provided by (used in) financing activities	(4,457)	76,779	13,352
Effect of exchange rates on cash and equivalents	(763)	(116)	(215)
Net increase (decrease) in cash and equivalents	(1,162)	69,781	(54,004)
Cash and equivalents at beginning of period	1,463	301	70,082
Cash and equivalents at end of period	$ 301	$ 70,082	$ 16,078
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$ 1,553	$ 892	$ 335
Income taxes	$ 707	$ 1,179	$ 4,390

Supplemental disclosure of non-cash investing and financing activities:

During the fiscal years 1997, 1998 and 1999, we acquired property and equipment under capital lease obligations aggregating $97,000, $0 and $604,000, respectively.

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of QAD Inc. and our majority-owned subsidiaries. We also have various branch offices worldwide. All significant intercompany accounts and transactions have been eliminated in consolidation.

Concentrations of Credit Risk

Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising our customer base, and their dispersion across many different industries and geographic locations throughout the world. No single customer accounted for ten percent or more of revenue for fiscal 1997, 1998 or 1999 or of accounts receivable at January 31, 1998 or 1999.

Use of Estimates

The financial statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materially. 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

Our principal source of software license revenue is derived from licensing MFG/PRO software. Revenue from maintenance and other activities is generated from maintenance support services, training and consulting and is billed separately from license revenue. Revenue is recognized in accordance with Statement of Position, or SOP No. 97-2, "Software Revenue Recognition." Revenue from software license agreements, including licenses sold through distributors, is recognized at the time of shipment, net of any applicable distributor discount, provided there are no remaining significant obligations to be fulfilled by us and collectibility is probable. Where distributors have reproduction rights, the distributor recognizes revenue upon notification of shipment. Typically, our software licenses do not include significant vendor obligations. Where license contracts call for payment terms in excess of 12 months from date of shipment, revenue is recognized as payments become due. Maintenance revenue for ongoing customer support and product updates are recognized ratably over the term of the maintenance period, which is generally 12 months. Training and consulting revenue is recognized as the services are performed. Returns and allowances are estimated and provided for in the period of sale.

In 1998, the American Institute of Certified Public Accountants, or AICPA, provided further guidance on recognizing revenue on software transactions by issuing SOP No. 98-9, "Modification of SOP No. 97-2, Software Revenue Recognition, With Respect to Certain Transactions." In fiscal year 2000, software license revenue will be recognized in accordance with SOP No. 97-2, as modified by SOP No. 98-9. We believe the adoption of SOP No. 98-9 will not have a material impact on our financial condition and result of operations.

Computer Software Costs

Consistent with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," issued by the Financial Accounting Standards Board, we capitalize software development costs incurred in connection with the localization and translation of our products once technological feasibility has been achieved. Capitalized 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.

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 applied to the years during which temporary differences are expected to be settled and 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 (Loss) Per Share

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

	Year Ended January 31,		
	1997	1998	1999
Net income (loss)	$ 1,000	$ 9,856	$ (35,921)
Weighted average shares of common stock outstanding used in basic income (loss) per share calculation.	21,931,000	25,701,000	29,356,000
Weighted average shares of common stock equivalents issued using the treasury stock method.	1,083,000	582,000	-
Weighted average shares of common stock and common stock equivalents outstanding used in diluted income (loss) per share calculation. . . .	23,014,000	26,283,000	29,356,000
Basic net income (loss) per share	$ 0.05	$ 0.38	$ (1.22)
Diluted net income (loss) per share	$ 0.04	$ 0.38	$ (1.22)

Common stock equivalent shares consist of the shares issuable upon the exercise of stock options using the treasury stock method. There were no anti-dilutive common stock equivalent shares in fiscal year 1997 and 1998. Shares of common stock equivalents of approximately 1,172,000 for the fiscal year 1999 were not included in the diluted calculation because they were anti-dilutive. Due to the net loss for the fiscal year 1999, 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 U.S. dollar as the functional currency. Gains and losses resulting from foreign currency transactions and remeasurement adjustments for those foreign entities whose books of record are

not maintained in the functional currency are included in earnings. Foreign currency transaction and remeasurement (gains) and losses for the fiscal years 1997, 1998 and 1999 totaled $(407,000), $(879,000) and $61,000, respectively.

Fair Value of Financial Instruments

The carrying amounts of cash and equivalents, short-term cash investments, accounts receivable, accounts payable and accrued expenses approximate fair value due to the short-term maturities of these instruments.

The carrying value of our obligations under capital leases and notes payable approximates fair value and was estimated by discounting the future cash flows at rates currently offered to us for similar capital leases and notes payable of comparable maturities by QAD's bankers.

Long-Lived Assets

Property and equipment are stated at cost. Additions, major 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 the related

asset. Asset lives range from three to 39 years. Leasehold improvements are amortized on a straight-line basis over the term of the lease or the life of the related improvements, whichever is shorter.

Included in land and buildings is capitalized interest aggregating $329,000 as of January 31, 1998 and 1999.

Goodwill represents the excess of acquisition costs over the fair value of net assets of purchased businesses and is being amortized on a straight-line basis over periods of 10 to 15 years. Other intangible assets include employment agreements, contracts not to compete, customer contracts and trademarks, which are being amortized over their estimated useful lives of two to five years. Amortization expense for the fiscal years 1997, 1998 and 1999 was $94,000, $82,000 and $1,036,000, respectively.

Long-lived assets and certain identifiable intangibles are reviewed for impairment in value based upon undiscounted future operating cash flows, and appropriate losses are recognized, whenever the carrying amount of an asset may not be recovered.

Accounting for Stock Options

Prior to January 1, 1996, we accounted for our stock option grants in accordance with the provisions of Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, we adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in the year ended December 31, 1995 and future years as if the fair value-based method defined in SFAS No. 123 had been applied. We have elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123 (see Note 12.)

Reclassifications

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

2. Acquisitions

During fiscal 1999, we acquired controlling interest in four businesses:

- Distributor operations and assets of Computer Systems for Business International S.A., a distributor in Poland in September 1998.
- Iris-Ifec Co., Ltd., a Thailand-based distributor and systems integrator in October 1998.
- QAD Sistemas Integrados Casa de Software, S.A. de C.V. and QAD Sistemas Integrados Servicios de Consultoria, S.A. de C.V., ("Sistemas") a Mexico-based distributor in October 1998.
- United Kingdom and Netherlands software distributor operations and assets of TRW Integrated Supply Chain Solutions in November 1998.

The cost of the acquisitions totaled $25.8 million. The acquisitions were accounted for using the purchase method. Goodwill related to the acquisitions of $9.5 million is being amortized over periods of 10 to 15 years. Results of operations of each of the acquisitions have been included in our income statements since their respective dates of acquisition.

Iris-Ifec and Sistemas have earn outs of up to $1.6 million and $2.0 million, respectively, which may be added to the purchase price over the next five years.

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

3. Restructuring Charge

In October 1998, we approved implementing a plan to restructure operations. Pursuant to the Plan, we recorded a restructuring charge of $4.3 million for the fiscal year 1999. This charge included the costs associated with the consolidation of certain facilities ($3.3 million) and an approximate reduction of 230 positions across a broad cross-section of QAD ($1.0 million). As of January 31, 1999, $2.6 million of the $4.3 million was paid and we expect to pay the remaining balance by January 31, 2003.

4. Composition of Certain Financial Statement Captions

	January 31,	
	1998	1999
	(in thousands)	
Accounts receivable, net		
Accounts receivable	$ 81,193	$103,368
Less allowance for doubtful accounts	(5,510)	(8,024)
	$ 75,683	$ 95,344
Other current assets		
Prepaid expenses	$ 3,482	$ 5,896
Deferred income taxes	1,858	3,772
Other	5,102	10,012
	$ 10,442	$ 19,680
Property and equipment, net		
Land and buildings	$ 9,082	$ 8,208
Automobiles	123	138
Computer equipment and software	23,479	36,687
Furniture and office equipment	7,654	12,948
Leasehold improvements	1,868	4,323

Equipment under capital lease	353	1,879
	42,559	64,183
Less accumulated depreciation	(16,842)	(27,348)
	$ 25,717	$ 36,835
Capitalized software development costs, net		
Capitalized software development costs	$ 5,451	$ 12,533
Less accumulated amortization	(3,035)	(3,887)
	$ 2,416	$ 8,646
Other assets, net		
Goodwill	$ 444	$ 9,929
Other intangible assets	-	7,840
Less accumulated amortization	(227)	(1,263)
	217	16,506
Deferred income taxes	2,180	1,073
Other assets	3,769	2,893
	$ 6,166	$ 20,472
Accrued expenses		
Accrued payroll	$ 9,268	$ 12,595
Accrued other	8,842	17,338
	$ 18,110	$ 29,933

5. Comprehensive Income

In June 1997, Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income, or SFAS No. 130, was issued. SFAS No. 130 establishes standards for reporting and displaying of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. We adopted SFAS No. 130 in 1999.

Comprehensive income includes changes in the balances of items that are reported directly in a separate component of stockholders' equity on the Consolidated Balance Sheets. Accumulated other comprehensive loss consists of the following:

	Year Ended January 31,		
	1997	1998	1999
		(in thousands)	
Foreign currency translation adjustments			
Beginning balance	$ 412	$(351)	$(351)
Current year change	(763)	-	(266)
Ending balance	(351)	(351)	(617)
Total accumulated other comprehensive loss	$(351)	$(351)	$(617)

6. Notes Payable

On November 17, 1998, we issued Subordinated Notes totaling $12,362,000. Borrowings under the Subordinated Notes bear interest at a rate per annum equal to 3-month LIBOR plus a margin equal to 3.50 percent. As of January 31, 1999 the rate was 8.47 percent based on LIBOR rate of 4.97 percent plus a margin rate of 3.50 percent. Principal payments on the Subordinated Notes are scheduled for $6,181,000 on November 17, 1999 and $6,181,000 on November 17, 2000.

7. Subsequent Events

Subsequent to January 31, 1999, we entered into a secured credit agreement with The First National Bank of Chicago, which expires on April 18, 2002. The maximum amount that can be borrowed under this credit agreement is subject to

terms of the borrowing base, up to a maximum of $30 million. This credit agreement can be terminated voluntarily by QAD. This credit agreement is secured by certain QAD assets. Borrowings under this credit agreement bear interest equal to the LIBOR rate plus 2.25 percent or ABR. ABR is the higher of the corporate base rate or the Federal Funds Effective Rate plus 0.50 percent. We pay an annual commitment fee of 0.50 percent calculated on the average unused portion of the $30 million credit line.

Subsequent to January 31, 1999, the Subordinated Notes (See Note 6) totaling $12,362,000 in Principal Amount were paid. We funded the payment of the Subordinated Notes with a draw on The First National Bank of Chicago line of credit.

