

EPICOR SOFTWARE CORP  
Form 10-Q  
November 13, 2003  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended September 30, 2003

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 No. 0-20740

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**EPICOR SOFTWARE CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

33-0277592  
(IRS Employer Identification No.)

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**195 Technology Drive**

**Irvine, California 92618-2402**

**(Address of principal executive offices, zip code)**

**Registrant's telephone number, including area code: (949) 585-4000**

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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 an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes  No

As of October 30, 2003, there were 44,172,193 shares of common stock outstanding.

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**EPICOR SOFTWARE CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

*(in thousands)*

*(Unaudited)*

	<u>September 30,</u> <u>2003</u>	<u>December 31,</u> <u>2002</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 34,008	\$ 31,313
Accounts receivable, net	23,025	22,471
Prepaid expenses and other current assets	3,804	3,977
<b>Total current assets</b>	<b>60,837</b>	<b>57,761</b>
Property and equipment, net	2,796	2,972
Software development costs, net	200	1,007
Intangible assets, net	14,604	8,477
Goodwill	10,823	
Other assets	3,285	3,051
<b>Total assets</b>	<b>\$ 92,545</b>	<b>\$ 73,268</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,502	\$ 3,390
Accrued expenses	22,113	24,041
Current portion of long-term debt		2,229
Current portion of accrued restructuring costs	3,124	964
Deferred revenue	37,823	35,815
<b>Total current liabilities</b>	<b>67,562</b>	<b>66,439</b>
Long-term portion of accrued restructuring costs	1,787	3,043

Commitments and contingencies

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Stockholders' equity:		
Preferred stock	10,423	4,859
Common stock	46	44
Additional paid-in capital	251,661	246,936
Less: treasury stock at cost	(235)	(87)
Less: unamortized stock compensation expense	(6,126)	(723)
Less: notes receivable from officers for issuance of restricted stock		(7,796)
Accumulated other comprehensive loss	(936)	(2,305)
Accumulated deficit	(231,637)	(237,142)
	<u>          </u>	<u>          </u>
Net stockholders' equity	23,196	3,786
	<u>          </u>	<u>          </u>
Total liabilities and stockholders' equity	\$ 92,545	\$ 73,268
	<u>          </u>	<u>          </u>

See accompanying notes to condensed consolidated financial statements.

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## EPICOR SOFTWARE CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE

## OPERATIONS

*(in thousands, except per share amounts)**(Unaudited)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
<b>Revenues:</b>				
License fees	\$ 9,352	\$ 6,772	\$ 26,674	\$ 24,428
Consulting	10,637	9,115	27,752	28,638
Maintenance	19,797	17,492	55,358	51,624
Other	550	574	1,575	2,055
<b>Total revenues</b>	<b>40,336</b>	<b>33,953</b>	<b>111,359</b>	<b>106,745</b>
Cost of revenues	15,349	13,868	42,220	44,007
Amortization of intangible assets and capitalized software development costs	1,986	1,786	5,215	5,342
<b>Total cost of revenues</b>	<b>17,335</b>	<b>15,654</b>	<b>47,435</b>	<b>49,349</b>
<b>Gross profit</b>	<b>23,001</b>	<b>18,299</b>	<b>63,924</b>	<b>57,396</b>
<b>Operating expenses:</b>				
Sales and marketing	10,080	10,732	27,048	32,728
Software development	5,459	4,540	14,919	13,889
General and administrative	4,737	4,351	13,935	15,096
Provision for doubtful accounts	48	108	(841)	333
Stock-based compensation expense	1,125	204	2,216	638
Restructuring charges and other	(292)		937	
<b>Total operating expenses</b>	<b>21,157</b>	<b>19,935</b>	<b>58,214</b>	<b>62,684</b>
<b>Income (loss) from operations</b>	<b>1,844</b>	<b>(1,636)</b>	<b>5,710</b>	<b>(5,288)</b>
Other income, net	112	218	245	156
<b>Income (loss) before income taxes</b>	<b>1,956</b>	<b>(1,418)</b>	<b>5,955</b>	<b>(5,132)</b>
Provision for income taxes	118		208	
<b>Net income (loss)</b>	<b>\$ 1,838</b>	<b>\$ (1,418)</b>	<b>\$ 5,747</b>	<b>\$ (5,132)</b>
Value of beneficial conversion related to preferred stock			(241)	
<b>Net income (loss) applicable to common stockholders</b>	<b>\$ 1,838</b>	<b>\$ (1,418)</b>	<b>\$ 5,506</b>	<b>\$ (5,132)</b>

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Unrealized foreign currency translation adjustments	241	(172)	1,367	411
Comprehensive income (loss)	\$ 2,079	\$ (1,590)	\$ 6,873	\$ (4,721)
Net income (loss) per share applicable to common stockholders:				
Basic	\$ 0.04	\$ (0.03)	\$ 0.13	\$ (0.12)
Diluted	\$ 0.04	\$ (0.03)	\$ 0.11	\$ (0.12)
Weighted average common shares outstanding:				
Basic	43,179	44,071	42,926	43,681
Diluted	50,748	44,071	48,936	43,681

See accompanying notes to condensed consolidated financial statements.

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**EPICOR SOFTWARE CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(in thousands)*

*(Unaudited)*

	<b>Nine Months Ended September 30,</b>	
	<b>2003</b>	<b>2002</b>
<b>Operating activities</b>		
Net income (loss)	\$ 5,747	\$ (5,132)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7,034	8,193
Stock-based compensation expense	2,216	638
Write-down of capitalized software development costs and prepaid assets		716
Provision for doubtful accounts	(841)	259
Interest accrued on notes receivable from officers		