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

FORM 10-Q

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

For the quarterly period ended JULY 31, 2000

OR

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

For the transition from _____ to _____

Commission File Number 0-22823

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

Delaware (State or other jurisdiction of incorporation or organization)

77-0105228 (IRS Employer Identification No.)

6450 Via Real, Carpinteria, California 93013
(Address of principal executive offices)

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

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

The number of shares outstanding of the issuer's common stock as of the close of business on August 31, 2000 was 33,446,503.

QAD INC.
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PART 1

ITEM 1 - FINANCIAL STATEMENTS

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

	JULY 31, 2000 (UNAUDITED)	JANUARY 31, 2000
ASSETS		
Current assets:		
Cash and equivalents	$ 27,215	$ 35,936
Accounts receivable, net	73,163	98,567
Other current assets	12,119	15,523
Total current assets	112,497	150,026
Property and equipment, net	30,692	32,729
Capitalized software development costs, net	7,765	8,233
Other assets, net	21,897	23,383
Total assets	$ 172,851	$ 214,371
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and capital lease obligations	$ 1,160	$ 1,240
Accounts payable	18,104	17,671
Accrued expenses	24,570	34,647
Deferred revenue and deposits	55,710	64,731
Total current liabilities	99,544	118,289
Notes payable and capital lease obligations, less current portion	15,271	21,890

Other liabilities	187	200
Minority interest	475	563
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value. Authorized 5,000,000 shares; none issued or outstanding	-	-
Common stock, $0.001 par value. Authorized 150,000,000 shares; issued and outstanding 33,446,503 and 33,012,210 shares at July 31, 2000 and January 31, 2000, respectively	33	33
Additional paid-in-capital	112,930	111,553
Accumulated deficit	(52,497)	(34,876)
Unearned compensation - restricted stock	(112)	(146)
Accumulated other comprehensive loss	(2,980)	(3,135)
Total stockholders' equity	57,374	73,429
Total liabilities and stockholders' equity	$ 172,851	$ 214,371

See accompanying notes to condensed consolidated financial statements.

QAD INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

	THREE MONTHS ENDED JULY 31,		SIX MONTHS ENDED JULY 31,	
	2000	1999	2000	1999
Revenue:				
License fees	$ 18,235	$ 20,562	$ 33,320	$ 41,023
Maintenance and other	23,848	23,283	47,777	44,284
Services	11,165	14,469	23,748	26,345
Total revenue	53,248	58,314	104,845	111,652
Costs and expenses:				
Cost of license fees	2,675	4,345	6,426	9,900
Other cost of revenue	21,856	21,813	44,179	41,574
Sales and marketing	17,020	18,572	34,070	40,079
Research and development	9,153	8,457	18,844	17,463
General and administrative	5,858	5,632	11,519	11,609
Amortization of intangibles from acquisitions	1,251	965	2,344	1,901
Restructuring charge	-	1,152	-	1,152
Total costs and expenses	57,813	60,936	117,382	123,678
Operating loss	(4,565)	(2,622)	(12,537)	(12,026)
Other (income) expense:				
Interest income	(338)	(105)	(758)	(212)
Interest expense	515	499	1,187	793
Other (income) expense	312	(189)	298	163
Total other (income) expense	489	205	727	744
Loss before income taxes	(5,054)	(2,827)	(13,264)	(12,770)
Income tax expense	3,791	1,142	4,357	1,142
Net loss	$ (8,845)	$ (3,969)	$ (17,621)	$ (13,912)
Basic and diluted net loss per share	$ (.26)	$ (.13)	$ (.53)	$ (.46)

