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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2008

OR

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

For the transition period from _____ to _____

Commission file number 0-22823

QAD Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller Reporting Company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒.

The number of shares outstanding of the issuer's common stock as of June 1, 2008 was 30,579,967.

**QAD INC.
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PART I

ITEM 1 — FINANCIAL STATEMENTS

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

	April 30, 2008	January 31, 2008
Assets		
Current assets:		
Cash and equivalents	\$ 45,841	\$ 45,613
Marketable securities	228	—
Accounts receivable, net	58,852	83,027
Other current assets	<u>24,437</u>	<u>22,742</u>
Total current assets	129,358	151,382
Property and equipment, net	42,914	42,450
Capitalized software costs, net	8,275	8,783
Goodwill	23,427	22,591
Other assets, net	<u>12,212</u>	<u>10,687</u>
Total assets	<u>\$ 216,186</u>	<u>\$ 235,893</u>
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 272	\$ 274
Accounts payable	7,700	12,249
Deferred revenue	82,143	89,349
Other current liabilities	<u>33,887</u>	<u>40,664</u>
Total current liabilities	124,002	142,536
Long-term debt	16,929	16,998
Other liabilities	4,181	3,764
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value. Authorized 5,000,000 shares; none issued and outstanding	—	—
Common stock, \$0.001 par value. Authorized 150,000,000 shares; issued 35,349,867 and 35,347,367 shares at April 30, 2008 and January 31, 2008, respectively	35	35
Additional paid-in capital	137,006	135,362
Treasury stock, at cost (4,797,835 and 4,596,476 shares at April 30, 2008 and January 31, 2008, respectively)	(38,094)	(36,336)
Accumulated deficit	(23,320)	(21,596)
Accumulated other comprehensive loss	<u>(4,553)</u>	<u>(4,870)</u>
Total stockholders' equity	<u>71,074</u>	<u>72,595</u>
Total liabilities and stockholders' equity	<u>\$ 216,186</u>	<u>\$ 235,893</u>

See Accompanying Notes to Condensed Consolidated Financial Statements.

QAD INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended	
	April 30,	
	2008	2007
Revenue:		
License fees	\$ 11,961	\$ 10,197
Maintenance and other	34,159	31,037
Services	<u>20,718</u>	<u>15,410</u>
Total revenue	66,838	56,644
Costs and expenses:		
Cost of license fees	2,288	1,863
Cost of maintenance, service and other revenue	27,689	22,919
Sales and marketing	18,249	16,093
Research and development	11,074	10,443
General and administrative	8,323	8,127
Amortization of intangibles from acquisitions	<u>178</u>	<u>211</u>
Total costs and expenses	67,801	59,656
Operating loss	(963)	(3,012)
Other expense (income):		
Interest income	(385)	(585)
Interest expense	316	319
Other expense (income), net	<u>342</u>	<u>(76)</u>
Total other expense (income)	273	(342)
Loss before income taxes	(1,236)	(2,670)
Income tax benefit	(506)	(778)
Net loss	\$ (730)	\$ (1,892)
Basic net loss per share	\$ (0.02)	\$ (0.06)
Diluted net loss per share	\$ (0.02)	\$ (0.06)

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	April 30,	
	2008	2007
Cash flows from operating activities:		
Net loss	\$ (730)	\$ (1,892)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,659	2,185
Provision for doubtful accounts and sales adjustments	(159)	243
Gain on disposal of property and equipment	—	(56)
Stock compensation expense	1,604	1,477
Other, net	(77)	(120)
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	25,206	13,716
Other assets	(2,035)	265
Accounts payable	(2,698)	(3,289)
Deferred revenue	(8,660)	(4,091)
Other liabilities	(7,300)	(6,652)
Net cash provided by operating activities	7,810	1,786
Cash flows from investing activities:		
Purchase of property and equipment	(1,579)	(1,209)
Capitalized software costs	(326)	(447)
Acquisition of businesses, net of cash acquired	(2,350)	(861)
Proceeds from sale of property and equipment	—	57
Net cash used in investing activities	(4,255)	(2,460)
Cash flows from financing activities:		
Repayments of debt	(71)	(61)
Proceeds from issuance of common stock	232	1,433
Changes in cash overdraft	(856)	(423)
Dividends paid	(769)	(811)
Repurchase of common stock	(2,219)	—
Net cash (used in) provided by financing activities	(3,683)	138
Effect of exchange rates on cash and equivalents	356	1,807
Net increase in cash and equivalents	228	1,271
Cash and equivalents at beginning of period	45,613	54,192
Cash and equivalents at end of period	<u>\$ 45,841</u>	<u>\$ 55,463</u>

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements fairly present the financial information contained therein. These statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The Condensed Consolidated Financial Statements do not include all disclosures required by accounting principles generally accepted in the United States of America for annual financial statements and should be read in conjunction with the audited financial statements and related notes included in the Annual Report on Form 10-K for the year ended January 31, 2008 of QAD Inc. (QAD or the Company). The results of operations for the three months ended April 30, 2008 are not necessarily indicative of the results to be expected for the year ending January 31, 2009.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Determination of the Useful Life of Intangible Assets

In April 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 142-3, "Determination of the Useful Life of Intangible Assets." This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141 (Revised 2007), "Business Combinations," and other U.S. generally accepted accounting principles (GAAP). This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently assessing the impact the adoption of this FSP will have on its financial position, results of operations or cash flows.

Business Combinations

In December 2007, the FASB issued SFAS 141 (revised 2007), "Business Combinations" (SFAS 141R). The objective of the Statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R requires that all business combinations be accounted for by applying the acquisition method (previously referred to as the purchase method), and most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in business combinations to be recorded at "full fair value". SFAS 141R also broadens the definition of a business and changes the treatment of direct acquisition-related costs from being included in the purchase price to instead being generally expensed if they are not costs associated with issuing debt or equity securities. SFAS 141R is effective for the Company beginning February 1, 2009, and will be applied prospectively to any new business combination.

Minority Interests

In December 2007, the FASB issued SFAS 160, "Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, amendment of ARB 51" (SFAS 160). The objective of the Statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 specifies that noncontrolling interests (previously referred to as minority interests) be reported as a separate component of equity, not as a liability or other item outside of equity, which changes the accounting for transactions with noncontrolling interest holders. SFAS 160 is effective for the Company beginning February 1, 2009, and will be applied prospectively to all noncontrolling interests, including any that arose before that date.

