EPICOR SOFTWARE CORP
Form 10-K
April 01, 2002

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

                            FORM 10-K

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

        FOR THE YEAR ENDED DECEMBER 31, 2001

[ ]     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 0-20740

                   EPICOR SOFTWARE CORPORATION
          (Exact name of registrant as specified in its charter)

           DELAWARE                              33-0277592
    (State or other jurisdiction of           (I.R.S Employer
     incorporation or organization)          Identification No.)

                      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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Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $.001 pe
                                                                 Preferred Share Purchase Rights

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K is not contained herein, and will not be contained, to the
best of the registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K. [ ]

The aggregate market value of the registrant's voting Common Stock held by
non-affiliates of the registrant was approximately $79,773,558 (computed using
the closing sales price of $2.35 per share of Common Stock on March 15, 2002 as
reported by the Nasdaq National Market). Shares of Common Stock held by each
officer and director and each person who owns 5% or more of the outstanding
Common Stock have been excluded in that such persons may be deemed affiliates.
The determination of affiliate status is not necessarily a conclusive

determination for other purposes.

The number of shares of Common Stock outstanding as of March 15, 2002 was
44,814,605.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the Annual Meeting
of Stockholders to be held on May 14, 2002, which Proxy Statement will be filed
no later than 120 days after the close of the registrant's fiscal year ended
December 31, 2001, are incorporated by reference in Part III of this Annual
Report on Form 10-K.

PART I

ITEM 1. BUSINESS

INTRODUCTION

Epicor Software Corporation (Epicor or the Company) designs, develops, markets
and supports enterprise and eBusiness software solutions for use by mid-sized
companies as well as divisions and subsidiaries of larger corporations
worldwide. The Company's business solutions are focused on the midmarket, which
generally includes companies between $10 million and $500 million in annual
revenues. Epicor's solutions are designed to help companies focus on their
customers, suppliers, partners, and employees, through enterprise-wide
management of resources and information. This collaborative focus differentiates
the Company from conventional enterprise resource planning (ERP) vendors, whose
primary focus is improving internal business processes and efficiencies. By
automating and integrating information and critical business processes across
their entire value chain, midmarket companies can improve not just their bottom
line, but also their top line, allowing them to compete more effectively in
today's increasingly global economy.

The Company's products integrate back office applications for manufacturing,
distribution and accounting with front office applications for sales, marketing
and customer service and support. Epicor also provides integrated eCommerce
capabilities that allow companies to leverage the power of the Internet to allow
their organization to further extend beyond the traditional "four walls" of
their enterprise, and further integrate their operations with their customers,
suppliers and partners.

The Company offers solutions in the following areas:

    -    Customer Relationship Management (CRM) - Epicor's award-winning
         customer relationship management solution enables small and midsize
         enterprises to manage their entire customer lifecycle. Epicor's CRM
         solution enables businesses to gather, organize, track and share
         prospect, customer, competitor and product information, to boost
         revenues and increase customer satisfaction.

    -    Services and Distribution - Epicor's solutions for services and
         distribution companies are focused on delivering a complete, end-to-end
         enterprise and eBusiness solution. The distribution suite automates
         customer acquisition and order management through to warehouse
         fulfillment, accounting and customer service. Epicor's professional

services automation (PSA) solution provides service organizations with the tools to improve staff utilization, optimize resources and increase cash flow. The services and distribution suite includes integrated front office, back office, business intelligence, and collaborative commerce solutions tailored for specific vertical industries including financial services, professional services, hospitality, not for profit, software & computer services, sports & recreation, and wholesale distribution.

- Manufacturing – Epicor's manufacturing solutions provide integrated ERP and eBusiness solutions for make-to-order and mixed-mode manufacturers. The Company's solutions are designed to meet the challenges of today's manufacturing environment typified by short product lifecycles, constant process improvement and mass customization. The Company's products have been designed for specific types of manufacturers -- from a small job shop to a manufacturer of complex make-to-order components. The key industries on which Epicor focuses its manufacturing solutions include metal fabrication, capital equipment, electronics and aerospace.

- Supply Chain – Epicor's supply chain management solutions enable midmarket companies to extend and optimize their enterprises and more effectively collaborate with their customers, suppliers and partners. From business-to-business eCommerce applications for advanced planning and scheduling to warehouse management, forecasting and fulfillment, Epicor offers solutions that improve operational performance, while strengthening relationships across the supply chain to increase customer value.

The Company's software products incorporate a significant number of features localized to address international market opportunities, including support for multiple languages, multiple currencies and accounting for value-added taxation (VAT) and goods and services taxation (GST).

The Company offers consulting, training and support services to supplement the use of its software products by its customers. Midmarket companies require cost effective systems that have broad functionality, yet are rapidly implemented, easily adapted and highly configurable to their unique business requirements.

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The Company was incorporated in Delaware in November 1987 under the name Platinum Holdings Corporation. In September 1992, the Company changed its name to Platinum Software Corporation. In April 1999, the Company changed its name to Epicor Software Corporation. The Company has fourteen operating subsidiaries worldwide.