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	SIX MONTHS ENDED JULY 31, 2000	SIX MONTHS ENDED JULY 31, 1999
Net cash provided by (used in) operating activities	$ 4,830	$ (2,402)
Cash flows from investing activities:		
Purchase of property and equipment	(3,580)	(2,621)
Investment in software development	(1,293)	(1,915)
Proceeds from sale of short-term investments	-	3,000
Investment in equity securities	-	(500)
Acquisition of business, net of cash acquired	(574)	(81)
Other, net	-	85
Net cash used in investing activities	(5,447)	(2,032)
Cash flows from financing activities:		
Proceeds from notes payable	-	16,059
Reduction of notes payable	(7,555)	(12,585)
Issuance of common stock for cash	1,259	891
Other, net	(40)	(41)
Net cash provided by (used in) financing activities	(6,336)	4,324
Effect of exchange rates on cash and equivalents	(1,768)	(676)
Net decrease in cash and equivalents	(8,721)	(786)
Cash and equivalents at beginning of period	35,936	16,078
Cash and equivalents at end of period	$ 27,215	$ 15,292

See accompanying notes to condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary (consisting only of reclassifications and normal recurring adjustments) to present fairly the financial information contained therein. These statements do not include all disclosures required by generally accepted accounting principles and should be read in conjunction with the audited financial statements and related notes included in our Form 10-K for the year ended January 31, 2000. The results of operations for the six months ended July 31, 2000 are not necessarily indicative of the results to be expected for the year ending January 31, 2001.

Certain prior period financial statement items have been reclassified to conform to current period presentation.

2. COMPREHENSIVE LOSS

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

(In thousands)	THREE MONTHS ENDED JULY 31, 2000	THREE MONTHS ENDED JULY 31, 1999	SIX MONTHS ENDED JULY 31, 2000	SIX MONTHS ENDED JULY 31, 1999
Net loss	$ (8,845)	$ (3,969)	$ (17,621)	$ (13,912)
Foreign currency translation adjustments	(210)	(415)	155	(676)
Comprehensive loss	$ (9,055)	$ (4,384)	$ (17,466)	$ (14,588)

3. PER SHARE INFORMATION

Net income (loss) per share is computed in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share. Basic income (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is computed using the weighted average number of common and dilutive common stock equivalents outstanding during the period. Common stock equivalents consist of the shares issuable upon the exercise of warrants and stock options using the treasury stock method. The following table sets forth the computation of basic and diluted income (loss) per share:

(In Thousands, Except Per Share Amounts)	THREE MONTHS ENDED JULY 31, 2000	THREE MONTHS ENDED JULY 31, 1999	SIX MONTHS ENDED JULY 31, 2000	SIX MONTHS ENDED JULY 31, 1999
Numerator:				
Net loss	$ (8,845)	$ (3,969)	$ (17,621)	$ (13,912)
Denominator:				
Weighted average basic shares outstanding	33,402	30,169	33,285	30,052
Effect of dilutive common stock equivalents	-	-	-	-
Weighted average diluted shares outstanding	33,402	30,169	33,285	30,052
Basic and diluted loss per share	$ (.26)	$ (.13)	$ (.53)	$ (.46)

Common stock equivalent shares of approximately 421,000 and 979,000 for the three months and six months ended July 31, 2000, and 143,000 and 169,000 for the three months and six months ended July 31, 1999, respectively, were not included in the diluted calculations because, due to the net loss positions, they were anti-dilutive.

4. RESTRUCTURING CHARGE

In response to changes in customers' manufacturing capital software spending patterns during fiscal year 1999, we undertook a restructuring program that more closely aligned costs with sales expectations. The program included the consolidation of certain facilities and an approximate reduction of 230 positions across a broad cross-section of QAD. This program was continued in fiscal year 2000 with a $1.2 million charge recorded in the second quarter. As of July 31, 2000, $5.3 million of the total $5.5 million restructuring charge was utilized, and we expect to pay the remaining balance by January 31, 2001.

5. BUSINESS SEGMENT INFORMATION

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

Operating income attributable to each business segment is based upon the management assignment of revenue and costs. Regional cost of revenue includes the cost of goods produced by QAD's manufacturing operations at the transfer price charged to the distribution operation. Income from manufacturing

operations is included in the Corporate operating segment. Research and development costs are also included in the Corporate operating segment. Identifiable assets are assigned by region based upon the location of each legal entity.

During the latter part of fiscal year 2000, management changed the composition of our reportable segments for operating income (loss), in order to disclose components related to the corporate segment. Prior period segment information has not been restated to separately disclose corporate segment data, as it is impracticable to do so.