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

3. COMPUTATION OF NET LOSS PER SHARE

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

	Three Months Ended April 30,	
	2008	2007
	(in thousands, except per share data)	
Net loss	\$ (730)	\$ (1,892)
Weighted average shares of common stock outstanding — <i>basic</i>	30,678	32,426
Weighted average shares of common stock equivalents issued using the treasury stock method	—	—
Weighted average shares of common stock and common stock equivalents outstanding — <i>diluted</i>	30,678	32,426
Basic net loss per share	\$ (0.02)	\$ (0.06)
Diluted net loss per share	\$ (0.02)	\$ (0.06)

Common stock equivalent shares consist of the shares issuable upon the vesting of restricted stock units (RSUs) and the exercise of stock options and stock-settled stock appreciation rights (SARs) using the treasury stock method. For the three months ended April 30, 2008 and 2007, shares of common stock equivalents of approximately 3.1 million and 4.1 million, respectively, were not included in the diluted calculation because they were anti-dilutive.

4. COMPREHENSIVE LOSS

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

	Three Months Ended April 30,	
	2008	2007
	(in thousands)	
Net loss	\$ (730)	\$ (1,892)
Foreign currency translation adjustments	317	1,348
Comprehensive loss	\$ (413)	\$ (544)

5. FAIR VALUE MEASUREMENTS

Effective February 1, 2008, the Company adopted SFAS 157 "Fair Value Measurements" (SFAS 157), except as it applies to the non-financial assets and non-financial liabilities subject to FSP SFAS 157-2. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value.

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

5. FAIR VALUE MEASUREMENTS (Continued)

Level 1 — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — Includes other inputs that are directly or indirectly observable in the marketplace.

Level 3 — Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

In accordance with SFAS 157, the Company measures its cash equivalents at fair value. Cash equivalents are classified within Level 1. This is because cash equivalents are valued primarily using quoted market prices. In the first quarter of fiscal 2009, the Company acquired auction rate securities. The main form of liquidity for auction rate securities has been weekly auctions. However, these auctions have not been successful in recent times. Without a liquid market for these securities and similar securities they were valued within the Level 3 value hierarchy. The Company has formed its own opinion on the condition of the securities based on information regarding the quality of the security, the quality of the collateral and consultations with an independent market participant who provided recent pricing for similar securities. A fair value was determined based on consideration by the Company of the above factors.

Assets measured at fair value are summarized below (unaudited, in thousands):

Description	April 30, 2008	Fair value measurement at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Equivalents:				
Money market mutual funds	\$ 29,259	\$ 29,259	\$ —	\$ —
Marketable Securities:				
Auction rate preferred securities	228	—	—	228
Total	\$ 29,487	\$ 29,259	\$ —	\$ 228

The following table presents the assets measured at fair value using significant unobservable inputs (Level 3) as defined in SFAS 157 at April 30, 2008 (unaudited, in thousands):

	(Level 3)
Balance at January 31, 2008	\$ —
Marketable securities	228
Balance at April 30, 2008	\$ 228

Effective February 1, 2008, the Company also adopted SFAS 159, “The Fair Value Option for Financial Assets and Financial Liabilities — including an Amendment of FASB Statement No. 115,” which allows an entity to choose to measure certain financial instruments and liabilities at fair value on a contract-by-contract basis. Subsequent fair value measurement for the financial instruments and liabilities an entity chooses to measure will be recognized in earnings. The Company did not elect such option for its financial instruments and liabilities.

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

6. BUSINESS COMBINATIONS

FullTilt

On April 28, 2008, the Company acquired certain assets of FullTilt Solutions, Inc. (FullTilt), in a transaction that constitutes a business combination. FullTilt is a provider of enterprise product information management software solutions. The acquisition was an investment aimed at expanding the Company's product offering and driving revenue growth which supports the premium paid over the fair market value of individual assets. The total purchase price at April 30, 2008, including acquisition expenses, was \$1.2 million. Net tangible assets acquired were \$0.3 million. The allocation of the total purchase price among intangible assets and in process research and development has not been completed. The unallocated purchase price of \$0.9 million is included in long-term assets in the Condensed Consolidated Balance Sheet as of April 30, 2008 pending final valuation. Any resulting goodwill will be allocated evenly among the North America and EMEA reporting units, where the Company's two main product fulfillment centers are located.

Thailand Minority Interest

The Thailand minority shareholders exercised their put option in April, 2007 to sell their shares, representing 25% ownership in the Thailand subsidiary, at fair value to the Company. Goodwill related to the transaction was \$0.7 million. During the first quarter of fiscal 2009, the execution of the put was finalized and \$1.2 million was paid to the minority shareholders.

7. CAPITALIZED SOFTWARE COSTS

Capitalized software costs and accumulated amortization at April 30, 2008 and January 31, 2008 were as follows:

	<u>April 30,</u> <u>2008</u>	<u>January 31,</u> <u>2008</u>
	(in thousands)	
Capitalized software costs:		
Acquired software technology	\$ 9,102	\$ 8,884
Capitalized software development costs	<u>3,436</u>	<u>3,103</u>
	12,538	11,987
Accumulated amortization	<u>(4,263)</u>	<u>(3,204)</u>
Capitalized software costs, net	<u>\$ 8,275</u>	<u>\$ 8,783</u>

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

Amortization of capitalized software costs was \$1.0 million for the three months ended April 30, 2008 and \$0.5 million for the three months ended April 30, 2007. Capitalized software is amortized over the product's estimated useful life, which is typically three years. Amortization of capitalized software costs is included in "Cost of license fees" in the accompanying Condensed Consolidated Statements of Operations. The estimated remaining amortization expenses related to capitalized software costs for the years ended January 31, 2009, 2010, 2011 and 2012 are \$3.1 million, \$3.5 million, \$1.6 million and \$0.1 million, respectively.

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

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The changes in the carrying amounts of goodwill for the three months ended April 30, 2008, by reporting unit, were as follows (reporting unit regions are defined in note 14 “Business Segment Information” within these Notes to Condensed Consolidated Financial Statements):

	<u>North America</u>	<u>EMEA</u>	<u>Asia Pacific (in thousands)</u>	<u>Latin America</u>	<u>Total</u>
Balances, January 31, 2008	\$ 4,133	\$ 16,650	\$ 991	\$ 817	\$ 22,591
Impact of foreign currency translation	—	822	(12)	26	836
Balances, April 30, 2008	<u>\$ 4,133</u>	<u>\$ 17,472</u>	<u>\$ 979</u>	<u>\$ 843</u>	<u>\$ 23,427</u>

The Company is required to analyze goodwill for impairment on at least an annual basis. Impairment is determined by estimating the fair value of the Company’s reporting units and comparing that value to the net carrying value (or book value). The Company has chosen the fourth quarter of its fiscal year as its annual test period. The Company performed its annual impairment test of goodwill in the fourth quarter of fiscal 2008 and determined that goodwill was not impaired.