8. Income Taxes

Components of income tax expense (benefit) are as follows (in thousands):

	Year Ended January 31,		
	1997	1998	1999
Current:			
Federal	$ 881	$1,675	$ 3,080
State	(63)	197	(775)
Foreign	227	2,421	(361)
Total	1,045	4,293	1,944
Deferred:			
Federal	(94)	2,449	(1,914)
State	(10)	(573)	881
Foreign	(218)	990	227
Total	(322)	2,866	(806)
	$ 723	$7,159	$ 1,138

Actual income tax expense (benefit) differs from that obtained by applying the statutory Federal income tax rate of 34 percent (35 percent in fiscal 1998) to income (loss) before income taxes as follows (in thousands):

	Year Ended January 31,		
	1997	1998	1999
Statutory Federal income tax rate	34%	35%	34%
Computed expected tax expense (benefit)	$ 586	$ 5,968	$(11,827)
State income taxes, net of Federal income tax benefit	103	815	(806)
Incremental tax expense from foreign operations	117	203	415
Net change in valuation allowance	918	(267)	13,401
Meals and entertainment	286	325	407
Foreign sales corporation	(539)	-	
Research, AMT and foreign tax credits	(1,082)	(1,135)	(408)
Foreign dividends	-	541	-
Reduction of research and development credits and foreign tax credits previously recorded	350	600	-
Other	(16)	109	(44)
	$ 723	$ 7,159	$ 1,138

Withholding and U.S. taxes have not been provided on approximately $6.8 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,	
	1998	1999
Deferred tax assets:		
Allowance for bad debts	$ 1,999	$ 2,231
Accrued vacation	751	661
Accrued commission	267	369
Alternative minimum tax	98	91
Research and development credits	1,149	1,232
Foreign tax credits	320	1,594
Stock awards/discounts	266	-
Depreciation and amortization	-	269
Net operating loss carry forwards	2,417	14,937
Other	213	2,292
	7,480	23,676
Less valuation allowance	(1,814)	(15,215)
Net deferred tax assets	5,666	8,461
Deferred tax liabilities:		
Capitalized translation and research and development costs	1,056	2,142
State income taxes	(68)	87
Other	195	983
Mark to market	807	404
Depreciation and amortization	(362)	-
	1,628	3,616
Total net deferred tax asset	$4,038	$4,845

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 $44.1 million as of January 31, 1999.

At January 31, 1998 and 1999, the valuation allowance attributable to deferred tax assets was $1,814,000 and $15,215,000, respectively, an overall increase of $13,401,000. The increase in the valuation allowance relates primarily to benefits associated with net operations losses and tax credit carryforwards.

9. 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 percent 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 the fiscal years 1997, 1998 and 1999 were $422,000, $371,000 and, $1,430,000, respectively.

10. Commitments and Contingencies

We lease office facilities under operating lease agreements expiring through 2004. The future minimum lease payments under non-cancelable operating leases and present value of future minimum capital lease payments are as follows (in thousands):

	Operating Leases	Capital Leases
Year ending January 31,:		
2000	$ 4,991	$ 765
2001	3,447	303
2002	2,241	130
2003	1,227	-
2004	466	-
Total minimum lease payments	$12,372	$1,198
Less amount representing interest at rates ranging from 8.2% to 17.0%		(111)
Present value of minimum lease payments		$1,087

Total rent expense for the fiscal years 1997, 1998 and 1999 aggregated $5,929,000, $6,509,000 and $7,702,000, respectively.

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.

11. Segment Information and International Operations

We adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" or SFAS No. 131 for fiscal year 1999. SFAS No. 131 establishes annual and interim standards for reporting information regarding operating segments, as well as related disclosures about products, services and geographic areas. As a result, amounts presented are determined on a consistent basis in accordance with SFAS No. 131.

We operate in regions or geographic operating segments. Operations for the Europe region include sales to customers in the Middle East and Africa. Operations for the Asia Pacific region include sales to customers in Australia and New Zealand. Management-based cost allocations have been utilized for purposes of determining regional operating income (loss).

	Year Ended January 31,		
	1997	1998	1999
Revenue:			
North America	$ 76,296	$105,886	$103,708
Europe	32,725	42,918	57,511
Asia/Pacific	15,409	18,168	26,534
Other	2,014	3,798	5,591
	$126,444	$170,770	$193,344
Operating income (loss):			
North America	$ 13,646	$ 24,569	$ (8,539)
Europe	(3,076)	1,190	(7,591)
Asia/Pacific	(7,742)	(10,484)	(10,800)
Other	(108)	(580)	(3,562)
Restructuring charge	-	-	(4,314)
	$ 2,720	$ 14,695	$(34,806)
Depreciation and Amortization:			
North America	$ 4,044	$ 5,446	$ 7,892
Europe	647	560	1,885
Asia/Pacific	642	829	867

Other	12	86	411
	$ 5,345	$ 6,921	$ 11,055

	January 31,	
	1998	1999
Identifiable assets:		
North America	$149,319	$ 87,128
Europe	25,998	83,850
Asia/Pacific	9,056	17,811
Other	6,133	11,266
	$190,506	$200,055

12. Employee Stock Option, Purchase Plans and Restricted Stock Awards

Employee Stock Option Agreements

We have stock option agreements with certain key employees. As of January 31, 1998 and 1999, options to purchase 2,724,000 and 3,676,000 shares of common stock had been granted and were outstanding. Outstanding options generally vest over a four-year period and have contractual lives of eight years. Stock option activity is summarized as follows:

	Shares	Weighted Average Exercise Price	Options Exercisable
Outstanding options at January 31, 1996	1,326,000	$ 0.31	1,240,000
Options exercised	(105,000)	0.40	
Options expired and terminated	(100,000)	1.61	
Outstanding options at January 31, 1997	1,121,000	0.18	1,121,000
Options issued	2,040,000	13.61	
Options exercised	(299,000)	0.21	
Options expired and terminated	(138,000)	11.01	

Outstanding options at January 31, 1998	2,724,000	9.68	822,000
Options issued	1,917,000	5.62	
Options exercised	(282,000)	0.16	
Options expired and terminated	(683,000)	10.74	
Outstanding options at January 31, 1999	3,676,000	$ 5.45	642,000

In August 1998, our board agreed that in order to provide incentives to our employees, repricing of outstanding options was needed to align the option exercise price more closely with the fair market value of the underlying common stock as determined by the marketplace. Therefore, we implemented a program under which option holders under the 1997 Stock Incentive Program could exchange higher priced option shares for the same number of lower priced shares. The new options were issued on August 14, 1998 at $5.1875 per share. The repricing excluded our officers and directors and prohibits employees from exercising these options for the next twelve months. Certain QAD officers and directors were issued additional grants under the same plan.

The weighted average remaining contractual life of stock options outstanding as of January 31, 1999 was as follows:

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Options Exercisable: Number Exercisable	Options Exercisable: Weighted Average Exercise Price
$ 0.12 - $ 0.39	540,000	1.42	$ 0.18	540,000	$ 0.18
$ 3.00 - $ 5.00	1,148,000	7.81	4.12	-	-
$ 5.00 - $10.00	1,509,000	6.90	5.24	-	-
$10.00 - $15.75	479,000	6.96	14.35	102,000	14.34
Total	3,676,000	6.50	$ 5.45	642,000	$ 2.43

We apply APB Opinion No. 25 in accounting for QAD's option plans and, accordingly, no compensation cost was recognized as the exercise price of the stock options equaled the fair value at the grant date. The pro forma impact of applying SFAS No. 123 is not presented for the fiscal year 1997 as SFAS No. 123 is applicable only to options granted during the year ended December 31, 1995 and later, and all options outstanding as of January 31, 1997 were granted prior to 1995. The fair value of the options at date of grant was estimated using the Black-Scholes model with the following assumptions:

	January 31, 1998	January 31, 1999
Expected Life (years).....	6.00	6.50
Interest Rate.....	5.95%	5.50%
Volatility.....	0.41	0.75
Dividend Yield.....	$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 for options granted, our net income (loss) for the fiscal years 1998, and 1999 would have decreased as follows:

1998	As Reported	Pro Forma
Net income.....	$9,856	$8,201
Basic earnings per share.....	$ 0.38	$ 0.32
Diluted earnings per share.....	$ 0.38	$ 0.31

1999	As Reported	Pro Forma
Net loss.....	$(35,921)	$(42,756)
Basic loss per share.....	$ (1.22)	$ (1.46)
Diluted loss per share.....	$ (1.22)	$ (1.46)

These pro forma effects are not indicative of future amounts. We expect to grant additional options in future years.

1994 Stock Ownership Program

We established the QAD Inc. 1994 Stock Ownership Program (the "Plan") covering 4,800,000 shares of our common stock. Subject to certain limitations, the Plan allows eligible employees to purchase shares of common stock at the fair market value of the common stock by direct cash payment or at 95 percent of

the fair market value through payroll deduction. We have the right, but not the obligation, to repurchase shares at fair value upon the termination of employment. During the fiscal years 1997 and 1998, 793,438 and 215,160 shares, respectively, were issued under the Plan at average prices of $1.78 and $9.42, respectively. No shares were issued under the Plan during the fiscal year 1999.

During the fiscal year 1998, 20,400 restricted shares of our common stock were granted to certain employees. The fair market value of shares awarded was $194,000. These amounts were recorded as unearned compensation-restricted stock, shown as a separate component of stockholders' equity. Unearned compensation is being amortized to expense over the periods in which the restrictions lapse, generally one to three years from date of award. Such expenses amounted to $1,263,000 for the fiscal year 1998, $600,000 of which is included in accrued expense and $663,000 of which has been recorded as a reduction in unearned compensation-restricted stock as the restricted shares are issued to employees.

During the fiscal years 1997 and 1998, we granted 108,062, and 50,060 unrestricted shares, respectively, to certain employees having a fair value of $256,000 and $431,000 at date of grant, respectively. Compensation expense has been recognized in each respective period for the fair value of such stock grants.

