

2007 **QAD** ANNUAL REPORT



Shaping the Future of Global Manufacturing: The Perfect Lean Market

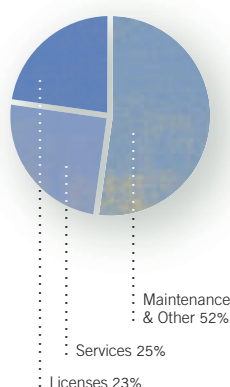
About QAD: QAD provides innovative enterprise software applications for leading global manufacturing companies. QAD applications are designed to simplify the management and enhance the efficiency of manufacturing resources and operations both within and beyond the enterprise, enabling companies throughout the world to collaborate with their customers, suppliers and partners.

FISCAL YEARS ENDED JANUARY 31

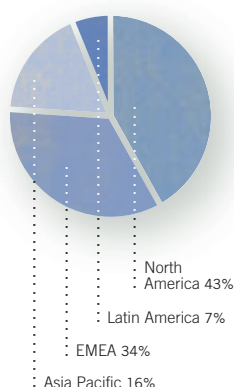
Amounts in thousands, except per share data

	2007	2006	2005
FINANCIAL HIGHLIGHTS:			
Total revenue	\$235,587	\$225,494	\$231,206
Net income	7,633	20,742	24,483
Diluted earnings per share	0.23	0.62	0.70
Cash, restricted cash and marketable securities	56,804	59,971	68,289
Total debt	17,543	17,789	25,636
Cash flow from operations	18,876	28,567	22,764

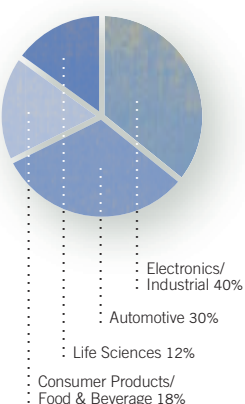
FY07 REVENUE BY CATEGORY



FY07 REVENUE BY REGION



FY07 REVENUE BY VERTICAL MARKET



MANUFACTURING, SOFTWARE AND THE PERFECT LEAN MARKET

For more than 25 years, QAD has been a leader in facilitating dramatic improvements in the speed and efficiencies of manufacturing production.

Efficiency is crucial to the success of every enterprise. For manufacturing companies, the need to continuously improve efficiencies—to be lean by reducing or eliminating waste in terms of time and materials—has never been more important than it is today. But in a world of increasing global competition, shrinking margins and accelerating time-to-market requirements, the never-ending quest to be lean represents new challenges.

We believe that lean principles can be applied to every link in the supply chain and every part of a manufacturer's enterprise. We also believe that accelerating every business function is critical. Procurement. Inventory. Logistics. Warehousing. Transportation. Distribution. Acceleration demands automation of the complex web of transactions, both financial and informational, which link these functions into a seamless whole.

We refer to our vision of this seamless whole as the Perfect Lean Market. It is the goal of manufacturers in every industry; enabling it through software is our goal at QAD.

In fact, the vision of the Perfect Lean Market drives everything we do. We believe that no company is better equipped than QAD to transform the Perfect Lean Market into a powerful competitive advantage.



Letter to our Shareholders

Dear Shareholders:

Fiscal 2007 was a productive and successful year for QAD as we continued to pioneer the delivery of elegant yet **powerful enterprise software solutions** specifically tailored to the needs of global manufacturers. Our distinct focus on, and commitment to, six key vertical markets within the manufacturing sector has allowed us to **build significant expertise** in helping customers around the world understand, manage and respond to customer demand.

For more than a quarter century, in partnership with our customers, QAD has been at the forefront of providing the evolving manufacturing industry with innovative and flexible products and services that support their long-term growth and competitive advantage. Over that time, our ability to supply manufacturers, both large and small, with a robust and easy-to-use product suite and unmatched service capabilities, has helped QAD grow its installed base to 5,800 licensed sites, running our software in as many as 27 languages, across more than 90 countries on six continents.

Continuing Financial Progress

QAD's strategy to broaden its product and service portfolio through a combination of strategic acquisitions and internal development helped the company achieve revenue of \$235.6 million in fiscal 2007, a 4 percent improvement over fiscal 2006. License revenue contributed \$54.4 million, or 23 percent, to the fiscal 2007 total, services revenue contributed \$58.4 million, or 25 percent, and maintenance and other revenue contributed \$122.8 million, or 52 percent.