Intangible Assets

	<u>April 30, 2008</u>	<u>January 31, 2008</u>
	<u>(in thousands)</u>	
Amortizable intangible assets		
Customer relationships	\$ 1,567	\$ 1,528
Trade name	593	565
Covenant not to compete	185	185
	<u>2,345</u>	<u>2,278</u>
Less: accumulated amortization	(1,340)	(1,130)
Net amortizable intangible assets	<u>\$ 1,005</u>	<u>\$ 1,148</u>

Intangible assets are included in “Other assets, net” in the accompanying Condensed Consolidated Balance Sheets. As of April 30, 2008 and January 31, 2008, all of the Company’s intangible assets, excluding goodwill, were determined to have definite useful lives and were subject to amortization. The aggregate amortization expense related to amortizable intangible assets was \$0.2 million for both the three months ended April 30, 2008 and 2007. The estimated remaining amortization expense related to amortizable intangible assets for the years ended January 31, 2009 and 2010 is \$0.5 million and \$0.5 million, respectively. No additional amortization of these assets is estimated in fiscal 2011 and thereafter.

9. DEBT

	<u>April 30, 2008</u>	<u>January 31, 2008</u>
	<u>(in thousands)</u>	
Total debt		
Notes payable	\$ 17,183	\$ 17,245
Capital lease obligations	18	27
	17,201	17,272
Less current maturities	(272)	(274)
Long-term debt	<u>\$ 16,929</u>	<u>\$ 16,998</u>

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

9. DEBT (Continued)

Notes Payable

In July 2004, the Company entered into a loan agreement with Mid-State Bank & Trust. The loan had an original principal amount of \$18.0 million and bears interest at a fixed rate of 6.5%. This loan is secured by real property located in Santa Barbara, California. The terms of the loan provide for the Company to make 119 monthly payments consisting of principal and interest totaling \$115,000 and one final principal payment of \$15.4 million. The loan matures in July 2014.

Credit Facility

Effective April 7, 2005, the Company entered into an unsecured loan agreement with Comerica Bank. The agreement provided for a three-year commitment. In April 2008, the agreement terminated. Effective April 10, 2008, the Company entered into a new unsecured loan agreement with Bank of America N.A. The agreement provides a three-year commitment for a \$20 million line of credit (the Facility). The Company will pay an annual commitment fee of between 0.25% and 0.50% calculated on the average unused portion of the \$20 million Facility. The rate is determined by the ratio of funded debt to the 12-month trailing EBITDA.

The Facility provides that the Company will maintain certain financial and operating covenants which include, among other provisions, a maximum total leverage ratio of 1.5 to 1.0, a minimum liquidity ratio of 1.3 to 1.0, a minimum 12-month trailing EBITDA of \$10 million and a minimum fixed charge coverage ratio of 2.00 to 1.00. Borrowings under the Facility bear interest at a floating rate based on LIBOR or prime plus the corresponding applicable margins, ranging from 0.75% to 1.75% for the LIBOR option or -0.25% to 0.25% for the prime option, depending on the Company's funded debt to 12-month trailing EBITDA ratio. At April 30, 2008, a prime rate borrowing would have had an effective rate of 3.55% and a 30-day LIBOR borrowing would have had an effective rate of approximately 4.75%.

As of April 30, 2008, there were no borrowings under the Facility and the Company was in compliance with the financial covenants.

10. INCOME TAXES

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) at the beginning of the fiscal year ended January 31, 2008. The total amount of gross unrecognized tax benefits as of the period ended April 30, 2008 was \$2.3 million. The entire amount of unrecognized tax benefits will impact the effective tax rate if recognized. Under FIN 48, the liability for unrecognized tax benefits is classified as long-term unless the liability is expected to conclude within 12 months of the reporting date. The Company reasonably expects that the unrecognized long-term tax liabilities will not materially change during the next 12 months.

The Company's policy is to include interest and penalties related to unrecognized tax contingencies within the provision for taxes on the Condensed Consolidated Statements of Operations. Upon adoption of FIN 48, the Company accrued approximately \$0.2 million for the payment of interest and penalties relating to unrecognized tax benefits. No other material adjustments have been made since adoption.

The Company files U.S. federal, state, and foreign tax returns that are subject to audit by various tax authorities. The Company is currently under audit in the United Kingdom and India for the fiscal year ended 2006 and by the California Franchise Tax Board for the fiscal years ended 2004 and 2005.

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

11. STOCK-BASED COMPENSATION

On February 1, 2006, the Company adopted SFAS 123R "Share-Based Payment" (SFAS 123R), which requires recognition of stock-based compensation expense for all equity awards using the fair-value measurement method. The Company's equity awards consist of options, stock-settled SARs and RSUs. For a description of the Company's stock-based compensation plans, see Note 11 "Stock-Based Compensation", in Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended January 31, 2008.

The following table sets forth reported stock compensation expense for the quarters ended April 30, 2008 and 2007.

	Three Months Ended April 30,	
	2008	2007
	(in thousands)	
Stock-based compensation expense:		
Cost of maintenance, service and other revenue	\$ 293	\$ 248
Sales and marketing	387	351
Research and development	244	221
General and administrative	680	657
Total stock-based compensation expense	<u>\$ 1,604</u>	<u>\$ 1,477</u>

Net cash received from options exercises for the three months ended April 30, 2008 was \$0.2 million. In accordance with SFAS 123R, the Company presents any benefits of realized tax deductions in excess of recognized compensation expense as cash flow from financing activities in the accompanying Condensed Consolidated Statement of Cash Flows, rather than as cash flow from operating activities, as was prescribed under accounting rules applicable prior to adoption of SFAS 123R. There were no excess tax benefits recorded for equity awards exercised in the three months ended April 30, 2008 and 2007.

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

	Three Months Ended April 30,	
	2008	2007
Expected life in years (1)	5.25	5.25
Risk free interest rate (2)	3.10%	4.59%
Volatility (3)	51%	59%
Dividend rate (4)	1.23%	1.04%

- (1) The expected life of SARs granted under the stock plans is based on historical exercise patterns, which the Company believes are representative of future behavior.
- (2) The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected life of the SARs in effect at the time of grant.
- (3) The Company estimates the volatility of its common stock at the date of grant based on the historical volatility of the Company's common stock, which it believes is representative of the expected volatility over the expected life of SARs.
- (4) The Company expects to continue paying quarterly dividends at the same rate as it has over the last year.