1997 Stock Incentive Program

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

The first part is the Incentive Stock Option Plan under which incentive stock options may be granted. The second part is the Non-Qualified Stock Option Plan under which nonqualified stock options may be granted. The third part is the Restricted Share Plan under which restricted shares of common stock may be granted. During fiscal year 1999, we issued 20,000 restricted shares under the Plan. The fourth part is the Employee Stock Purchase Plan. The Plan allows participating employees to purchase shares of common stock through payroll deductions at 85 percent of the lower of the beginning or the ending calendar quarter share price. We have issued options under the Plan as follows:

3 Months Ended	Options Issued	Price
December 31, 1997	36,000	$10.73
March 31, 1998	40,000	11.05
June 30, 1998	51,000	7.65
September 30, 1998	129,000	3.29
December 31, 1998	152,000	$ 3.03

The fifth part is the 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. The sixth part is the Stock Appreciation Rights Plan under which SARs (as defined in the plan) may be granted. The seventh part is the 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 Program is 4,000,000 shares. The Program will be valid for 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 was as follows:

	January 31,		
	1997	1998	1999
Under performance awards	$ 256,000	$ 431,000	$ -
Under restricted stock grants	788,000	930,000	471,000
Under optioned shares repurchased immediately upon exercise	648,000	-	-
TOTAL	$1,692,000	$1,361,000	$471,000

Receivable from Stockholders

In connection with the 1994 Stock Ownership Program, we have guaranteed indebtedness incurred by certain stockholders to purchase shares with cash deposited with a lending institution. These amounts are classified as "Receivable from Stockholders" in the accompanying balance sheets.

13. Quarterly information (unaudited)

	Quarter Ended			
	April 30	July 31	Oct. 31	Jan. 31
1998	(in thousands, except per share data)			
Total revenue	$32,073	$41,661	$ 44,021	$53,015
Operating income	317	2,706	2,502	9,170

Net income	560	1,665	1,385	6,246
Basic net income per share	0.03	0.07	0.05	0.21
Diluted net income per share	$ 0.02	$ 0.07	$ 0.05	$ 0.21
1999				
Total revenue	$44,270	$47,279	$ 36,435	$65,360
Operating (loss)	(5,057)	(7,627)	(20,362)	(1,760)
Net (loss)	(2,287)	(4,431)	(24,340)	(4,863)
Basic net (loss) per share	(0.08)	(0.15)	(0.83)	(0.16)
Diluted net (loss) per share	$ (0.08)	$ (0.15)	$ (0.83)	$ (0.16)

An allocation of accrued expenses of $1.5 million has been recorded into the second quarter ended July 31, 1997. This adjustment related primarily to reallocation of accruals between the fourth quarter and the second quarter and resulted in an increase in net income of $924,000, or 4 cents per share, in the previously reported second quarter.

Schedule II

SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charged to Costs and Expenses	(1) Deletions	Adjustments	Balance at End of Period
Allowance for doubtful accounts and sales returns					
Years ended:					
January 31, 1997....	$2,280	$3,432	$(1,983)	$(35)	$3,694
January 31, 1998....	3,694	4,370	(2,554)	-	5,510
January 31, 1999....	$5,510	$3,627	$(1,083)	$(30)	$8,024

(1) Actual write-offs and product returns.

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 28, 1999.

QAD Inc.

By: /s/ KARL F. LOPKER

Karl F. Lopker
Chief Executive 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 28, 1999
/s/ KARL F. LOPKER Karl F. Lopker	Director, Chief Executive Officer	April 28, 1999
/s/ A. J. MOYER A. J. Moyer	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	April 28, 1999
/s/ CHERYL M. SLOMANN Cheryl M. Slomann	Vice President, Corporate Controller, Chief Accounting Officer (Principal Accounting Officer)	April 28, 1999
/s/ KOH BOON HWEE Koh Boon Hwee	Director	April 28, 1999
/s/ PETER R. VAN CUYLENBURG Peter R. van Cuylenburg	Director	April 28, 1999
/s/ EVAN M. BISHOP Evan M. Bishop	Director, Vice President Technology	April 28, 1999

Exhibit 10.43

VALUE ADDED RESELLER AGREEMENT

This Agreement is made as of the 13th day of April, 1998 (the "Effective Date") by and between QAD Inc., 6450 Via Real, Carpinteria, CA 93013 ("QAD") and Paragon Management Systems, Inc., 5933 West Century Blvd., 12th Floor, Los Angeles, CA 90045 ("Paragon").

Paragon Management Systems and QAD Inc. agree as follows:

Article 1 Rights and Obligations

1.1 Paragon hereby grants to QAD, and QAD hereby accepts from Paragon, a non-exclusive, world-wide, transferable right to copy (when sublicensed to distributors), modify, market, use, license, sublicense and distribute Paragon Applications software as a QAD product to Licensee's of QAD MFG/PRO Software and On/Q Software.

1.2 Paragon shall provide QAD copies of the latest Paragon Applications software and all future releases, updates and enhancements of Paragon Applications software throughout the term of this Agreement and for a period of one (1) year after termination of this Agreement. New releases of Paragon Applications shall be provided to QAD at each stage of development including, but not limited to alpha, beta and general release.

1.3 Paragon shall create/maintain an Application Program Interface ("API") between Paragon Applications and QAD MFG/PRO Software and On/Q Software required for integration of Paragon Applications to MFG/PRO Software and On/Q Software. New versions of Paragon's API shall be concurrent with new releases of MFG/PRO Software and On/Q Software.

1.4 The API between Paragon Applications and MFG/PRO Software and On/Q Software consists of Paragon owned ERP API and QAD owned MFG/PRO Software and On/Q Software specific interface program ("Specific Interface Program"). QAD shall own the Specific Interface Program.

1.5 During the term of this Agreement, Paragon shall provide QAD ninety (90) days advance written notice before entering into a business arrangement to license Paragon Applications to a QAD competitor, including, but not limited to SAP, Baan, SSA or JD Edwards. QAD shall provide ninety (90) days advance written notice before entering into an agreement to provide a competitive application of Paragon Applications including, but not limited to, i2, Manugistics, Red Pepper, etc..

1.6 QAD and Paragon agree to enter into a mutually acceptable contract modification or a separate agreement to cover development of the API between Paragon Applications and MFG/PRO Software and On/Q Software. QAD and Paragon shall endeavor to complete negotiation of this modification/separate agreement within forty-five (45) days of the date of execution of this Agreement. The terms of such agreement shall, include, but not be limited to technical details of the interface, development milestones, ownership, warranties,

indemnities, support, quality, etc. In the event the parties are unable to reach agreement on this modification/separate agreement either party may terminate this Agreement without further liability.

Article 2 Prices, Discounts and Payment Terms

2.1 QAD shall pay Paragon a royalty calculated as a percentage of the net sales price received by QAD for Paragon Applications licensed by QAD and/or its distributors and partners. The royalty percentages are listed in the Royalty Schedule attached hereto as Schedule 1. QAD shall have the right to discount the Paragon list price up to twenty-five percent (25%). Discounts in excess of twenty five percent (25%) shall be mutually agreed upon by the parties.

2.2 QAD shall pay Paragon, a one time payment of $500,000 consisting of the following: (1) $250,000 to compensate Paragon for the integration of Paragon's Applications to the MFG/PRO Software and the On/Q Software; and (2) $250,000 shall be an initial prepaid royalty payment. The effective schedule of the payments are listed below:

a. $250,000 upon QAD receipt and acceptance of Paragon Applications and support materials with all references to Paragon and Paragon Applications changed to QAD and On/Q Planning and Optimization. These changes will include but are not limited to all references found in menus, help, documentation, training materials, marketing materials, etc. and shall be made within thirty (30) days of execution of this Agreement. All future releases to QAD shall follow this format.
b. $150,000 upon QAD receipt and acceptance of the API within ninety (90) days of execution of this Agreement.
c. $25,000 upon QAD receipt and acceptance of Paragon's eighteen (18) month road map for Paragon's Demand Planning application products, including Paragon's internal development as well as all products which Paragon may sublicense from third parties This milestone shall be completed within ninety (90) days of execution of this Agreement.
d. $75,000 upon QAD receipt and acceptance of Paragon's development plan* detailing QAD's additional functionality requirements for Paragon Applications software for the following QAD verticals:
    1. CPG/Food and beverage
    2. Automotive
    3. Electronic/Industrial
    4. Medical

    QAD and Paragon shall jointly define the specific vertical market requirements within ninety (90) days following execution of this Agreement.

    *This plan shall be submitted to QAD not later than one hundred and eighty (180) days following execution of this Agreement.

2.3 Paragon Applications pricing for MFG/PRO Software and On/Q Software shall be consistent with the level of pricing established for Paragon Applications as set by Paragon; however, such pricing shall be consistent with QAD product pricing guidelines.

2.4 QAD and Paragon shall review prices on an annual basis. Prices shall not change more than one (1) time per year unless approved in writing by QAD and

Paragon. Any change to the price for Paragon Applications shall not affect outstanding offers by QAD or QAD distributors and partners which result in an order within one hundred-twenty (120) days of the date of the original offer.

2.5 Payments to Paragon shall be made quarterly and shall be net thirty (30) days from the date following the quarter end and such payments shall be for licenses granted in the previous quarter.

Article 3 Sales, Marketing and Order Administration

3.1 Demonstration and evaluation licenses shall be available to QAD on an as

required basis at no cost to QAD, QAD distributors or partners and to prospective licensees of MFG/PRO Software or On/Q Software ("End Users"). For the purpose of this section a demonstration license shall be a standard license which may be limited in application or use; and an evaluation license shall be a standard license which has the same functionality as a regular copy of the software.

3.2 QAD may offer Paragon Applications to any End User or site to which QAD, a QAD distributor or partner has licensed MFG/PRO Software or On/Q Software. Paragon may license Paragon Applications into any site that is not a QAD MFG/PRO Software and/or On/Q Software site. On an annual basis, QAD and Paragon shall review the activity in QAD MFG/PRO and On/Q sites surrounding Paragon Applications. If QAD does not meet the mutually agreed upon revenue plan, Paragon shall have access into QAD MFG/PRO and On/Q sites.

3.3 Sites not currently using MFG/PRO Software or On/Q Software may be offered Paragon Applications if such site has expressed a desire to purchase either MFG/PRO Software or On/Q Software. Such sites must intend to purchase MFG/PRO Software or On/Q Software within one (1) year of receipt of QAD's offer to purchase such software in conjunction with Paragon Applications.

3.4 Paragon reserves the right to license Paragon Applications to any site not intending to license MFG/PRO Software or On/Q Software at the time of first contact by Paragon.

3.5 Generally, QAD shall not utilize Paragon personnel in its selling cycle except in conjunction with the licensing of Paragon.. In the event Paragon personnel, in addition to those assigned in section 4.1, are needed in the selling cycle QAD shall pay reasonable time and expenses subject to approval by QAD's Director of Sales or his or her designee.

3.6 On a quarterly basis, QAD shall report the number of Paragon Applications licenses issued and detail the funnel for global sales activity related to Paragon Applications, including the company name, location and projected revenue. The funnel information shall be used by Paragon for planning purposes only.

3.7 Annually, QAD shall update the revenue plan for Paragon Applications based on QAD's current revenue projections through the end of the then current contract term. The revenue plan shall be determined by good faith negotiation of both parties at the beginning of each calendar year.

3.8 All license agreements with End Users shall be based upon QAD standard software license terms and conditions. Paragon shall have an opportunity to review QAD's form of license agreement and any changes made thereto by QAD during the term of this Agreement.