(In Thousands)	THREE MONTHS ENDED JULY 31,		SIX MONTHS ENDED JULY 31,	
	2000	1999	2000	1999
REVENUE				
North America	$ 20,310	$ 25,026	$ 41,401	$ 45,900
EMEA	21,674	21,034	42,081	42,119
Asia Pacific	9,358	9,318	17,282	17,236
Latin America	1,906	2,936	4,081	6,397
	$ 53,248	$ 58,314	$ 104,845	$ 111,652
OPERATING INCOME (LOSS):				
North America	$ 1,836	$ 309	$ 3,041	$ (5,819)
EMEA	(502)	(918)	(1,390)	(2,881)
Asia Pacific	(1,737)	(203)	(4,004)	(1,517)
Latin America	(1,573)	(658)	(2,662)	(657)
Corporate	(2,589)	-	(7,522)	-
Restructuring charge	-	(1,152)	-	(1,152)
	$ (4,565)	$ (2,622)	$ (12,537)	$ (12,026)

	JULY 31, 2000	JANUARY 31, 2000
IDENTIFIABLE ASSETS:		
North America	$ 60,374	$ 96,853
EMEA	77,136	84,233
Asia Pacific	27,194	24,575
Latin America	8,147	8,710
	$ 172,851	$ 214,371

6. BUSINESS ACQUISITIONS

In July 2000, we acquired certain assets and liabilities of an Italy-based distributor, Atos Italy S.p.A. The cost of the acquisition totaled $1.7 million. The acquisition was accounted for using the purchase method. Goodwill related to the acquisition of $1.0 million is being amortized over ten years.

Results of operations have been included in the financial statements since the acquisition date. The historical operations of the acquired company are not material to our consolidated operations or financial position. Therefore, supplemental pro forma information has not been presented.

7. SUBSEQUENT EVENTS

On August 22, 2000, we announced an initiative to sharpen the focus of our e-business and business intelligence solutions for multinational customers. In

connection with this shift, we expect to take a restructuring charge in the third quarter ending October 31, 2000. Our initial estimate of this charge is between $3.0 million and $5.0 million. The charge will primarily relate to costs associated with the reduction of personnel and facilities consolidation.

On September 8, 2000, we entered into a five-year secured credit facility ("the facility") with Foothill Capital Corporation ("Foothill"). The maximum available amount of borrowings under the credit facility is $30.0 million. The facility is secured by certain assets of QAD Inc. The facility includes a $15.0 million term loan with a five-year amortization schedule. The term loan may be re-loaded to $15.0 million on an annual basis. Borrowings under the term loan portion of the facility bear interest at prime rate plus 3.75%. The maximum borrowings under the revolving portion of the facility are subject to the borrowing base less the amount of term loan outstanding and bear interest based on a floating rate of either LIBOR or prime rate plus the corresponding margin. We pay an annual commitment fee of 0.375% calculated on the average unused portion of the $30.0 million credit line.

On September 11, 2000, we drew $15.0 million on the term portion of the facility and $10.0 million of these proceeds were used to retire the existing debt with Bank One in its entirety. As of September 11, 2000, approximately $4.8 million was available and unused on the revolving portion of the Foothill credit facility.

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

FORWARD LOOKING STATEMENT

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements. These statements typically are preceded or accompanied by words like "believe," "anticipate," "expect" and words of similar meaning. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as other factors detailed in our Annual Report on Form 10-K for the year ended January 31, 2000. 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, 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 future Quarterly Reports on Form 10-Q to be filed by QAD in fiscal year 2001.