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

11. STOCK-BASED COMPENSATION (Continued)

The following table summarizes the activity for outstanding options and SARs for the three months ended April 30, 2008:

	Options/ SARs (in thousands)	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 31, 2008	5,628	\$ 7.98	5.4	\$ 7,273
Granted	100	8.03		
Exercised	(68)	3.77		
Expired	(36)	13.57		
Forfeited	(35)	8.13		
Outstanding at April 30, 2008	<u>5,589</u>	\$ 7.99	5.2	\$ 2,912
Vested and expected to vest at April 30, 2008 (1)	<u>5,312</u>	\$ 7.98	5.2	\$ 2,872
Vested and exercisable at April 30, 2008	<u>2,777</u>	\$ 7.90	4.3	\$ 2,448

- (1) The expected to vest options and SARs are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding equity awards.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the aggregate difference between the closing stock price of the Company's common stock on April 30, 2008 and the exercise price for in-the-money options) that would have been received by the option holders if all options and SARs had been exercised on April 30, 2008. The total intrinsic value of options and SARs exercised in the three months ended April 30, 2008 and 2007 was \$0.3 million and \$1.5 million, respectively. The weighted average grant date fair value per share of SARs granted in the three months ended April 30, 2008 and 2007 was \$3.51 and \$4.72, respectively. At April 30, 2008, there was approximately \$7.8 million of total unrecognized compensation cost related to unvested stock options and unvested SARs. This cost is expected to be recognized over a weighted-average period of approximately 1.4 years.

The estimated fair value of the RSUs was calculated based on the closing price of the Company's common stock on the date of grant, reduced by the present value of dividends foregone during the vesting period.

The following table summarizes the activity for RSUs for the three months ended April 30, 2008:

	RSUs (in thousands)	Weighted Average Grant Date Fair Value
Balance at January 31, 2008	334	\$ 8.17
Granted	<u>5</u>	\$ 7.44
Balance at April 30, 2008	<u>339</u>	\$ 8.16

Total unrecognized compensation cost related to RSUs was approximately \$2.2 million as of April 30, 2008. This cost is expected to be recognized over a period of approximately 3.2 years.

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

12. STOCKHOLDERS' EQUITY

Stock Repurchase Program

On September 6, 2007, the Company's Board of Directors approved a stock repurchase program which authorized management to purchase up to one million shares of the Company's common stock over the course of one year. As of January 31, 2008, 736,300 shares had been repurchased under the program at an average price of \$8.75 per share, including fees. During the first quarter of fiscal 2009, the Company repurchased the remaining 263,700 shares authorized under the program at an average price of \$8.42 per share, including fees, for total consideration of \$2.2 million. This program was completed as of April 30, 2008.

13. COMMITMENTS AND CONTINGENCIES

Indemnifications

The Company sells software licenses and services to its customers under written agreements. Each agreement contains the relevant terms of the contractual arrangement with the customer and generally includes certain provisions for indemnifying the customer against losses, expenses and liabilities from damages that may be awarded against the customer in the event the Company's software is found to infringe upon certain intellectual property rights of a third party. The agreement generally limits the scope of and remedies for such indemnification obligations in a variety of industry-standard respects, including, but not limited to, certain time-based and geography-based scope limitations and a right to replace an infringing product.

The Company believes its internal development processes and other policies and practices limit its exposure related to the indemnification provisions of the agreements. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under the agreements, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions.

Legal Actions

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

14. BUSINESS SEGMENT INFORMATION

The Company operates in geographic business segments. The North America region includes the United States, Canada and Trinidad. 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.

The geographic business segments derive revenue from the sale of licenses, maintenance and services to third-party customers. License revenue is assigned to the regions based on the proportion of commissions earned by each region. Maintenance revenue is allocated to the region where the end user customer is located. Services revenue is assigned based on the region where the services are performed.

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

14. BUSINESS SEGMENT INFORMATION (Continued)

Operating income (loss) attributable to each business segment is based upon management's assignment of revenue and costs. Regional cost of revenue includes the cost of goods produced by the Company's manufacturing operations at the price charged to the distribution operation. Income from manufacturing operations and research and development costs are included in the corporate operating segment. Property and equipment, net, are assigned by geographic region based upon the location of each legal entity.

	Three Months Ended	
	April 30,	
	2008	2007
	(in thousands)	
Revenue:		
North America ⁽¹⁾	\$ 28,302	\$ 22,968
EMEA	21,355	19,863
Asia Pacific	12,133	10,031
Latin America	5,048	3,782
	<u>\$ 66,838</u>	<u>\$ 56,644</u>
Operating income (loss):		
North America	\$ 3,146	\$ 2,338
EMEA	(285)	191
Asia Pacific	1,052	343
Latin America	243	(95)
Corporate	(5,119)	(5,789)
	<u>\$ (963)</u>	<u>\$ (3,012)</u>
	April 30,	January 31,
	2008	2008
	(in thousands)	
Property and equipment, net:		
North America	\$ 34,735	\$ 34,682
EMEA	6,422	6,082
Asia Pacific	1,273	1,247
Latin America	484	439
	<u>\$ 42,914</u>	<u>\$ 42,450</u>

- (1) Sales into Canada and Trinidad accounted for 3% of North America total revenue in the period ended April 30, 2008 and 4% for the period ended April 30, 2007.

ITEM 2 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements. These statements typically are preceded or accompanied by words like “believe,” “anticipate,” “expect” and words of similar meaning. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Part I, Item 1A entitled “Risk Factors” within our Annual Report on Form 10-K for the year ended January 31, 2008. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s opinions only as of the date hereof. We undertake no obligation to revise or update or publicly release the results of any revision or update to these forward-looking statements. Readers should carefully review the risk factors and other information described in other documents we file from time to time with the Securities and Exchange Commission.

INTRODUCTION

The following discussion should be read in conjunction with the information included within our Annual Report on Form 10-K for the year ended January 31, 2008, and the Condensed Consolidated Financial Statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

OVERVIEW

The Business

QAD Inc. was founded in 1979 and is a provider of enterprise software applications, professional services and application support that address the requirements of manufacturing companies. QAD Enterprise Applications includes modules formerly marketed as MFG/PRO and is QAD’s core product suite. QAD Enterprise Applications has been developed to address the needs of manufacturers in six principal industry segments: automotive, consumer products, high technology, food and beverage, industrial products and life sciences. We develop our products and services through consultation with customers and partners, ensuring that we are knowledgeable of requirements in the markets we serve. A key focus for QAD is addressing the needs of global manufacturers, enabling them to implement software applications to run their businesses almost anywhere in the world and meet local requirements while maintaining control of their business as a whole.

In addition to the delivery of QAD Enterprise Applications, QAD has developed a global services and application support capability with over 600 skilled personnel located throughout the world. QAD’s services and support capabilities are critical in delivering the value of its solutions to customers.