We finished the year on a strong note, growing the contribution from license revenue to 30 percent of fiscal 2007 fourth quarter revenue, versus an average of 20 percent in each of the first three quarters of the fiscal year. License revenue also increased more than 10 percent in the last six months of fiscal 2007 when

compared to the same six months in fiscal 2006. These improvements were driven by the significant progress our sales organization made in progressively enhancing our sales funnel throughout the year. Our sales funnel also benefited from our new .NET user interface, which provides a flexible and consistent user experience; acquisitions we completed during fiscal 2007; and an improved environment for Enterprise Resource Planning (ERP) spending. We plan to continue our focus on building a solid base of new customer prospects.

Increases in services revenue resulted, in part, from our recent acquisitions, including Precision Software Limited and FBO Systems, Inc., which accounted for \$2.5 million of the \$8.0 million increase in this category from fiscal 2006, while ongoing customer renewal rates in the 90-plus

percent range positively impacted maintenance and other revenue in fiscal 2007. This is testament to the high quality of our products and services, as well as our ability to provide our customers with the means to remove complexity and costs from their manufacturing process.

We again demonstrated our ability to win large, competitive transactions during fiscal 2007, closing 22 deals each greater than \$1.0 million in size, of which seven were valued at \$2.0 million or more.

Operating income of \$8.1 million in fiscal 2007 was restrained somewhat by an aggressive research and development program aimed at further strengthening our enterprise solutions offering. We believe this investment advances QAD's position as a key enabler in helping the world's leading manufacturers compete more effectively. Over the last several years we have expanded our research and development capabilities to better serve the global nature of our organization. A majority of our R&D efforts are now based outside of the U.S., primarily in China and India, where we're focused on meeting the market's requirements for on-demand software applications. Fiscal 2007 operating income was also impacted by the adoption of accounting standard FAS 123R, requiring the expensing of equity compensation.

Net income was \$7.6 million, or \$0.23 per diluted share, and for the eighth consecutive year we generated positive annual cash flow from operations, with \$18.9 million in operating cash flow in fiscal 2007.

We continued to return significant value to our shareholders in the form of stock repurchases and dividends. We purchased approximately 790,000 shares of QAD common stock for a total of \$6.0 million during the year, reflecting our ongoing belief that our company's stock represents a sound long-term investment, while returning an additional \$3.2 million to shareholders through regular, quarterly dividend payments. We have always been committed to maximizing shareholder value and are continually identifying additional ways in which to further enhance that commitment.



Building a Stronger Company

During fiscal 2007 we made significant progress in our journey toward further strengthening QAD. Our efforts were focused on adding to our set of valued manufacturing solutions that are easy to implement and that support our manufacturing customers' global capabilities. We have long held the belief that manufacturers require a full, end-to-end ERP solution, and in fiscal 2007 we filled out our product offering to meet this demand. Our efforts proved successful as we implemented our strategy of expanding our product line through a combination of acquisitions and internal development.

One example of the progress we're making toward eliminating the complexities generally associated with managing a multi-national manufacturing enterprise is QAD Enterprise Applications 2007 (QAD 2007). As a result of close and ongoing collaboration between QAD and our customers, QAD 2007 is the company's first deployment-independent software suite.

QAD 2007 can be installed on-demand, on-premise or on-appliance, based on our customers' specific needs and requirements. The market is embracing on-demand technologies, and we are accelerating our innovation in this area.

At the same time, we recognize that not all manufacturers want or require on-demand software solutions. We created QAD 2007 with this in mind and believe that the deployment-independent nature of our newest software suite is important to our success in further penetrating our key manufacturing vertical markets.

QAD 2007 employs a service-oriented architecture (SOA) to maximize efficiency and productivity, while minimizing total cost of ownership. In fact, we've built our product architecture to be one of the least expensive products to run at our customers' sites. A recent study by Aberdeen Group, a leading provider of fact-based research focused on the global technology-driven value chain, validated our ability to reduce our customers' total cost of ownership and demonstrated that among five leading ERP providers, customers utilizing QAD's products realized a more than 18 percent reduction in cost across five key functional areas, more than three percentage points higher than the next closest competitor. QAD 2007 also showcases our new .NET user interface that provides our customers with a high level of usability, flexibility, performance and ease of deployment. We plan to continue investing in our .NET user interface to provide better integration of a new set of browses, new reporting, user-configurable screens, intuitive navigation, role-based collections of screens and better access to online product documentation.