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED JULY 31,		SIX MONTHS ENDED JULY 31,	
	2000	1999	2000	1999
Revenue:				
License fees	34%	35%	32%	37%
Maintenance and other	45	40	45	40
Services	21	25	23	23
Total revenue	100	100	100	100
Costs and expenses:				
Cost of license fees	5	8	6	9
Other cost of revenue	41	37	42	37
Sales and marketing	32	32	33	36
Research and development	17	14	18	16
General and administrative	11	10	11	10

Amortization of intangibles from acquisitions	3	2	2	2
Restructuring charge	0	2	0	1
Total costs and expenses	109	105	112	111
Operating loss	(9)	(5)	(12)	(11)
Other expense	1	0	1	0
Loss before income taxes	(10)	(5)	(13)	(11)
Income tax expense	7	2	4	1
Net loss	(17)%	(7)%	(17)%	(12)%

TOTAL REVENUE. Total revenue for the second quarter of fiscal year 2001 was $53.2 million, a decline of $5.1 million, or 9% from $58.3 million in the second quarter of fiscal year 2000. Total revenue for the six months ended July 31, 2000 was $104.8 million, a decline of 6% or $6.8 million from $111.7 million in the comparable prior year period. This decrease in total revenue on both a quarter-to-quarter and year-to-year basis was primarily due to declines in license fee and services revenues.

Although the Year 2000 capital spending lock-down is substantially over, customers have not yet resumed former buying levels. They are instead taking the time to evaluate their e-business strategies before investing in associated software, resulting in our license revenue decline. The decrease in services revenue relates to decreased utilization of our service consultants in conjunction with lower license sales. Maintenance revenue continues to grow due to expansion of our installed base.

As a result of these factors, our revenue mix has shifted away from higher margin license revenue, from 37% of total revenue in the first six months of fiscal year 2000 to 32% in the first six months of fiscal year 2001, toward lower margin maintenance and other revenue.

TOTAL COST OF REVENUE. Total cost of revenue (combined cost of license fees and other cost of revenue) as a percentage of total revenue increased slightly from 45% in the second quarter of fiscal year 2000 to 46% in the second quarter of fiscal year 2001. Total cost of revenue also increased slightly from 46% in the first six months of fiscal year 2000 to 48% in the first six months of fiscal year 2001. These increases were primarily due to the shift in revenue mix away from the higher margin license business and toward lower margin maintenance and other revenue.

SALES AND MARKETING. Sales and marketing expense decreased 8% to $17.0 million for the second quarter of fiscal year 2001 from $18.6 million in the comparable prior year period. On a year-to-date basis, sales and marketing expense declined $6.0 million or 15% to $34.1 million compared to the first six months of fiscal year 2000. The decline in spending was primarily due to continued cost control measures, as well as lower commission expense on decreased revenue.

RESEARCH AND DEVELOPMENT. Research and development expense increased 8% to $9.2 million for the second quarter of fiscal 2001 from $8.5 million in the second quarter of fiscal 2000. During the six months ended July 31, 2000, research and development expense increased 8% to $18.8 million from $17.5 million in the same prior year period. These changes were primarily due to increased investment in QAD eQ and our web-enabled ERP products.

GENERAL AND ADMINISTRATIVE. General and administrative expense remained relatively flat for both the three-month and six-month periods of fiscal years 2001 and 2000 at $5.9 million and $5.6 million for the quarter ended July 31, 2000 and 1999 and $11.5 million and $11.6 million for the six-month period ended July 31, 2000 and 1999, respectively.

RESTRUCTURING CHARGE. In response to changes in customers' manufacturing capital software spending patterns, we undertook a restructuring program in October 1998 that more closely aligned costs with sales expectations. This program was continued in fiscal year 2000 with an additional charge of $1.2 million recorded in the second quarter.

On August 22, 2000, we announced an initiative to sharpen the focus of our e-business and business intelligence solutions for multinational customers. In connection with this shift, we expect to take a restructuring charge in the third quarter ending October 31, 2000. Our initial estimate of this charge is

between $3.0 million and $5.0 million. The charge will primarily relate to costs associated with the reduction of personnel and facilities consolidation.

INCOME TAXES. We recorded income tax expense of $4.4 million for the six months ended July 31, 2000. This includes $1.2 million for taxes in the jurisdictions that were profitable for the first six months and a $3.2 million valuation allowance on U.S. deferred tax assets recorded in the second quarter. This compares to income tax expense of $1.1 million for the first six months of fiscal year 2000, representing taxes for the jurisdictions that were profitable during that period. We have not provided benefit for the jurisdictions in loss positions due to management's determination regarding the uncertainty of the realization of these benefits in the current year.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our operations and met our capital expenditure requirements through cash flows from operations, sale of equity securities and borrowings. We had working capital of $13.0 million and $31.7 million as of July 31, 2000 and January 31, 2000, respectively. Cash and equivalents were $27.2 million and $35.9 million at July 31, 2000 and January 31, 2000, respectively.