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition. We recognize revenue in accordance with the American Institute of Certified Public Accountant’s Statement of Position (SOP) No. 97-2, “Software Revenue Recognition,” (SOP No. 97-2) as modified by SOP No. 98-9, “Modification of SOP No. 97-2, Software Revenue Recognition with Respect to Certain Transactions” and Staff Accounting Bulletin (SAB) No. 104, “Revenue Recognition.”

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We recognize revenue when all of the following conditions are satisfied: (1) there is persuasive evidence of an arrangement; (2) the service or product has been delivered to the customer and no uncertainties exist surrounding product acceptance; (3) the collection of our fees is probable; and (4) the amount of fees to be paid by the customer is fixed or determinable.

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

License Revenue. Provided all other revenue recognition criteria have been met, we recognize license revenue on delivery using the residual method. When a license agreement includes one or more elements to be delivered at a future date, we recognize revenue in one of two ways. If vendor-specific objective evidence (VSOE) of the fair value of all undelivered elements exists, the revenue for the undelivered elements is deferred and the residual amount is allocated to the license revenue and recognized when the above criteria have been met. If VSOE for the fair value of the undelivered elements does not exist, revenue is deferred and recognized when VSOE for the fair value of the undelivered elements has been established or when delivery of all elements occurs. VSOE for the fair value is determined based on historical evidence of stand-alone sales of these elements to customers.

Revenue from our subscription product offerings, including our On Demand product, is recognized ratably over the contract period when the customer does not have the right to take possession of the software. For subscription arrangements where the customer has the right and ability to take possession of the software, revenue is recognized in accordance with SOP No. 97-2 using the residual method.

Our standard products do not require significant production, modification or customization of software or services that are essential to the functionality of the software. Certain judgments affect the application of our license revenue recognition policy, such as the assessment of collectibility, for which we review a customer's credit worthiness and our historical experience with that customer, as applicable.

Maintenance Revenue. Revenue from ongoing customer support and product updates is recognized ratably over the term of the maintenance period, which in most instances is one year. Software license updates provide customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support period on a when-and-if available basis. Product support includes Internet access to technical content, as well as Internet and telephone access to technical support personnel.

Services Revenue. Revenue from technical and implementation services is recognized as services are performed for time-and-materials contracts. At times our license and support arrangements include consulting implementation services sold separately under consulting engagement contracts. Consulting revenues from these arrangements are generally accounted for separately from software license revenues, because the arrangements qualify as service transactions as defined in SOP 97-2 and we have VSOE for the fair value of services. When the services are determined not to have been sold separately from our license and support arrangements, we allocate revenue to services based on the VSOE determined value of the services. Revenues for consulting services are generally recognized as the services are performed based on time and materials incurred during each reporting period. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is resolved.

On occasion, we enter into fixed-price services arrangements. We estimate the proportional performance on contracts with fixed or "not to exceed" fees on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project.

When an arrangement does not qualify for separate accounting of the software license and consulting transactions, the software license revenue is recognized together with the consulting services based on contract accounting using either the percentage-of-completion or completed-contract method.

Accounts Receivable Allowances. We review the collectibility of our accounts receivable each period by analyzing balances based on age and record specific allowances for any balances that we determine may not be fully collectible. We also provide an additional reserve based on historical data including analysis of write-offs and other known factors. The allowance for sales adjustments primarily relates to reserves required to adjust revenue to the amount that will actually be realized and provisions for sales adjustments are recorded against revenue. Provisions to the allowance for doubtful accounts relates to the customers' inability to pay existing accounts receivable balances and are included in bad debt expense in general and administrative expenses. Actual results may differ from our estimates for a variety of reasons.

Goodwill and Intangible Assets. Goodwill and other intangible assets at April 30, 2008 were \$23.4 million and \$1.0 million, respectively, and accounted for 11% of our total assets. All of our goodwill and intangible assets have been accounted for under the provisions of Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets" (SFAS 142). The excess cost of the acquisition over the fair value of the net assets acquired is recorded as goodwill. SFAS 142 requires that goodwill and intangible assets deemed to have indefinite lives not be amortized, but rather be tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment. Finite-lived intangible assets are required to be amortized over their useful lives and are subject to impairment evaluation under the provisions of SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144).

Goodwill is tested for impairment at least annually utilizing an "income approach" methodology, which utilizes a discounted cash flow method to determine the fair value of the reporting unit based on the present value of future benefits the reporting unit is expected to generate, and the "publicly-traded guideline company method" or the "market approach," which utilizes financial and valuation ratios of publicly traded companies that are considered comparable to QAD to determine if our valuation ratios are a fair measure of QAD's enterprise value. In assessing the recoverability of goodwill and intangible assets, we estimate future revenue and cash flow attributable to our reporting units and other factors in determining the fair value of our reporting units. These estimates contain management's best estimates, using appropriate and customary assumptions available at the time. For further discussion of goodwill, see note 8 "Goodwill and Intangible Assets" within the Notes to Condensed Consolidated Financial Statements.

Other intangible assets are tested for impairment when, in our judgment, events or changes in circumstances suggest that the carrying value of an asset may not be fully recoverable in accordance with SFAS 144. Other intangible assets arise from business combinations and consist of customer relationships, restrictive covenants related to employment agreements and trade names that are amortized, on a straight-line basis, over periods of up to five years. For further discussion of other intangible assets, see note 8 "Goodwill and Intangible Assets" within the Notes to Condensed Consolidated Financial Statements.

Capitalized Software Development Costs. We capitalize software development costs incurred once technological feasibility has been achieved in the form of a working model. These costs are primarily related to the localization and translation of our products. A working model is defined as an operative version of the computer software product that is completed in the same software language as the product to be ultimately marketed, performs all the major functions planned for the product and is ready for initial customer testing. We also capitalize software purchased from third parties or through business combinations as acquired software technology if such software has reached technological feasibility. Capitalized software costs are amortized on a product-by-product basis and charged to "Cost of license fees". The amortization is the greater of straight-line basis over three years, the expected useful life, or computed using a ratio of current revenue for a product compared to the estimated total of current and future revenues for that product. We periodically compare the unamortized capitalized software development costs to the estimated net realizable value of the associated product. The amount by which the unamortized capitalized software costs of a particular software product exceed the estimated net realizable value of that asset is reported as a charge to the statement of operations. This review requires management judgment regarding future cash flows. If these estimates or their related assumptions require updating in the future, we may be required to recognize write-offs for these assets.