3.9 Any public announcements, media releases, or public disclosure for general distribution (including, but not limited to, promotional or marketing material) by either party, or by their employees or agents, relating to this Agreement or its subject matter shall be coordinated with and approved in writing by the other party prior to its release.

3.10 Paragon shall in electronic format make available to QAD, and QAD distributors and partners, advertising literature relating to Paragon Applications which Paragon has prepared or may in the future prepare, and marketing materials to be used by QAD in performing its rights under this Agreement. QAD shall have the right to determine the use of such literature as it deems appropriate. QAD may employ any marketing collateral provided by Paragon, and any portion thereof, in its marketing activity or material QAD chooses to develop, including any translation or modification of the Paragon marketing material.

Article 4 Training and Support

4.1 During the first full year of this Agreement, Paragon shall dedicate one (1) full time pre-sales support person to QAD to provide sales training to QAD personnel.

4.2 During the term of this Agreement, Paragon shall dedicate the following personnel resources to support of QAD's licensing Paragon Applications: an Alliance Product Manager, Response Center Consultants and R&D Interface Programmers. QAD shall designate an Alliance Product Manager and shall provide sufficient resource to facilitate its obligations under this Agreement.

4.3 Paragon shall offer training for the Paragon Applications in the form of one (1) "Train the Trainer" session for QAD personnel at a QAD location, at a reasonable time as QAD may elect. QAD shall bear its own out of pocket expenses for travel, meals and lodging in attending such training session. Within thirty (30) days of each major release of Paragon Applications, Paragon shall offer to provide one (1) free training session to "Train the Trainer" for QAD personnel or its designated partner. Pricing for additional training sessions shall be eighty per cent (80%) of Paragon list training price and may include QAD personnel, QAD distributors, partners and End Users.

4.4 QAD shall provide worldwide support to all QAD customers utilizing MFG/PRO Software or On/Q Software in conjunction with Paragon Applications. QAD shall provide level 1 and level 2 support; however, during the first twelve (12) months of this Agreement, Paragon and QAD shall create a support plan utilizing QAD and Paragon support personnel. Following sufficient training from Paragon and the initial twelve (12) month term of this Agreement, QAD shall support Paragon Applications for level 1 and level 2 and Paragon shall be responsible for level 3 support.

a. Level 1 support: receive and log support calls from partners and End Users.

b. Level 2 support: research the reported problem and provide an appropriate remedy for such problem if QAD is able to determine one.

c. Level 3 support: research problems with Paragon Applications which QAD is unable to remedy and provide an appropriate remedy to all reported errors in the Paragon Applications. Paragon shall have the following goals:

Severity 1: Within 24 hours, notify QAD of receipt of the error report, identify the nature of the problem and provide a commitment date by which the issue shall be remedied.
Severity 2: Within one (1) week, notify QAD of receipt of the error report, identify the nature of the problem and provide a commitment date by which the issue shall be remedied.
Severity 3: Within two (2) weeks, notify QAD of receipt of the error report, identify the nature of the problem and provide a commitment date by which the issue shall be remedied.

Article 5 Term and Termination

5.1 This Agreement shall remain in force for four (4) years from the effective date unless terminated by either party in accordance with this Section 5. The parties shall have the option to extend the term of this Agreement at the end of the this four (4) year period for an additional two (2) years upon mutual agreement of both parties by providing written notice of such intention at least ninety (90) days prior to the expiration of the initial four (4) year term.

5.2 Either party may terminate this Agreement upon thirty (30) days notice in writing to the other party if the other party has breached a material provision of this Agreement. The party breaching a material provision of

this Agreement shall have thirty (30) days to cure the breach, in which case the notifying party shall withdraw its notice of termination. In the event that the breach is not capable of being remedied within the thirty (30) day period to cure, the party in breach shall receive a reasonable extension of the cure period, not to exceed thirty (30) days.

5.3 A party may terminate this Agreement immediately by written notice to the other party if the other party enters into liquidation, whether voluntary or compulsory, or enters into a settlement with its creditors or applies for suspension of payment or admits its inability to pay its debts when due or is declared bankrupt or takes or suffers any similar action in consequence of debt.

5.4 Either party may terminate the Agreement immediately by notice in writing in the event the other party sells or disposes of substantially all its assets or in the event that the control, management or ownership of the other party's business passes into other hands other than those now exercising or entitled to the same, either voluntarily or by law.

5.5 In the event of a pending acquisition of Paragon or investment into Paragon of more than twenty percent (20%) of Paragon's market value, Paragon shall

immediately notify QAD. Paragon agrees to notify QAD of Paragon's intention to be acquired by a competitor of QAD ninety (90) days prior to such acquisition. QAD agrees to notify Paragon of QAD's intention to be acquired by a competitor of Paragon ninety (90) days prior to such acquisition. In the event QAD is purchased by a direct competitor of Paragon, Paragon may terminate this Agreement upon written notice to QAD.

5.6 Should controlling interest in Paragon be acquired by a third party during the term of this Agreement, QAD shall have the right to continue to license Paragon Applications and receive all new release of Paragon Applications for a period of one (1) year following termination of this Agreement.

Article 6 Warranties, Indemnities and Limitation of Liability

6.1 Paragon shall defend, indemnify and hold harmless QAD against all costs (including reasonable attorneys fees arising from a claim that Paragon Applications furnished and used within the scope of this Agreement infringe a copyright or patent, trade secret, or other intellectual property right, provided that: (i) QAD notifies Paragon in writing within thirty (30) days of the claim; (ii) Paragon has control of the defense and all related settlement negotiations; and (iii) QAD provides Paragon with the assistance, information, and authority necessary to perform the above. Reasonable out-of-pocked expenses incurred by QAD in providing such assistance shall be reimbursed by Paragon.

a. Paragon shall have no liability for any claim of infringement based on: (i) use of a superseded or altered release of Paragon Applications if such infringement would have been avoided by the use of a current unaltered release of Paragon Applications that Paragon provides to QAD; or (ii) the combination, operation, or use of Paragon Applications furnished under this Agreement with programs or data not furnished by Paragon if such infringement would have been avoided by the use of Paragon Applications without such programs or data.

b. In the event Paragon Applications is held or are believed by Paragon to infringe, Paragon shall have the option, at its expense, to: (i) modify Paragon Applications to be noninfringing; (ii) obtain for QAD a license to continue using Paragon Applications; or (iii) substitute Paragon Applications with other software reasonably suitable to QAD.

6.2 QAD warrants that, to the knowledge of QAD, it has the right to grant all the rights to Paragon as specified in the Agreement. In no event shall QAD be liable for any loss, damage or expense whatsoever including, without

limitation, time, money or goodwill arising from, or in connection with, the use or inability to use the MFG/PRO Software or On/Q Software.

6.3 THE ABOVE WARRANTY IS THE ONLY WARRANTY MADE BY QAD CONCERNING THE OBLIGATIONS OF QAD UNDER THIS AGREEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NO OTHER WARRANTY IS MADE HEREUNDER BY QAD AND ALL OTHER CONDITIONS, WARRANTIES, AND REPRESENTATIONS, EITHER EXPRESS OR IMPLIED, ARE EXCLUDED, INCLUDING, BUT NOT LIMITED TO, CONDITIONS OR WARRRANTIES RELATING TO THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

6.4 Paragon warrants that Paragon Applications will be free of material defects and will perform the functions described in the associated documentation when operated on the specified platform for a period of one (1) year from the date of shipment of Paragon Applications to an End User.

6.5 Paragon warrants all media delivered to QAD to be free of defects in materials and workmanship under normal use for ninety (90) days from the receipt. Paragon warrants that its technical support, consulting, training and other services will be of a professional quality confirming to generally accepted industry standards and practices. This warranty shall be valid for ninety (90) days from completion of service. For any breach of the above warranty, Paragon shall: (i) repeat the service; or (ii) if Paragon is unable to perform the services as warranted, QAD shall recover reasonable direct costs incurred associated with such deficient services.

6.6 THE WARRANTIES ABOVE ARE EXCLUSIVE AND IN LIEU OF ALL OTHER WARRANTIES, WHETHER EXPRESS OR IMPLIED, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

6.7 IN NO EVENT SHALL EITHER PARTY BE LIABLE FOR LOSS OF PROFITS, REVENUE OR PRODUCT USE, OR LOSS OR INACCURACY OF DATA, AND IN NO EVENT, SHALL EITHER PARTY BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, OR CONSEQUENTIAL DAMAGES INCURRED BY EITHER PARTY OR ANY THIRD PARTY, EVEN IF THE OTHER PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

Article 7 Confidentiality

7.1 It is recognized that each party under this Agreement, as well as the End Users, may make available to the other party confidential information. Confidential information may include in any form, but is not limited to, processes, formulae, specifications, programs, instructions, source code for operating system-dependent routines, technical know-how, methods and procedures of operation, benchmark test results, business or technical plans and proposals.

It is agreed that confidential information received by a party under this Agreement shall:

a. be kept confidential by the receiving party;
b. be treated by the receiving party in the same way as it treats confidential information generated by itself;
c. not be used by the receiving party otherwise than in connection with the implementation of this Agreement; and
d. be divulged to the receiving party's personnel, or End User's personnel, only if they have need to know and have undertaken to keep confidential information secret.

Each party agrees to use all reasonable steps to ensure that confidential information received under this Agreement is not disclosed by its employees or agents in violation of this Article.

7.2 The commitments pursuant to provision 7.1 shall continue during the term of this Agreement and survive the termination of this Agreement for five (5) years.

These commitments shall cease if, but only to the extent that, confidential information:

a. Is or becomes generally known or available to the public at large through no act or omission of the receiving party; or

b. Can be demonstrated to be available lawfully to the receiving party prior to the disclosure or has thereafter been furnished to the receiving party without restrictions as to disclosure or use; or

c. Can be demonstrated to be independently developed by the receiving party without use of any confidential information received under this Agreement.

Each party may disclose confidential information to any of its associated companies on condition that such associated companies shall be bound by the same commitments undertaken under this Article 7.

7.3 QAD considers MFG/PRO Software and On/Q Software and the API to such software to be a trade secret. QAD does not disclose such information to QAD competitors or potential competitors. Paragon shall not use design, code or documentation gained by access to the MFG/PRO Software or On/Q Software for purposes other than those contemplated under this Agreement and without the prior written consent of QAD.

7.4 Paragon considers Paragon Applications and the API to such software to be a trade secret. Paragon does not disclose such information to Paragon competitors or potential competitors. QAD shall not use design, code or documentation gained by access to the Paragon Applications for purposes other than those contemplated under this Agreement and without the prior written consent of Paragon.