Accounts receivable, net of allowances, decreased to $73.2 million at July 31, 2000 from $98.6 million at January 31, 2000. Accounts receivable days sales outstanding decreased to 124 days at July 31, 2000 from 125 days at January 31, 2000. We are continuing our focus on sales terms and collection processes to further improve cash flows and working capital.

Net cash provided by (used in) operating activities was $4.8 million and $(2.4) million for the six months ended July 31, 2000 and 1999, respectively. The year-over-year improvement relates primarily to higher accounts receivable collections.

Net cash used in investing activities primarily relates to the purchase of property and equipment and the sale of short-term cash investments in the six months ended July 31, 1999, and aggregated $5.4 million and $2.0 million in the six months ended July 31, 2000 and 1999, respectively. At July 31, 2000 we had no material commitments for capital expenditures.

Net cash provided by (used in) financing activities totaled $(6.3) million and $4.3 million for the six months ended July 31, 2000 and 1999, respectively, and was composed of net proceeds and repayments of borrowings and issuance of common stock.

On September 8, 2000, we entered into a five-year secured credit facility with Foothill Capital Corporation. The maximum available amount of borrowings under the credit facility is $30.0 million. The facility includes a $15.0 million term loan with a five-year amortization schedule. The term loan may be re-loaded to $15.0 million on an annual basis. The maximum borrowings under the revolving portion of the facility are subject to the borrowing base less the amount of term loan. On September 11, 2000, we drew $15.0 million on the term portion of the facility and $10.0 million of these proceeds were used to retire the existing debt with Bank One in its entirety. As of September 11, 2000, approximately $4.8 million was available and unused on the revolving portion of the Foothill credit facility.

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

RECENT ACCOUNTING STANDARDS

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" (FIN 44). FIN 44 provides guidance for issues arising in applying APB Opinion No. 25, "Accounting for Stock Issued to Employees." FIN 44 applies specifically to new awards, exchanges of awards in a business combination, modification to outstanding awards, and changes in grantee status that occur on or after July 1, 2000, except for the provisions related to repricings and the definition of an employee, which apply to awards issued after December 15, 1998. Application of FIN 44 did not have an effect on our financial reporting.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information concerning market risk is contained on Page 26 of our annual report on Form 10-K for the year ended January 31, 2000 and is incorporated by reference to such annual report.

PART II

ITEM 2 - CHANGES IN SECURITIES

During the quarter, we issued an aggregate of 290,205 shares of our common stock upon the exercise of outstanding options to purchase our common stock. A portion of those shares were issued pursuant to an exemption by reason of Rule 701 under the Securities Act of 1933.

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

At the annual meeting of stockholders held on June 8, 2000, the following proposals were adopted:

(1) To elect two directors to hold office for a term of three years until the annual meeting of stockholders in the year 2003 (Class II Directors):

	VOTES FOR	VOTES WITHHELD
Karl F. Lopker	30,702,077	280,332
Pamela M. Lopker	30,838,222	144,187

(2) Ratification of appointment of KPMG LLP as the Company's independent auditors for the Company's 2001 fiscal year:

VOTES FOR	VOTES AGAINST	ABSTENTIONS
30,888,821	35,162	58,426

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

27 Financial Data Schedule

b) Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended July 31, 2000.

Signatures

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

QAD INC.
(Registrant)

Date: September 13, 2000

By /s/ KATHLEEN M. FISHER

Kathleen M. Fisher
Chief Financial Officer
(on behalf of the registrant)

By /s/ CHERYL M. SLOMANN

Cheryl M. Slomann
Chief Accounting Officer
(Principal Accounting Officer)

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AS OF JULY 31, 2000 AND THE CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED JULY 31, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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