Valuation of Deferred Tax Assets and Tax Contingency Reserves. SFAS 109, “Accounting for Income Taxes” (SFAS 109), requires that the carrying value of our deferred tax assets reflects an amount that is more likely than not to be realized. At April 30, 2008, we had \$21.9 million of deferred tax assets, net of valuation allowances, consisting of \$34.1 million of gross deferred tax assets offset by valuation allowances of \$12.2 million. In assessing the likelihood of realizing tax benefits associated with deferred tax assets and the need for a valuation allowance, we consider the weight of all available evidence, both positive and negative, including expected future taxable income and tax planning strategies that are both prudent and feasible. There was a net decrease of valuation allowances recorded in the first quarter of fiscal 2009 of \$1.5 million. Should we determine that we would not be able to realize all or part of the net deferred tax asset in the future, an adjustment to deferred tax assets would increase tax expense in the period such determination was made.

We adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109” (FIN 48) in fiscal 2008. Under FIN 48, we recognize a tax position when we determine that it is more likely than not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions that are more likely than not to be sustained, we measure the tax position at the largest amount of benefit that has a greater than 50 percent likelihood of being realized when it is ultimately settled. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition with respect to tax positions. We reflect interest and penalties related to income tax liabilities as income tax expense.

We have reserves for taxes to address potential exposures involving tax positions that could be challenged by taxing authorities, even though we believe that the positions taken on previously filed tax returns are appropriate. The tax reserves are reviewed as circumstances warrant and adjusted as events occur that affect our potential liability for additional taxes. We are subject to income taxes in the U.S. and in numerous foreign jurisdictions, and in the ordinary course of business there are many transactions and calculations where the ultimate tax determination is uncertain.

Stock-based Compensation Expense. SFAS 123 (revised 2004), “Share-Based Payment” (SFAS 123R) requires that share-based payment transactions with employees be accounted for using a fair-value-based method and expensed ratably over the vesting period of the stock instrument.

Stock-based compensation expense is based on the fair values of all stock-based awards as of the grant date. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating volatility, the expected life of the award, the percentage of awards that will be forfeited and other inputs. If actual forfeitures differ significantly from the estimates, stock-based compensation expense and our results of operations could be materially impacted.

Equity instruments issued to non-employees in exchange for services are recorded in accordance with the provisions of Emerging Issues Task Force Issue No. 96-18, “Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services” (EITF 96-18). Under this guidance, the fair value of the equity instruments is re-measured each period until the instruments vest. The incremental change is recorded as an expense in the period in which the change occurred.

RESULTS OF OPERATIONS

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

	Three Months Ended April 30,	
	2008	2007
Revenue:		
License fees	18%	18%
Maintenance and other	51	55
Services	31	27
Total revenue	100	100
Costs and expenses:		
Cost of license fees	3	3
Cost of maintenance, service and other revenue	42	41
Sales and marketing	27	28
Research and development	17	19
General and administrative	12	14
Amortization of intangibles from acquisitions	—	—
Total costs and expenses	101	105
Operating loss	(1)	(5)
Other expense (income)	1	—
Loss before income taxes	(2)	(5)
Income tax expense	(1)	(2)
Net loss	(1)%	(3)%

Total Revenue. Total revenue for the first quarter of fiscal 2009 was \$66.8 million, an increase of \$10.2 million, or 18%, from \$56.6 million in the first quarter of fiscal 2008. Total revenue increased across all revenue categories. Holding foreign currency exchange rates constant to those prevailing in the first quarter of fiscal 2008, total revenue for the current quarter would have been approximately \$64.3 million, or \$7.7 million higher when compared to the same period last year. When comparing categories within total revenue at constant rates, our current quarter results included higher revenue in all categories. Revenue outside the North America region as a percentage of total revenue was 58% in the first quarter of fiscal 2009, as compared to 59% in the same period of the prior fiscal year. Revenue increased across all regions during the first quarter of fiscal 2009 compared to the first quarter of fiscal 2008. The favorable currency impact of approximately \$2.5 million for the first quarter related mainly to fluctuations in the Euro.

License Revenue. License revenue was \$12.0 million for the first quarter of fiscal 2009, up \$1.8 million, or 18%, from \$10.2 million for the first quarter of fiscal 2008. Holding foreign currency exchange rates constant to those prevailing in the first quarter of fiscal 2008, license revenue for the current quarter would have been approximately \$11.6 million, representing a \$1.4 million, or 14%, increase from the same period last year. We experienced increases in license revenue in all of our geographic regions. When comparing the current quarter ended April 30, 2008 to the same quarter in the previous year, discounts granted to customers for software licenses have remained consistent. One of the metrics that management uses to measure license revenue performance is the number of customers that have placed sizable license orders in the period. During the first quarter of fiscal 2009, two customers placed license orders totaling more than \$300,000, of which one order exceeded \$1 million. This compared to the fiscal 2008 first quarter in which four customers placed license orders totaling more than \$300,000, none of which exceeded \$1 million.

Maintenance and Other Revenue. Maintenance and other revenue was \$34.2 million for the first quarter of fiscal 2009, representing an increase of \$3.2 million, or 10%, from \$31.0 million for the first quarter of fiscal 2008. Holding foreign currency exchange rates constant to those prevailing in the first quarter of fiscal 2008, first quarter fiscal 2009 maintenance and other revenue would have been approximately \$33.3 million, representing a \$2.3 million, or 7%, increase when compared to the prior year. Maintenance and other revenue increased across all regions for the quarter ended April 30, 2008, when compared to the same period ended April 30, 2007.

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We routinely measure our rate of contract renewals by determining the number of customer sites with active contracts as of the end of the previous reporting period and comparing this to the number of those same customers that have renewed, or are in the process of renewing, as of the current period end. Our maintenance contract renewal rate for the first quarter of both fiscal 2009 and 2008 was in excess of 90%.

Services Revenue. Services revenue was \$20.7 million for the first quarter of fiscal 2009, representing an increase of \$5.3 million, or 34%, when compared to the same period last year at \$15.4 million. Holding foreign currency exchange rates constant to those prevailing in the first quarter of fiscal 2008, services revenue for the first quarter of fiscal 2009 would have been approximately \$19.4 million, reflecting a \$4.0 million, or 26%, increase from the same period last year. Services revenue increased across all our geographic regions period over period.

Total Cost of Revenue. Total cost of revenue (combined cost of license fees and cost of maintenance, service and other revenue) for the first quarter was \$30.0 million for fiscal 2009 and \$24.8 million for fiscal 2008, and as a percentage of total revenue was 45% for the first quarter of fiscal 2009 and 44% for the first quarter of fiscal 2008. Holding foreign currency exchange rates constant to those prevailing during the first quarter of fiscal 2008, total cost of revenue for the first quarter of fiscal 2009 would have been approximately \$3.6 million higher at \$28.4 million and the cost of revenue percentage would have been 44%, reflecting the one percentage point impact of currencies on our margins. Changes in the cost of revenue as a percentage of total revenue were primarily due to changes in revenue mix as services revenues have lower margins in comparison to license and maintenance and other.