In addition to our internal development activities, we closed several acquisitions in fiscal 2007 that added important capabilities to QAD. Bisgen Ltd. gave us the ability to deliver a powerful, integrated customer relationship management (CRM) solution that meets the unique needs of global manufacturers. Customers can now use QAD to manage leads and opportunities, improve sales force efficiency, increase close rates and create high-quality relationships with customers. Our software also manages marketing campaigns and supports efficient, effective lead generation. We also added the transportation management capabilities of Precision Software Limited, including global trade management and international regulatory compliance solutions. Our acquisition of FBO Systems, Inc. later in the fiscal year, broadened our offering in enterprise asset management, including the repair, maintenance and engineering activities required to manage plant assets and meet regulatory compliance requirements.

These acquisitions were rapidly and fully integrated into QAD's operations, and the new functionality has been consolidated into QAD 2007. Our sales organization is quickly moving up the learning curve on these new products and is very excited to discuss our ability to provide customers with end-to-end global capabilities that can boost the competitive advantage of their extended enterprises.

We serve a large and dynamic market that is facing increased globalization, a more competitive playing field, heightened customer demand for higher quality products and the need for lean, efficient operations and low-cost, ubiquitous technology. Because we know manufacturing inside and out, we believe we can continually distinguish ourselves by providing meaningful solutions to these challenges. With a mission to stay at the vanguard of the diverse and constantly changing requirements of our customers, we plan to increase our share of this important market.

With Sincere Appreciation

QAD has endured and prospered throughout many market cycles and changes. Over the years, our company has worked tirelessly to quickly adapt to these changes to provide increasing value and support to our customers. At the same time, we have maintained a strict discipline of creating additional value for our many stakeholder groups, including our shareholders, customers, employees and partners. We thank you all for your continued loyalty, support and endorsement.

We always have been committed to helping our customers achieve excellence in their manufacturing operations ... a commitment we take very seriously. We pride ourselves on going beyond simply

providing our customers with software and services that deliver value—we enable our customers' future success by anticipating and delivering solutions that will help them remain world-class manufacturers. We wear this as a true badge of honor.

Sincerely,



Karl F. Lopker
Chief Executive Officer



Pamela Meyer Lopker
Chairman of the Board and President



Working Within the Framework of the Perfect Lean Market

What is the Perfect Lean Market? It's a holistic framework for managing the flow of information throughout the extended enterprise that relies on interoperability and standards-based technology. More importantly, the Perfect Lean Market delivers powerful benefits. *It ensures that the right information is delivered at the right time to the right place. Automatically.* So that the people, the processes and the enterprises that depend on that information can put it to use in seconds.

For example, an automobile manufacturer experiences a surge in demand for metallic grey bodies with black cloth interiors for one of its popular models. In a Perfect Lean Market, the manufacturer's system broadcasts this change in customer demand to every relevant link in the supply chain, automatically, immediately and simultaneously. All suppliers respond in



near real-time by reconfiguring their own production processes to meet the new demand. And an almost instantaneous ripple effect occurs as all relevant systems reflect dynamic, real-time shifts in product requirements. Material and supplier requests ... purchase orders ... invoicing ... accounts receivable ... accounts payable ... and the general ledger. Scheduling and inventory management ... shipping and logistics. All updated automatically. The entire supply chain works in harmony striving to achieve one goal—satisfying the end demand of the customer.

In other words, production and distribution processes adjust, on the fly, without the flurry or the latency of chaotic messaging usually required in today's world. No frantic phone calls. No misplaced faxes. No lost e-mails. And no reduction in productivity.

In the Perfect Lean Market, the most valuable asset of all—information—is automatically and continuously broadcast across every step of the process of getting goods to market. No one in the supply chain will worry that someone, somewhere, is out of the loop.



The Five Building Blocks of the Perfect Lean Market

The Perfect Lean Market requires an open architecture, not unlike that of the Internet. And just as no one entity created the Internet, no one company can deliver the Perfect Lean Market. We believe that creating the Perfect Lean Market demands a collaborative effort—an ecosystem—based on a foundation of five central building blocks:

Automation

In the Perfect Lean Market, every transaction, from materials transfer orders to shipping notices to background financial transactions, should be seamlessly integrated into the production and distribution processes and broadcast to all relevant links automatically. Automating the flow of information enhances efficiency and reduces latency.