Article 8 General Provisions

8.1 Law. This Agreement shall be construed, interpreted, and applied in accordance with the laws of the State of California, USA, without regard to that body of law known as conflict of laws and without reference to the 1980 United Nations Convention on Contracts for the Sale of Goods and any amendments thereto. Any dispute arising between the parties shall be settled by arbitration under the rules of the American Arbitration Association in the city of Los Angeles, CA before a single arbitrator selected under those rules.

8.2 Force Majeure. A party shall be excused for failures and delays in performance of its obligations under this Agreement caused by war, riots, or insurrections, laws and regulations, strikes, floods, fires, explosions or other catastrophes beyond the control of such party but excluding the financial well being of that party. Such party shall use commercially reasonable efforts to avoid or remove such cause and such party shall continue performance hereunder promptly whenever such causes are removed. The party claiming force majeure shall give prompt written notice thereof to the other party. This Paragraph shall not apply to any obligation to pay money.

8.3 Taxes. All payments under this Agreement (the" Payments") are exclusive of all federal, state, provincial and local sales, use excise, import or export, value added and similar taxes or duties (the "Taxes"). Each party required to make any Payment agrees to pay any Taxes incurred with respect to such

payment. Each party is responsible for payment of any net income taxes due on its own income resulting from Payments.

8.4 Assignment. The Agreement may not be assigned by Paragon without the prior written consent of QAD.

8.5 Enforcement. The failure of either party to enforce any provision of the Agreement shall not be construed to be a waiver of such provision or such party's right to thereafter enforce the same, and no waiver of any breach shall be construed as an agreement by such party to waive any subsequent breach of the same or other provisions.

8.6 Source Code Escrow. Paragon shall deposit a copy of the latest version of the source code for Paragon Applications and the Paragon Applications API (including modifications thereto and new releases thereof) and all documentation required for the maintenance and modification of the source codes with an escrow agent agreed upon by Paragon and QAD.

8.7 Survival. The provisions of Article 6 entitled "Warranties, Indemnities and Limitation of Liability", Article 7 entitled "Confidentiality" and Article 8 entitled "General Provisions" shall survive the expiration or termination of this Agreement, as well as the termination or expiration of any license granted under this Agreement.

8.8 Entire Agreement. This Agreement, including any schedules attached hereto, contain the entire agreement between the parties hereto with respect to the subject matter hereof and shall supersede any and all prior communications, representations, agreements, and/or undertakings, wither verbal or written, between the parties hereto in respect to the said subject matter. Any amendment or other modification of any of the terms and provisions hereof must be in writing and signed by duly authorized representatives of the parties hereto

The undersigned hereby agree that by causing their duly authorized representatives to sign this document, they become parties to said Agreement and agree to be bound by all terms, conditions and obligations contained therein effective as of the 13th day of April, 1998.

QAD Inc	Paragon Management Systems, Inc.
- ----------	----------
Signature	Signature
- ----------	----------
Name	Name
- ----------	----------
Title	Title
- ----------	----------
Date	Date

Schedule 1

Royalty Schedule

Royalty Payment Allocation by Percentage of Net Sales Paid to QAD

Percentage of Net Price Received by QAD	Percentage of List Price Maintenance
45% year 1	(50% of QAD maintenance)
35% year 2 & beyond	(50% of QAD maintenance)

EXHIBIT 10.44

GOODASTON LIMITED

and

LARGOTIM LIMITED

and

LARGOTIM HOLDINGS LIMITED

OCCUPATION LEASE

Of

Unit 1 Phase 8 Business Park
The Waterfront Merry Hill
West Midlands

Term Commences: 19

For Years: 15

Expires: 20

LINKLATE" & PAINES
Barrington Howse
59-67 Gresham Street
London EC2V 7JA

Tel: 0 171-506 7080

Ref: RLAH

This Underlease made the day of One thousand nine hundred and ninety-six
Between:

(1) Goodaston Limited (Company Number 1693635) whose registered office is at 12 St James's Square London SW1 Y 4.13 (hereinafter called "the Landlord"); and

(2) Largotim Limited (Company Number 1416672) whose registered office is at Largotim House King Street Dudley West Midlands DY2 RPR (hereinafter called "the Tenant"); and

(3) Largotim Holdings Limited (Company Number 1416690) whose registered office is at Largotim House King Street Dudley West Midlands DY2 8PR (hereinafter called "the Guarantor").

Witnesses as follows:

1 Definitions

1.1 in this Lease save where the context otherwise requires:

1 1.1 Covenants by the Tenant and Guarantor shall be deemed to be made by all persons included in those expressions jointly and severally;

1.1.2 Any covenant by the Tenant or Guarantor not to do any act or thing includes an obligation not to permit or suffer such act or thing to be done;

1.1.3 The approval or consent of the Landlord where required shall not have effect unless in writing;

1.1.4 Clause headings shall not affect the construction of this Lease;

1.1.5 "the Common Area" means the roads footpaths forecourts service yards car parks grassed or landscaped areas traffic Islands, loading areas, ramps, refuse or disposal and any other areas within the Business Park which have not been and are not intended to be demised by the Landlord;

1.1.6 "the insured Risks" means fire lightning earthquake aircraft (other than hostile aircraft) and aerial devices -or articles dropped therefrom subsidence explosion riot civil commotion malicious damage storm tempest bursting or overflowing of water tanks apparatus Or Pipes flood impact by road vehicles (to the extent that insurance against such risks may ordinarily be arranged with an insurer of good repute) and such other risks as the Landlord may require from time to time;

1.1.7 "the Landlord" includes the person entitled for the time being to the immediate reversion to the Term;

1.1.8 "this Lease" means this lease and any document supplemental or collateral to it or entered into pursuant to its terms;

1.1.9 "the Loss of Rent" means the loss of the rent FIRSTLY AND SECONDLY reserved and any Value Added Tax for such period (not less than three years) and in such amount as the Landlord may require;

1.1.10 "the Premises" means the land and Premises known as Unit 1 Phase 8 Business Park, Waterfront West shown co1pured purple on Plan A and each and every part thereof and all additions and alterations thereto (except tenant's fixtures and fittings but including the Tenant's Works) but excluding Service Systems not serving the Premises exclusively;

1.1.11 "the Prescribed Rate" means four per centum per annum over the Base Rate from time to time of Barclays Bank PLC or-over such other equivalent rate as the Landlord may

reasonably require;

11.12 "the Rent" means 180,000 per annum exclusive of VAT (subject to review at the expiry of the fifth year and each period of five years thereafter of the Term);

1.1.13 "the Service Systems" means the sewers drains gutters manholes pipes ducts wires cables and other conducting media from time to time in or passing through or servicing the Business Park save insofar as the same exclusively serve any property (excluding the Premises) demised by the Landlord;

1.1.14 "the Plant and Equipment" Means all plant machinery and equipment from time to time in use or available for use in connection with the Common Areas including (without prejudice to the generality of the foregoing) lifts, alarm and sprinkler systems, compactor and, other refuse or storage systems, ventilation and air conditioning equipment, security and display systems;

1.1.15 "Business Park"- means the land and premises shown edged blue on Plan A and each and every part thereof together with any building or buildings from time to time thereon:

1.11.16 "the Tenant" and "the Guarantor" includes its successors in title and the personal representatives of-individuals;

1.1.17 "the Tenant's Works" Means the works carried out at the Premises prior to the date hereof at the Tenant's cost and described in the Fifth Schedule;

1.1.18 "the Term" means a 15 years from ____ 1999 and includes any continuations thereof whether by statute holding over of otherwise;

1.1.19 "the Superior Lease" means a lease dated 31 December 1991 (as varied by a

deed dated 31 December 1993) and made between Goodaston Limited (1) V&P Midlands Limited (2) and a lease dated 6 May 1994 made between Goodaston Limited (1) V&P Midlands Limited (2):

1.1.20 "the Curtilage Area" means the area shown on Plan A coloured blue which comprises a paved patio and amenity area and steps leading thereto;

1.1.21 "Light van" means a commercial vehicle having an unladen weight of not more than 3 tons;

1.1.22 "Tenants Fixtures and Fittings" means all furniture equipment and demountable partitions belonging to the Tenant whether or not the same have been supplied to the Tenant by the landlord and/or any of its associated companies;

1.1.23 "Landlords Agent" means a competent experienced surveyor appointed by or employed by the Landlord to Manage " Business Park;

1.1.24 "the full reinstatement value" shall mean the cost, which would be likely to be incurred (including fees plus Value Added Tax) in reinstating the Premises in accordance with the requirements of this Lease at Any time during the period in which any insurance policy or policies shall be in force including (but without prejudice to the generally of the foregoing) the anticipated increase (if any) in the cost of labour and/or materials during such period and any additional cost which might be incurred in reinstating the Premises in accordance with building regulations and bylaws in force at the time of reinstatement;

1.1.25 "working day" means Monday to Friday (both days inclusive) of each week save for any day which is a Bank or statutory holiday in England;

1.1.26 "Plan A" means the plan attached hereto and marked "Plan A":

1.1.27 "Plan 8" means the Plan attar-had hereto and marked "Plan 13".

2 DEMISE AND RENTS

The Landlord HEREBY DEMISES to the 'Tenant the Premises TOGETHER WITH the easements and other rights mentioned in the First Schedule EXCEPT AND RESERVING as mentioned in the Second Schedule SUBJECT to the matters mentioned in the Third Schedule and to all other rights easements quasi-easements and privileges to which the Premises are subject for the Term YIELDING AND PAYING the following rents clear of all deductions or set off (legal or equitable) whatsoever

FIRST the RENT (and any increase pursuant to Clause 7) (to be paid by bankers standing order or via the BACS system if the Landlord so requires) to a UK clearing bank in advance by equal quarterly payments on the usual quarterly days with a first payment in respect of the period from to the next following quarter clay to be made on 19:

SECONDLY the service charge as stated in the Fourth Schedule at the times and in the manner therein stated;

THIRDLY within 14 days of written demand the proper costs incurred by the Landlord in insuring against the Loss of Rent and a fair proportion as from time to time reasonably determined by the Landlord of the costs incurred by the Landlord in insuring the Business Park.