Sales and Marketing. Sales and marketing expense increased \$2.1 million, or 13%, to \$18.2 million for the first quarter of fiscal 2009 from \$16.1 million in the comparable prior year period. Holding foreign currency exchange rates constant to those prevailing in the first quarter of fiscal 2008, current quarter expense would have increased approximately \$1.3 million to \$17.4 million when compared with the same period last year. The increase in sales and marketing expense was primarily due to higher personnel costs related to higher salaries of \$0.6 million, higher bonuses of \$0.3 million, higher commissions of \$0.3 million and higher severance of \$0.2 million.

Research and Development. Research and development expense, which is managed on a global basis, increased \$0.7 million, or 7%, to \$11.1 million for the first quarter of fiscal 2009, when compared to the same quarter last year at \$10.4 million. Holding foreign currency exchange rates constant to those prevailing in the first quarter of fiscal 2008, current quarter expense would have been approximately \$10.5 million, or \$0.1 million higher than last year. Individual expenses within the research and development category remained fairly consistent period over period.

General and Administrative. General and administrative expense increased \$0.2 million, or 2%, to \$8.3 million for the first quarter of fiscal 2009 from the same quarter last year at \$8.1 million. Holding exchange rates constant to those prevailing in the first quarter of fiscal 2008, current quarter expense would have been approximately \$8.0 million, or \$0.1 million lower than last year. When compared to the same period in the prior year, the decrease in professional fees primarily due to lower tax consulting fees was partially offset by an increase in personnel expense primarily related to benefits, salaries and payroll taxes.

Amortization of Intangibles from Acquisitions. Amortization of intangibles from acquisitions was consistent period over period at \$178,000 for the current quarter compared to \$211,000 in the same quarter last year.

Other Expense (Income). Net other expense (income) was \$0.3 million and \$(0.3) million for the first quarter of fiscal 2009 and 2008, respectively. The \$0.6 million unfavorable change primarily related to \$0.4 million of unfavorable foreign exchange fluctuations. In addition, interest income decreased \$0.2 million due to both lower cash balances and lower interest rates.

Income Tax Benefit. We recorded income tax benefits of \$0.5 million and \$0.8 million for the first three months of fiscal 2009 and 2008, respectively. Our income tax rate increased to 41% for the first quarter of fiscal 2009 from 29% for the first quarter of fiscal 2008. The higher income tax rate for the first three months of the current year is due to changes in tax rates in our foreign jurisdictions and the impact of those rate changes on our deferred tax assets. Developing our effective tax rate for the year requires us to make estimates and forecasts of the geographic mix of profits. These estimates and forecasts are subject to change based on actual results. Based on our current estimates, we expect that our full year effective tax rate will be approximately 35%. However, Congress has not enacted the research and development credit for the current tax year, therefore the benefit that we received in the prior year for this credit is not reflected in our current year effective rate.

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. Our principal sources of liquidity are cash flows generated from operations, and our cash and equivalents balances. Cash and equivalents were \$45.8 million at April 30, 2008 and \$45.6 million at January 31, 2008.

Working Capital

Our working capital was \$5.4 million and \$8.8 million as of April 30, 2008 and January 31, 2008, respectively. The \$3.5 million decrease in working capital was primarily due to a \$22.0 million decrease in current assets, partially offset by an \$18.5 million decrease in current liabilities.

The \$22.0 million decrease in current assets related to a \$24.2 million decrease in accounts receivable, partially offset by a \$1.7 million increase in other current assets, a \$0.2 million increase in marketable securities and a \$0.2 million increase in cash and equivalents. The decrease in accounts receivable related primarily to seasonal declines following high year-end renewal billings. Other current assets increased primarily due to higher income tax receivable and higher prepaid marketing expenses partially offset by lower deferred royalties. Cash and equivalents increased from \$45.6 million at January 31, 2008 to \$45.8 million as of April 30, 2008. The increase in cash and equivalents was mainly due to cash flow from operations and more specifically from cash collected from our accounts receivable balances outstanding as of January 31, 2008. Cashflow from operations was offset by payments made for stock repurchases, purchases of fixed assets, dividend payments and acquisition related payments made during the first quarter of fiscal 2009. For additional explanation of cash changes, see the "Cash Flows" section below.

Current liabilities declined \$18.5 million due to a \$7.2 million decrease in deferred revenue, a \$6.8 million decrease in other current liabilities and a \$4.5 million decrease in accounts payable. Deferred revenue decreased \$7.2 million due to seasonal declines following high year-end maintenance renewal billings. The decrease in other current liabilities was primarily attributable to payments in the current year of prior year-end liabilities which included seasonally higher year-end commission, bonus and royalty liabilities.

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

DSO under the countback method was 90 days at April 30, 2008, compared to 58 days at January 31, 2008 and 92 days at April 30, 2007. DSO using the average method, which utilizes the accounts receivable balance and earned revenue in the calculation, was 79 days at April 30, 2008, compared to 99 days at January 31, 2008 and 87 days at April 30, 2007.

Cash Flows

The following is a summary of cash flows for the first three months of fiscal 2009 and 2008:

Operating Activities

Net cash provided by operating activities was \$7.8 million and \$1.8 million in the first quarter of fiscal 2009 and 2008, respectively. The increase from fiscal 2008 to 2009 related primarily to a larger decline in accounts receivable of \$11.5 million primarily due to higher collections in fiscal 2009 and a decrease in net loss of \$1.2 million. These changes which positively affected cash flow were partially offset by negative effects on cashflow related to deferred revenue of \$4.6 million and other assets of \$2.3 million. Other assets declined primarily due to changes in deferred tax assets.

Investing Activities

Net cash used in investing activities for the first quarter of fiscal 2009 and 2008 was \$4.3 million and \$2.5 million, respectively. The first three months of fiscal 2009 and 2008 included property and equipment purchases of \$1.6 million and \$1.2 million, respectively. Both fiscal 2009 and 2008 purchases primarily related to computer equipment and software. During the first quarter of fiscal 2009, we made two acquisition-related payments totaling \$2.4 million. On April 28, 2008, we acquired certain assets of FullTilt Solutions, Inc. for \$1.2 million. In addition, we made a final payment of \$1.2 million to buy out the minority interest shareholder in our Thailand subsidiary. In the same period in the prior year, we made additional progress payments of \$0.9 million related to our fiscal 2007 acquisitions.