Connectivity

Automating the flow of information to enable the Perfect Lean Market demands connectivity using the open, standards-based approach of the Internet as well as *de facto* standards like supply visualization tools that facilitate easy sharing of data throughout the extended manufacturing enterprise.

Collaboration

The extended enterprise includes multiple links in the supply chain, and collaboration between and among those links is essential to the goal of the Perfect Lean Market. True collaboration requires electronically-mediated, system-to-system connections that enable diverse businesses to communicate seamlessly, automatically and in real-time.

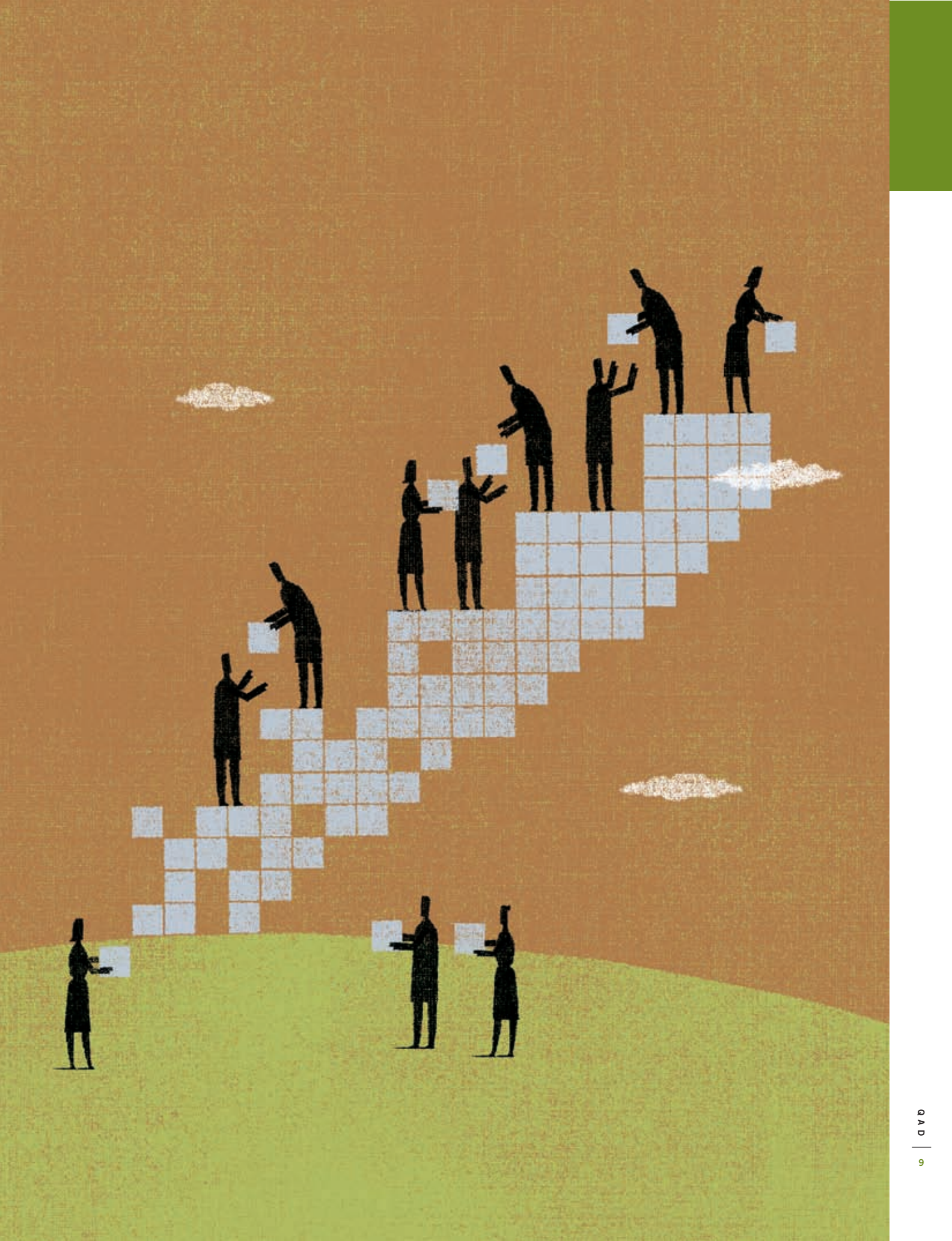
Standards

The open architecture of the Internet has demonstrated the immense utility of standards-based computing, and an acknowledged set of standards will facilitate the creation and deployment of the Perfect Lean Market. Messaging in the context of the Perfect Lean Market will reflect current and prevailing standards. Perhaps more importantly, the tools manufacturers use should reflect an emerging set of standards that facilitate interoperability, connectivity and collaboration.