3 TENANTS CONVENANTS

The Tenant to the intent that the obligations hereby created shall continue throughout the Term COVENANTS with the Landlord:

3.1 Rent

To pay the rents reserved as mentioned in Clause 2;

3.2 interest

Without prejudice to the Landlord's other remedies to pay to the Landlord on demand as additional rent interest (at the Prescribed Rate) to be compounded on the usual quarter days on any-sum payable under this Lease from the due date until payment (as well after as before any judgment),

3.3 Rates and Tax

To pay all existing and future rates taxes water rates duties charges assessments impositions and outgoings whatsoever (whether or not of a capital or non-recurring nature) for or in respect of the Premises other than those in respect of the Landlord's interest under the Superior Lease or in respect of the freehold reversion:

3.4 To pay VAT

Where the Tenant is to pay to the Landlord any sum or provide any consideration. it shall on the Same due date also pay Value Added Tax in respect of such sum or consideration at the rate for the time being then in force and the Landlord shall provide an appropriate VAT invoice or receipt to the Tenant and where the Tenant is to indemnify or reimburse or pay costs incurred by the Landlord It shall also pay Value Added Tax at the rate for the time being then in force on such costs to the extent that the Landlord does not recover It;

3.5 Repair

To keep the Premises and Service Systems serving the Premises exclusively in good and substantial repair and condition;

3.6 Electrical regulations

To comply with the requirements and regulations of the supply authority With regard to the electrical wiring installation and equipment in the Premises and not to overload the same;

3.7 Decoration

To decorate such parts of the Premises as are normally decorated in a good and workmanlike manner as often as is reasonably necessary which in respect of the outside of the Premises shall not be less than once in every three years (and in the final year of the term howsoever determined) and in respect of the inside of the Premises shall not be less than once in every five years (and in the final year of the term howsoever determined);

3.8 Cleaning

To keep the Premises in a clean and tidy condition and clear of rubbish;

3.9 Notices to repair

To have commenced and be proceeding diligently with the repair and making good of all defects and disrepair for which the Tenant is liable L4nder this Lease within one month (or sooner if reasonably required) of written notice from the Landlord;

3.10 To permit entry

To permit the Landlord and all persons authorized by It on giving at least 48 hours' prior written notice (except in emergency) to enter the Premises to inspect its condition to take a schedule of the Landlord's fixtures and of any dilapidation's or to exercise any of the rights excepted and *reserved by this Lease or to carry out any necessary repairs or works or to inspect or Test any check motors on the Premises or to remedy any breach of the Tenant's covenants in this Lease making good as soon as reasonably practicable any damage occasioned thereby to the Premises and the Tenant's Fixtures and Fittings and chattels:

3.11 Not to, introduce dangerous things

Not to bring into or keep in the Premises any thing which is or may become dangerous nor to carry on any hazardous trade nor do anything which might cause the insurance of the Premises or any other part of the Business Park to be vitiated or the premiums to be increased:

3.12 Overloading

Not, to overload the Premises nor to overload or cause any obstruction Or injury to the Service Systems or the Plant and Equipment nor to cause any obstruction of the Common Areas;

3.13 Undesirable uses

Not to use the Premises for any noisy noisome offensive dangerous hazardous illegal or immoral purpose nor to do on the Premises any thing which in the reasonable opinion of the Landlord may be a nuisance or cause damage disturbance or inconvenience to or be to the prejudice of the Landlord or any other owners or occupiers of any neighboring premises:

3.14 Permitted use

Not to use the Premises otherwise than for a use which falls within Class 81 of the Town and Country Planning (Use Classes) Order 1987 (notwithstanding any amendment or revocation of such Order);

3.15 Compliance requirements

To comply with:

3.15.1 all legislation from time to time in force relating to the Premises; and

3.15.2 the requirements of the Landlord's insurers and any competent authority; and

3.15.3 the reasonable requirements of the Landlord relating to the Premises, the rights granted by this Lease, the Common Areas the Service Systems, the Plan and Equipment and/or and the management and control of the Business Park;

3.16 Irrecoverable insurance monies

To pay to the Landlord within 14 days of receiving written demand the amount of any insurance monies in respect of the Premises or any other premises of the Landlord which cannot be recovered by reason of any act or default of the Tenant or any person deriving title under the Tenant or its or their servants agents licensees or invitees;

3.17 Planning

To comply with the conditions in anypi4nning permission relating to the Premises and the Tights granted by this Lease and not to make any application for planning permission in respect of the Premises, or for determination as to whether particular works or change of use would constitute development of the Premises;

3.18 Alterations

Not to make any structural alterations or additions to the Premises whatsoever and not to Make any other alterations or additions to the Premises without the prior consent of the Landlord such consent not to be unreasonably withheld or delayed PROVIDED THAT no consent shall be required for any alteration to the internal layout of the Premises which involves moving demountable partitions and any fittings thereto provided that it does not involve any structural alterations to the Premises:

3.19 Signs

Not to exhibit on the Premises any sign visible from the outside of the Premises without the prior consent of the Landlord (such consent not to be unreasonably withheld or delayed);

3.2 Allenation

3.20.1 Not to mortgage charge or grant any security or interest over the Premises nor to assign or underlet any part of the Premises nor to share or part with the possession or occupation of the Premises or any part thereof,

3.20.2 If the Tenant wishes to assign the Premises and procures:

(i) that the tenant who Is to assign the Lease (and its Guarantor if any) enters into an Authorizes Guarantee Agreement with the Landlord in a form permitted by the Landlord & Tenant (Covenants) Act 1995; and

(ii) that such persons as the Landlord may reasonably require act as guarantors for such assignee in such form as the Landlord may reasonably reqUiT8; and

(iii) that all rent and other monetary payments due under the terms of this Lease have been paid and all obligation on the part of the Tenant have been performed prior to completion of the intended assignment: and

(iv) that there shall be no assignment of this Lease to a company in the same group (as defined in s,42 Landlord & Tenant Act 1954) as the assignor unless the holding company of such group shall guarantee the assignee's obligations in such form as the Landlord may reasonably require; then the Tenant may an obtaining the prior written consent of the Landlord assign the whole of the Premises to such assignee;

3.20.3 If the Tenant wishes to underlet the whole or any part of the Premises and procures;

(i) that any intended underlessee covenants with the Landlord throughout the residue of the term to observe and perform the Tenant's covenants and the conditions in this Lease so far as they relate to the Premises to be underlet (excluding the covenant to pay rent) and not to underlet share or part with possession or occupation of the Premises and not without the prior consent of the Landlord to assign the Premises: and

(ii) that no intended underlease is granted at a premium nor at a rent less than the open market rental value of the premises to be underlet nor to permit the reduction of rent paid or payable by any underlessee: and

(iii) that any underlease of part of the Premises shall be for a term of no more than one year and shall contain an agreement authorized by the Court to exclude the provisions of Sections 24 to 28 of the Landlord and Tenant Act 1954; and

(iv) that the part to be underlet shall be an entire floor of the Premises or such lesser part of a floor as the Landlord shall approve (such approval not to be unreasonably withheld or delayed (an "approved part"); and

(y) that there shall be no more than two underleases/three occupiers of the Premises at any time:

then the Tenant may on obtaining the prior written consent of the Landlord (such consent not to be unreasonably withheld or delayed) underlet the whole or an approved part of the Premises to such intended underlessee,

3.20.4 The Tenant may on obtaining the prior written consent of the Landlord (such consent not to be unreasonably withheld or delayed) mortgage charge or grant any security interest over the whole of the Premises.

3.21 Registration

To supply to the Landlord a certified copy of any document effecting an assignment underlease or charge of this Lease within twenty-one days of completion thereof and to pay to the Landlord's solicitors or as the Landlord may direct such a registration fee as it may reasonably require;

3.22 Breaches by underlessees

Forthwith to remedy any breach by any underlessee of any of the covenants or conditions in this Lease;

3.23 Costs

To pay to the Landlord on demand as additional rent and as a debt all costs it properly incurs in connection with or in contemplation of:

3.23.1 the preparation and service of a notice and/or any proceedings under Section 146 or 147 of the Law of Property Act 1925 or under the Leasehold Property (Repairs) Act 1938 (notwithstanding that forfeiture is avoided);

3.23.2 the preparation and service of a schedule of d1lapidations at any time during or after termination of the Term;

3.23.3 any applications for -consent -or approval whether or not consent Is refused or the application is withdrawn to the extent that such costs are reasonable and proper and

3.23.4 the remedying of any breach of the Tenant's covenants or the conditions in this Lease;

3.24 Applications for consent

On applying for " consent or approval the Tenant shall disclose to the Landlord such information as the Landlord may reasonably require;

3.25 To inform Landlord of damages defects and notices

To inform the Landlord as soon as reasonably practicable immediately in writing of any defect in the demised premises which might give rise to a duty imposed by common law or statute on the Landlord in favour of the Tenant or any other person;

3.26 Reletting notices

Within six months of the expiration of the Term to permit the Landlord to fix on the Premises a notice board for the reletting of the same and/or the sale of the Premises which shall not be fixed in such a position as to interfere materially with the passage of light and air to the Premises and not to take down or obscure such notice board and to permit all persons authorized by the Landlord to view the Premises at reasonable hours and an reasonable notice;

3.27 To indemnify Landlord

To indemnity the Landlord against all actions proceedings costs claims and demands in respect of the use or occupation of the Premise tile execution of any alterations additions or repairs to the Premises or any breach or non-observance by the Tenant of the covenants conditions or other provisions of this Lease;

3.28 Yielding up

Immediately before the end of the Term to remove all tenant's fixtures and fittings other than the Tenant's Works and (unless the Landlord otherwise requires) all alterations or additions made to the Premises during the Term and in o h case to make good and reinstate the Premises to the Landlord's reasonable satisfaction and on the end of the Term to yield up to the Landlord the Premises in accordance with the Tenanittv1p covenants and the conditions in this Lease;

3.29 To observe covenants

To observe and perform the obligations and conditions contained or referred to in the documents, listed in the Third Schedule relating to a Premises and those contained in any Superior Lease save as to payment of rent and interest thereon or otherwise arising thereunder as a result of any act or default on the part of the Landlord PIROVIDED THAT it there is any conflict between the obligations and conditions contained in I such documents and those in this Lease the latter shall prevail.

4 Landlord's covenants

The Landlord COVENANTS with the Tenant while it owns the reversion immediately expectant on the term hereby granted:

4.1 Quiet enjoyment

To permit the Tenant peaceably to hold and enjoy the Premises without any lawful interruption by the Landlord or any person lawfully claiming through under or in trust for It;

4.2 To insure

Unless such insurance shall be vitiated by any act or omission of the Tenant or any person deriving title under the Tenant or any of its or their servants agents licensees or invitees to insure to the full reinstatement value thereof or procure the insurance of the Business Park including the Premises against loss or damage by the insured Risks to the full reinstatement value thereof and to insure against the Loss of Rent consequent upon such damage PROVIDED THAT:

4-2.1 the Landlord shall produce to the Tenant on demand (but not more often than once in every twelve months) a summary of such insurance and evidence that the premium has been paid; and

4.2.2 to supply to the Tenant on request written confirmation that the insurers have agreed to waive all rights of subrogation against the Tenant;

4.3 To rebuild

If the Premises shall be destroyed or damaged by any insured Risk then the Landlord shall pursue a claim for the insurance monies with all due speed and diligence and subject to all necessary planning consents or permissions to apply all insurance moneys received (other than for Loss of Rent) towards rebuilding or reinstating the Premises as soon as reasonably practicable in substantially the same form or with such variations as the Landlord may reasonably require;

4.4 To pay

the rents reserved by the Superior Lease and to observe and perform the covenants on the part of the tenant thereunder save in so far as the same or any of them are assumed by the Tenant hereunder

4.5 To use

all reasonable endeavours (at the cost and expense of the Tenant) to procure the observance and performance by the landlord under the Superior Lease of the covenants on its part therein contained insofar as they relate to the Premises;

4.6 To use all reasonable endeavours to ensure that it and its employees and agents incur expenditure in relation to insurance and the Service Charge items referred to in the Fourth Schedule in accordance with the principles of good estate management.