Financing Activities

Net cash (used in) provided by financing activities was \$(3.7) million and \$0.1 million for the first quarter of fiscal 2009 and 2008, respectively. The first quarter of fiscal year 2009 included repurchases of common stock for \$2.2 million. Proceeds from the issuance of common stock, primarily related to the exercise of stock options was \$0.2 million and \$1.4 million in the first quarter of fiscal 2009 and 2008, respectively. In addition, \$0.8 million in dividends were paid to owners of QAD common stock during each of the first quarters of fiscal 2009 and 2008. Changes to cash overdraft was a reduction of \$0.9 million and \$0.4 million in the first quarter of fiscal year 2009 and 2008, respectively.

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

Contractual Obligations

Credit Facility

Effective April 7, 2005, we entered into an unsecured loan agreement with Comerica Bank. The agreement provided a three-year commitment. In April 2008, the agreement terminated. Effective April 10, 2008, we entered into a new unsecured loan agreement with Bank of America, N.A. The agreement provides a three-year commitment for a \$20 million line of credit (the Facility). We will pay an annual commitment fee of between 0.25% and 0.50% calculated on the average unused portion of the \$20 million Facility. The rate is determined by our ratio of funded debt to our 12-month trailing EBITDA.

The Facility provides that we will maintain certain financial and operating covenants which include, among other provisions, a maximum total leverage ratio of 1.5 to 1.0, a minimum liquidity ratio of 1.3 to 1.0, a minimum 12-month trailing EBITDA of \$10 million and a minimum fixed charge coverage ratio of 2.00 to 1.00. Borrowings under the Facility bear interest at a floating rate based on LIBOR or prime plus the corresponding applicable margins, ranging from 0.75% to 1.75% for the LIBOR option or -0.25% to 0.25% for the prime option, depending on our funded debt to 12-month trailing EBITDA ratio. At April 30, 2008, a prime rate borrowing would have had an effective rate of 3.55% and a 30-day LIBOR borrowing would have had an effective rate of approximately 4.75%.

As of April 30, 2008, there were no borrowings under the Facility and we were in compliance with the financial covenants of the Facility.

Notes Payable

In July 2004, we entered into a loan agreement with Mid-State Bank & Trust. The loan had an original principal amount of \$18.0 million and bears interest at a fixed rate of 6.5%. This loan is a non-recourse loan, which is secured by real property located in Santa Barbara, California. The terms of the loan provide that we will make 119 monthly payments consisting of principal and interest totaling \$115,000 and one final principal payment of \$15.4 million. The loan matures in July 2014. A portion of these proceeds were used to repay our then-existing construction loan with Santa Barbara Bank and Trust. The balance of the note payable at April 30, 2008 was \$17.2 million.

Obligations Associated with Acquisitions

In connection with the acquisitions of Precision and Bisgen in fiscal 2007, part of the purchase price consideration for each of these companies included deferred payments. Consideration for Precision included total deferred payments of \$7.2 million. In September 2007, we made the first anniversary payment of \$3.7 million and the second anniversary payment of \$3.5 million is due to be paid in September 2008. Consideration for Bisgen included deferred payments of \$0.7 million. In fiscal 2008, we paid \$0.1 million and an additional \$0.6 million is due to be paid in fiscal 2009.

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange. For the three months ended April 30, 2008 and 2007, approximately 35% of our revenue was denominated in foreign currencies. Approximately 45% of our expenses were denominated in currencies other than the U.S. dollar for both the three months ended April 30, 2008 and 2007. As a result, fluctuations in the values of the respective currencies relative to the currencies in which we generate revenue and incur expenses could adversely impact our results.

Fluctuations in currencies relative to the U.S. dollar have affected and will continue to affect period-to-period comparisons of our reported results of operations. Foreign currency transaction losses totaled \$0.4 million during the three months ended April 30, 2008 and was breakeven during the three months ended April 30, 2007. Due to constantly changing currency exposures and the volatility of currency exchange rates, we may experience currency losses in the future. We cannot predict the effect of exchange rate fluctuations upon future operating results. Although we do not currently undertake hedging transactions, we may choose to hedge a portion of our currency exposure in the future.

Interest Rates. We invest our surplus cash in a variety of financial instruments, consisting principally of bank time deposits and short-term marketable securities with maturities of less than one year. Our investment securities are held for purposes other than trading. Cash balances held by subsidiaries are generally invested in short-term time deposits with local operating banks. Additionally, our short-term and long-term debt bears interest at variable rates.

We prepared sensitivity analyses of our interest rate exposure and our exposure from anticipated investment and borrowing levels for fiscal 2009 to assess the impact of hypothetical changes in interest rates. Based upon the results of these analyses, a 10% adverse change in interest rates from the 2008 fiscal year-end rates would not have a material adverse effect on the fair value of investments and would not materially impact our results of operations or financial condition for fiscal 2009.

ITEM 4 — CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in this Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and instructions for Form 10-Q.

Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors reported in Item 1A within the Company's Annual Report on Form 10-K for the year ended January 31, 2008.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Stock repurchase activity during the three months ended April 30, 2008 was as follows:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)</u>
2/1/08 – 2/29/08	—	\$ —	—	263,700
3/1/08 – 3/31/08	64,600	\$ 8.46	64,600	199,100
4/1/08 – 4/30/08	199,100	\$ 8.40	199,100	—

- (1) In September 2007, the Board of Directors authorized an open market repurchase program for one year to buy up to one million shares of QAD common stock. As of January 31, 2008, 736,300 shares had been repurchased under the program. During the first quarter of fiscal 2009, 263,700 shares were repurchased and the program is completed as of April 30, 2008.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits

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

Signatures

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

QAD Inc.
(Registrant)

Date: June 9, 2008

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

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

Exhibit Index

Exhibit No.	Description
31.1	Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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**CERTIFICATIONS UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Karl F. Lopker, certify that:

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

Date: June 9, 2008

/s/ KARL F. LOPKER

Karl F. Lopker
Chief Executive Officer
QAD Inc.

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

I, Daniel Lender, certify that:

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

Date: June 9, 2008

/s/ DANIEL LENDER

Daniel Lender
Chief Financial Officer
QAD Inc.

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

In connection with the Quarterly Report of QAD Inc. (the "Company") on Form 10-Q for the period ending April 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karl F. Lopker, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: June 9, 2008

/s/ KARL F. LOPKER

Karl F. Lopker
Chief Executive Officer
QAD Inc.

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

In connection with the Quarterly Report of QAD Inc. (the "Company") on Form 10-Q for the period ending April 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel Lender, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: June 9, 2008

/s/ DANIEL LENDER

Daniel Lender
Chief Financial Officer
QAD Inc.