Systems

Achieving the goal of real-time information flowing to every link of the supply chain will require an architecture that links a company's enterprise applications with those of its customers and suppliers: a flexible, interoperable and collaborative system that spans the entire supply chain. In the Perfect Lean Market, such systems will improve visibility and facilitate productive decision-making—and will reduce the chaos that reverberates throughout the supply chain in response to changes in demand.

Internet users no longer worry about the underlying technology that links their computers to the universe of the World Wide Web. In our vision of the Perfect Lean Market, manufacturing enterprises won't have to worry about integration and connectivity. Systems simply work, and they work together, dramatically improving the efficiency of people and processes. Achieving this goal within the broad manufacturing arena will require cooperation and collaboration on technology and processes.



Realizing the Vision of the Perfect Lean Market

QAD has been in the business of developing and applying innovative technology to the challenges of manufacturers for more than 25 years. Our track record, the strength of our technology foundation and our commitment to delivering tangible benefits to customers make us ideally positioned to facilitate the development of the Perfect Lean Market. The Perfect Lean Market is something to strive for, a vision. Realizing that vision will require evolution on the part of many, and QAD is committed to developing the technology that can make it happen.





CORPORATE INFORMATION

EXECUTIVE OFFICERS

Pamela Meyer Lopker
*Chairman of the Board
and President*

Karl F. Lopker
Chief Executive Officer

Daniel Lender
*Executive Vice President,
Chief Financial Officer*

Roland B. Desilets
*Executive Vice President,
General Counsel and Secretary*

BOARD OF DIRECTORS

Pamela Meyer Lopker
*Chairman of the Board
and President*

Karl F. Lopker
Chief Executive Officer

Scott J. Adelson
*Senior Managing Director,
Houlihan, Lokey, Howard & Zukin*

Peter R. van Cuylenburg
*Independent adviser to
high-technology companies*

Thomas J. O'Malia
*Director, Lloyd Greif Center for Entrepreneurial
Studies at the University of Southern California
Marshall School of Business*

A. Barry Patmore
Consultant, former Partner, Accenture

CORPORATE HEADQUARTERS

2111 Ortega Hill Road
Summerland, California 93067
Tel: 805.566.6000

Mailing Address:
6450 Via Real
Carpinteria, California 93013

NORTH AMERICA LOCATIONS

California
Canada
Colorado
Georgia
Illinois
Michigan
New Jersey
Texas

ASIA PACIFIC LOCATIONS

Australia
China
Hong Kong
India
Japan
Korea
New Zealand
Singapore
Thailand

EUROPE, MIDDLE EAST AND AFRICA LOCATIONS

Belgium
Czech Republic
France
Germany
Ireland
Italy
Netherlands
Poland
Portugal
South Africa
Spain
Switzerland
Turkey
United Kingdom

LATIN AMERICA LOCATIONS

Brazil
Mexico

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP
Los Angeles, California

LEGAL COUNSEL

Manatt, Phelps & Phillips, LLP
Los Angeles, California

INVESTOR RELATIONS

PondelWilkinson Inc.
Los Angeles, California
Tel: 310.279.5980

TRANSFER AGENT/REGISTRAR

American Stock Transfer & Trust Co.
New York, New York
Tel: 212.936.5100

STOCK INFORMATION

The company's common stock trades on the
Nasdaq Global Select Market under the symbol
"QADI."

ANNUAL REPORT ON FORM 10-K

A copy of the company's annual report to
the Securities and Exchange Commission on
Form 10-K is available without charge upon
request to the company's Investor Relations
department or from the company's Web site
at www.qad.com.

ANNUAL MEETING

The annual meeting of shareholders will be
held on June 6, 2007 at 10:00 a.m. Pacific
time at QAD Inc., 2111 Ortega Hill Road,
Summerland, CA 93067, Tel: 805.566.6000.
A formal Notice of Meeting, Proxy Statement
and Proxy will be sent to shareholders.

DIVIDEND REINVESTMENT PLAN

QAD's Dividend Reinvestment Plan offers
shareholders a convenient way to purchase
additional QAD Common Shares through
the reinvestment of dividends. For further
information concerning the Plan, contact
American Stock Transfer & Trust Company
by telephone at 888.888.0148 or at
www.amstock.com.