4.7 To erect and maintain a sign at the entrance of the Business Park to indicate that the estate road shown hatched brown on Plan A are to be for the use of cars or commercial vehicles having a 0~dbn weight of not more than 3 tons.

PROVIDED ALWAYS AND IT IS HEREBY AGREED AND DECLARED as follows,

5.1 Forfeiture

5.1.1 If the rents or any other sum due under this Lease shall be in arrear for twenty-eight days (whether formally demanded or not); or

5.1.2 If the Tenant shall fail to observe or perform any of its covenants or the conditions in this Lease; or

5.1.3 If distress or other execution shall be levied on the Premises or their contents; or

5.1.4 If a Bankruptcy Order or an Administration Order Is made in respect of the Tenant; or

5.1.5 It a resolution Is passed or an Order is made to wind up the Tenant; or

5.1.6 If a Receiver Is appointed over the whole or any part of the property assets or undertaking of the Tenant; or

5.1.7 It the Tenant is struck off the Register of Companies or is dissolved or otherwise ceases to exist under the laws of the country or state of its incorporation;

then the Landlord may forfeit this Lease but without prejudice to any other remedy of the Landlord in respect of any antecedent t)reach of any of the covenants or conditions contained in this Lease PROVIDED THAT if at any time while this Lease Is vested in Largotim Limited and the Guarantor is the ultimate holding company of Largotim Limited and the Landlord has the right to terminate this Lease by re-entering the Premises the Landlord shall prior to exercising its right to re-enter the, Premises give notice to the Guarantor of its intention to terminate and the grounds therefor and in the event that the grounds consist of a breach which can be remedied

or arrears of rents or other sums or one of the events in sub-clauses 5.1.3 to 5.1.7 the Guarantor may then within 28 days following such notice notify the Landlord that the guarantor wishes the Premises to be assigned as a whole to the Guarantor and subject to the Guarantor remedying the breach or settling the arrears (or both) as appropriate to the Landlord's reasonable satisfaction the Landlord shall authorize the Premises as a whole to be assigned to the Guarantor,

5.2 No implied easements

Nothing in this Lease shall confer upon the Tenant any easement right or privilege whatsoever over or against any property adjoining or neighboring the Premises which now or hereafter shall belong to the Landlord or impose any restriction on the use of any property not comprised in this I-ease save as expressly hereby granted or imposed.

5.3 No compensation

The right of the Tenant (or any undertenant) to compensation on quitting the Premises is excluded (so far as the law permits),

5.4 Cesser of rent

If the Premises shall be damaged or destroyed by any of the insured Risks so as to be unfit for occupation and use in accordance with this Lease then (save to the extent that the insurance money shall be Irrecoverable by reason solely or in part of any act or default of the Tenant or any person deriving title under the Tenant or any of its or their servants agents licensees or invitees) the rent FIRST and SECOND reserved or a fair proportion (determined by the Landlord's Agent) according to the nature and extent of the damage shall be suspended until the Premises shall again be fit for occupation and use or (if earlier) until the Loss of Rent insurance proceeds shall be exhausted and any

rent paid in advance of such period during which the Premises shall be unfit for occupation or a proportionate Part thereof shall be repaid to the Tenant

5.5.1 It upon the expiry of three years commencing on the date of the damage or destruction the Premises shall not have been rendered fit for occupation and use either the Landlord or the Tenant may by notice served at any time within three months of the expiry invoke the provisions of Clause 5.5.2 hereof,

5.5.2 Upon service of a notice inn accordance with Clause S.5.1 hereof the Term will absolutely cease but without prejudice to any rights or remedies that may have accrued to either party against the other

5.6 Disputes,

Any dispute arising as between the Tenant and the tenants or occupiers of other parts of the Business Park in relation to this Lease or the Premises shall be decided by the Landlord's Agent acting as an expert whose decision on Matters of fact shall be binding upon all parties to the dispute;

5.7 Notices

Section 196 of the Law of Property Act 1925 (as amended) shall be deemed to be incorporated herein.

6.1 Superior lessors

6.1.1 all rights at entry reserved herein shall be exercisable with the Landlord's consent by any superior lessor as well as to the Landlord;

6.1.2 where the consent of the Landlord Is required to any act matter or thing under the terms hereof the consent of any superior lessor in writing shall also be required whenever requisite under the covenants and conditions of any superior lease;

6.1.3 whenever necessary or appropriate under the covenants and conditions of any superior

lease:

(i) where any matter is to be carried out to the satisfaction or approval of the Landlord it shall also be carried out to the satisfaction and approval of any superior lessor,

(ii) all registrations whenever requisite under the terms of any superior lease shall be effect8d by the Tenant with ally superior lessor as well as the Landlord;

6.1.4 where any issue question or matter arises out of or under or relating to any superior lease which affects or relates to the provisions hereof is to be determined as therein provided It shall also be so determined under this Lease and the determination of such issue question or matter pursuant to the provisions of any said superior lease shall be binding on the Tenant as well a!5,the Landlord for the purposes of any superior lease and this Lease.

7 Rent Review

7.1 Date of review

On the expiration of the fifth year and each period of five years thereafter of the Term (each such date being "the Relevant Date of Review") the rent FIRST reserved shall be an amount ("the Revised Rent") equal to whichever is the greater of

7.1.1 the rent FIRST reserved immed4dely before the Relevant Date of Review; and

7.1.2 the Market Sent of the Prernisa4 at the Relevant Date of Review as agreed between the Landlord and the Tenant or determined in accordance with the following provisions in this Clause.

7.2 Valuation

7.2.1 the Market Rent ("the Market Rent") shall be the best annual rent (excluding any Value Added Tax) reasonably obtainable in the open market for the Premises at the Relevant Date -of Review for a term of tin years commencing on the Relevant Date of Review as between a willing lessor and a willing lessee with vacant possession without payment of a premium on the terms and conditions of this Lease (other than the rent but including the provisions for the review of rent) and assuming that:

(i) the Premises are then ready fit and available for immediate occupation and use; and

(ii) the Landlord and the Tenant have observed and performed their covenants and the conditions in this Lease (but without prejudice to any rights of the parties in regard thereto), and

(iii) the Premises or the means of access or any services thereto shall not have been destroyed or damaged;

(iv) the Premises comprise a total net internal floor area of 20,000 square feet of office accommodation:

(v) the Premises have the benefit of an adequate central heating system and an adequate mechanical ventilation system wherever necessary and any other items specified in the Sixth Schedule;

but taking no account of:

(i) any goodwill attributable to the Premises by reason of the Tenant's business; and

(ii) any effect on rent of the Tenant's Works and any works at the Premises carried out by the Tenant and/or its undertenant (to which the Landlord gave its consent) (which shall include without limitation to the foregoing any works which have the effect of reducing the not internal floor area of the Premises except works carried out pursuant to an obligation to the Landlord or by or at the expense of the Landlord; and

(iii) the Tenant's (or any other permitted occupant's) occupation of the Premises;

7.2.2 The Market Rent shall be q4icertalnecl without making any allowance to reflect (or compensate the Tenant for the absence at) any rent free period or concessionary rent period or contribution to fitting out works or other inducement which it might then be the practice in open market lettings for a lessor to make and such Market Rent shall be that which would be payable after the expiry of any such rent free or concessionary rent period and after receipt of any such contribution or other inducement

7.3 Expert's decision

If the Landlord and the Tenant shall be unable to agree on the amount of the market rent by two months before the relevant Date of Review either party may require it to be determined by a Surveyor acting as an expert who shall be an Associate or fellow of the Royal institution of Chartered Surveyors with at least ten years experience in a substantial commercial practice of dealing with the letting and valuation of buildings like the Premises to be agreed upon by both parties or If they fail so to agree then nominated at any time at the request of either party by the President (or if he Is unable so to nominate the Vice-President) for the time being of The Royal institution of Chartered Surveyors and the fees of the President and the fees of any such Surveyor "shall be borne and paid by the parties in such shares and in such manner as the

Surveyor who determines the amount of the Market Rent shall determine but subject thereto in equal shares Provided always that if the Surveyor dies or is for any other reason unable to act before he shall have made his determination then either party may request the nomination of a further Surveyor to act in accordance with this sub-clause.

7.4 Representations

The Surveyor shall allow the parties to make written representations which may contain rental evidence and a rental valuation of the Premises and shall promptly pass details of any party's representations to the other party initial within fourteen days comments in reply to matters raised in the initial representations.

7.5 Payment after date of review

Unfit the Market Rent shall have been agreed or determined the Tenant shall continue to Pay the rent FIRST reserved at the rate payable immediately before the Relevant Date of Review but on such agreement or determination the Tenant shall pay to the Landlord any difference between the rent which would have been payable had the Market Rent been so agreed or determined before the Relevant Date of Review and the rent which has actually been paid together with interest thereon at the Bass Rate of Barclays Bank Pic from the quarter day when each part of such rent would have been payable until payment,

7.15 Memorandum

The Market Rent shall when agreed or determine be recorded by a memorandum prepared at the cost of the Tenant and signed by the Landlord and the Tenant.

8 GUARANTEE

8.1 The Guarantor COVENANTS with the Landlord that

8.1.1 Largotim Limited will pay the rents reserved by and observe and perform its covenants and the conditions in this Lease and the Guarantor will indemnify the Landlord on demand against all losses damages costs and expenses arising out of any default by Largotim Limited;

8.1-2 if this Lease is disclaimed or determined by forfeiture or re-entry and within three months of any such event the Landlord by notice in writing so requires the Guarantor will enter into a new lease of the Premises at the cost of the Guarantor on the same terms as this Lease for the residue of the Term which would have remained had there been no disclaimer forfeiture or re-entry;

8.2 The liability of the Guarantor hereunder, shall not be affected by any failure by the Landlord to enforce the payment of the rents or the observance or performance of the covenants and conditions or any refusal by the Landlord to accept rent at a time when the Landlord was entitled (or would after the service of a notice 9'nder Section 146 of the Law of Property Act 1925 have been entitled) to re-enter the Premises or any variation of the terms of this Lease or any change in the constitution structure or powers of the Guarantor Largotim Limited or the Landlord or any act which Is beyond the powers of Largotim Limited or the surrender of part of the Premises;

8.3 As between the Landlord and the Guarantor shall be deemed to be a principal debtor.

8.4 The Guarantor shall not be entitled to participate in any security held by the Landlord in respect of the 6bligations of Largotim Limited or stand in the Landlord's place in respect of such security;

8.5 Where, the Guarantor is more than one Person the release of one or more of them shall not release the others.

In witness whereof this document has been executed as a Deed the day and year

first before written.

THE FIRST SCHEDULE: Easements and other rights included in this Lease

1 The rights in common (save in respect of 2 and 3 below) with the Landlord and all others authorized by the Landlord:

1.1 of way on foot over and along footpaths and with vehicles over and along and otherwise to use the estate roads shown coloured brown on the attached Plan A and Plan B and all other roadways within the Common Areas designated for use by the Tenant at all times and for all purposes reasonably connected with the use mid occupation of the Premises:

1.2 of free passage and running of water soil gas telecommunications digital and/or analogue signals and electricity and other services through the Service Systems serving the Premises.

2 The exclusive rights:

2.1 to park vehicles and take or dispatch deliveries to or from the Premises an the area shown coloured pink on Plan A ("the Service Yard");

2.2 to park 49 motorcars on the spaces shown coloured yellow an Plan A ("the Car Parking Spaces");

2.3 to use the Curtilage Area but subject to the rights of entry for the Landlord and others authorized by this Lease

3 A., right of support and protection for the Premises by and from the remainder of the Business ParK.

THE SECOND SCHEDULE: Exceptions and Reservations out of this Lease

To the Landlord and all others authorized by the Landlord or similarly entitled including any superior landlord:

1 the right to carry out or consent to the carrying out by any person on other parts of the Business Park (but not on any part of the Premises the Curtilage Area or the Car Parking Spaces) or on the Service Yard or on any adjacent or neighboring land as it or they shall think fit of any erection of a new building notwithstanding any diminution in the light or air enjoyed by the Premises;

2 the right of support and protection to adjoining or adjacent premises comprised in the Business Park;

3. the right on giving reasonable notice (except in emergency) to the Tenant to enter and remain upon the Premises with or without workmen with all necessary appliances and materials (making good all damage occasioned thereby to the Premises) for all purposes in connection with the carrying out of any works providing any service or fulfilling the Landlord's obligations under this Lease;

4. the right of free passage and running of water soil gas electricity telecommunication digital and/or analogue signals and other media through the Service Systems within the Premises;

5 the right to provide regulate alter and control in a reasonable manner having regard (inter alia) to the interests of the tenants of the Business Park generally the use of the Common Areas and the Plant and Equipment;

6 the right to install use maintain repair renew and remove security equipment on the exterior of the Premises and to run lay use maintain repair renew and remove cables wires and other service media connecting to such security equipment.

THE THIRD SCHEDULE: Documents which affect or relate to the Building

Those matters referred to in the Property and Charges Register of the Title Numbers relating to land at the Business Park.

THE FOURTH SCHEDULE: The Service Charge

Part I (Calculation and payment of the Service Charge)

1.1 "the Relevant Year" means the calendar year or Such other period as the Landlord may from time to time determine;

1.2 'the Relevant Proportion" means such fair and reasonable proportion as the Landlord may from time to time determine having regard to the area of the Premises and the area of all other Premises at the Business Park let or intended to be let and having the benefit of such services;

1.3 "the Service Charge Cost" means the aggregate of the gross costs of the services set out in Part IIA of this Schedule and the expenses set out in Part 1113 of this Schedule reasonably incurred by the Landlord in the Relevant Year and shall include (without limitation) such amount as the Landlord may reasonably determine to be fair in the circumstance as a contribution towards anticipated costs and expenses and any Value Added Tax payable by the Landlord in respect of such costs and expenses insofar as the i5ame is not recovered by the Landlord;

1.4 "the Service Charge" means in respect of each Relevant Year the Relevant Proportion of the Service Charge Cost;

2 The Landlord shall as soon as practicable after the expiry of the Relevant Year serve on the Tenant a notice containing a summary of the Service Charge Cost and a statement of the Service Charge which notice shall be conclusive (save in the case of manifest error);

3 The Tenant shall with every payment of rent FIRST reserved pay to the Landlord such sum on account of the Service Charge for the then current Relevant Year ("interim Payment") as the Landlord may from time to time specify-,

4 An amount equal to the difference between the Service Charge for any Relevant Year and the aggregate of interim Payments made for that Relevant Year shall be paid by the Tenant to the Landlord within fourteen days of the date of the notice relating to that Relevant Year or allowed by the Landlord to the Tenant against the interim payment or payments due from the Tenant next following the date of the said notice.

Part II (A) Services

I Inspecting maintaining cleaning repairing replacing renewing and lighting the Common Areas Service Systems and Plant and Equipment including any contributions towards the maintenance and repair of that part of the estate road referred to in paragraph 1.1 of the First Schedule which is outside the Common Areas

2 Procuring the supply of water and sewerage services to the Common Areas.

3 Planting maintaining tending and re-planting any landscaped areas at the Business Park.

4 Providing any other service which the landlord shall reasonably think appropriate for the benefit of the Business Park its facilities and amenities and the tenants of the Business Park or any of them.

Part II (B) Expenses

1 The cost of insuring any Plant and Equipment at the Business Park against the insured Risks and of insuring against property owner's employer's and third

party liability and such other risks as the Landlord shall require in respect of the Business Park and of undertaking periodical independent professional valuations of the Business Park for insurance purposes.

2 Any existing or future taxes (other than those of an income or capita) nature levied upon the Landlord as a result of income arising of deemed to have arisen under the terms of this Lease in respect of the Pr6mises) charges assessment and other outgoings payable in respect of the Business Park (excluding the Premises and other parts of the Business Park from time to time let or remaining unlet until initially let by the Landlord) including general rates and water rates assessed in respect of the Common Areas".

3 The cost of taking all steps deemed desirable or expedient by the Landlord for enforcing the tenant's covenants or conditions in respect of the Business Park and of complying with or making representations against otherwise contesting the incidence of the provisions of any legislation or instrument regulation notice or requirement deriving validity therefrom relating to or alleged to relate to the Business Park or any part thereof.

4 The reasonable and proper fees of accountants surveyors engineers solicitors and others in connection with the provision of services and the administration of the Service Charge.

5 The reasonable and proper few of any agents retained to manage the Business Park (or if no such managing agents are retained the equivalent thereof in respect of the provision of such management by the Landlord) or (at the discretion of the Landlord) ten per centum of the cost of providing the services and paying the expenses referred to in this Schedule (excluding this paragraph)

6 The cost including interest commission and banking charges of borrowing any necessary sums in connection with the provision of the services or the payment of the expenses referred to in this Schedule.

THE FIFTH SCHEDULE: Details of the Tenant's Works

1. Central Core: Extra over cost of extended central core area to Provide an extra male and female toilet at first floor, (total 5 No. of each) and shower room for male and female at ground floor. Toilets and showers fitted out complete with all finishing and fittings.

Extra over cost for increased size of passenger lift.

Provision of service lift including all associated builders work.

2 Reception Area: Floor finishings comprising areas of granite, polished stainiess steel. timber strip flooring, mats and matwell, brass division strips.

Granite surrounds to lift door.

Glass screens and feature rolled hollow section columns.

Gyproc MF suspended ceiling with dropped feature.

Planter box with pea single.

Extra over cost for designed lighting system,

3 Vending Areas: Water supplies and wastes to vending machine areas.

4 Partition Works and Doors: All partition works including glazed panels and doors. internal doors between core area and office areas at each floor level.

5 Floor Finishings: Vinyl sheet flooring to Food Preparation . Goods inward Area and Vending areas.

6 Shelving/Racking/Sundry Fittings: Provisional sum of l.000-00.

7 Kitchen/Food Preparation! Provision of water supplies, waste pipes, sink unit and basin. Full height wall tiling.

8 Decorations: Extra over cost of wallpaper in lieu of emulsion paint to all plastered walls.

9 Power and Lighting: Comprehensive power supply and distribution system and telephone and d6ta wiring systems excluding underfloor trunking electrical wiring and flexible conduits.

Extra over cost of lighting to the Reception Area and Break Out Areas with provision of dirnmers to Demonstration and Training Rooms.

10 Security System: Provision of Security System to satisfy the additional requirements of the insurers of Largotim Limited beyond that required by the Landlord.

11 Heating Coling and ventilation:

A four pipe tan coil or comfort cooling system providing heating cooling and ventilation to the office areas of the Premises at ground and first floor levels.

THE SIXTH SCHEDULE: Central Hooting and Ventilation Systems; etc. for rent review purposes

1 Central heating to be assumed to be a 1Qw temperature hot water heating system capable of maintaining a temperature of 21 degrees c in the office area and 18 degrees c in the toilet and other such intermittently occupied areas, these temperatures being achieved within three hours of start up based on the night setback temperature of 10%. The boiler to be gas fired. Panel radiators and individual thermostatic radiator values as appropriate to all perimeter areas. Mechanical ventilation provided to the plant areas as required to comply with current regulations.

2 A mechanical ventilation system installed to service the Premises providing a minimum of 6 air changes per hour to the male and female toilets and the minimum- of 1.2 air changes per hour to the remainder of the Premises. The air heated to the appropriate temperature.

3 Premises carpeted to an appropriate standard and specification.

Floor outlet boxes provided at the rate of two socket outlets per 10 square metres of office floor area. Boxes to provide space for telephone outlet and data transmission compartment and with 13 amp small power outlet and wiring.

THE COMMON SEAL of GOODASTON LIFAFTED was hereunto affixed in the presence of:

Director

Secretary

THE COMMON SEAL of LARGOTIM LIMITED was hereunto 0fixed in the presence of:

Director

Secretary

THE COMMON SEAL of LARGOTIM HOLDINGS LIMITED was hereunto affixed in the presence of

Director

Secretary

Exhibit 23.1

AUDITOR'S REPORT ON SCHEDULE AND
CONSENT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
QAD Inc.:

The audits referred to in our report dated March 5, 1999, except for Note 7, which is as of April 26, 1999, included the related financial statement schedule as of January 31, 1999, included in the annual report on Form 10-K of QAD Inc. for the fiscal year ended January 31, 1999. 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 the incorporation by reference in the registration statement on Form S-8 (No.333-48381) of QAD, Inc. of our reports included herein.

KPMG LLP

Los Angeles, California
April 27, 1999

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AS OF JANUARY 31, 1999 AND THE CONSOLIDATED STATEMENT OF INCOME FOR THE FISCAL YEAR 1999 AND IS QUALIFIED IN OUR ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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