BACKGROUND

Epicor designs its products and services primarily for midmarket companies, which generally consist of companies with annual revenues between $10 million and $500 million, and emerging enterprises, which generally consist of rapidly growing businesses with annual revenues under $25 million. These rapidly growing organizations number in the hundreds of thousands worldwide. In the past, midmarket companies were underserved by traditional financial and ERP systems that had originally been designed for larger corporations. These enterprise systems, though highly functional, were also extremely complex and expensive to purchase, install and maintain. Further, the complexity of the infrastructure and on going maintenance to support these systems, often required a centralized deployment model. This limited access to critical data to the organization's management information services (MIS) department, which then limited timely availability of information to decision makers, managers and key employees.

Moreover, these mostly proprietary systems provided little flexibility or
adaptability to the constantly evolving requirements of midmarket companies.

The explosion of enterprise business applications began as an extension of the
corporate reengineering efforts of the early 1990s and the emergence of new
technology paradigms, including client/server computing. The dramatic
scalability, supportability and performance improvements made possible by
client/server and other open systems technologies based on Unix, Microsoft
Windows NT and Microsoft SQL Server, allowed many organizations to leverage this
technology and implement enterprise business applications for the first time. As
Fortune 1000 companies aggressively invested in information technology to help
them streamline and integrate disparate business processes, they created a
tremendous demand in the small to mid-size enterprise (SME) market for
enterprise-wide software applications that integrated business processes and
information. At first, only larger organizations had the technological
expertise, budget and ability to support the lengthy implementations typified by
the early solutions.

While SMEs understood the business value of enterprise applications, they lacked
the extensive resources required to implement and support such first-generation
solutions. In their own quest to boost productivity and profits as well as gain
a competitive advantage, mid-sized companies increasingly turned to integrated
application software to automate and link their business processes. Due to the
midmarket's unique business constraints of limited budgets and limited
implementation timeframes, "best-of-breed" solutions and after-market
application integrations were far too cumbersome and costly to be an effective
enterprise solution. Midmarket companies required highly functional software
applications that leveraged the new advances in client/server software
technology to deliver a truly integrated and enterprise-wide solution in a cost
effective manner.

Enterprise applications employed by mid-sized companies are required to satisfy
business and technology requirements that are significantly different from those
found in Fortune 1000 organizations. As a group, mid-sized companies face
tremendous global competitive pressures as they compete for business against
larger corporations, other mid-sized competitors and smaller start-ups. They
understand the need to remain close to their customers and to make the most
effective use of relatively limited resources. Mid-sized companies demand a
quick return on technology investments and require that solutions be affordable
not only to acquire and implement, but also to support throughout its entire
operational life span.

With respect to technology, mid-sized companies are practical consumers.
Mid-sized companies generally do not take risks on cutting-edge technology, but
instead typically select affordable, proven solutions. The last decade's
dramatic decrease in information technology costs, coupled with a simultaneous
increase in computing power, has made key new technologies accessible to this
cost-conscious market. Microsoft Corporation took advantage of increased
computing capabilities to develop Microsoft BackOffice(R), a robust network
operating system and scaleable relational database that provides smaller
businesses with a sophisticated technology infrastructure previously accessible
only to Fortune 1000 corporations. Microsoft has quickly become the fastest
growing technology platform, attracting midmarket companies with its features,
familiarity and ease-of-use.

The development of cost-effective infrastructures has increased the mid-sized
companies investment in enterprise applications. Epicor's product offerings,
product development efforts and services are focused on meeting the enterprise
business application needs of these growing mid-sized businesses.

Overall, the demand for enterprise applications continues to be very strong. AMR Research, Inc., an industry research organization, projects that the enterprise commerce management application market will grow 23% annually for the next several years, reaching more than $101 billion by 2005, up from just $36 billion in 2000.

TECHNOLOGY STRATEGY

The Company's technology strategy is to develop leading enterprise and eBusiness software applications using industry-standard tools where possible, and to take advantage of leading third-party, industry-standard technologies for database management systems, operating systems, user interfaces, infrastructure and connectivity (including Internet, intranet and extranet access). As the Company continues to deliver eBusiness and enterprise application solutions, it is increasingly looking to exploit new tools and standards for the Web to meet the needs of today's distributed Web Services world, which increasingly melds computing and communication paradigms as one across multiple devices. Businesses increasingly need to utilize a multi-channel world – the Internet, wireless, mobile, voice response, and personal digital assistants (PDA) to support business "anytime, anywhere". Epicor's enterprise as well as eCommerce applications continue to transition to smaller business components that will support true multi-channel eBusiness and collaborative commerce in a distributed computing world.

The Company will continue to focus on leveraging emerging and industry standard technologies to provide rapid return on investment and lower overall total cost of ownership for the Company's customers. Today, the Company's core product architecture incorporates the following:

Open Database Technology

The Company utilizes open database technology to provide extremely flexible, yet integrated enterprise business applications. This open database orientation is based on widely accepted database management systems. The Company's eBackOffice Distribution and Financials applications (formerly Platinum ERA) use the Microsoft SQL Server.NET Enterprise Server relational database management system (RDBMS). The Company has focused the development of its e by Epicor product line using Microsoft's industry-standard SQL language as the fundamental database access methodology for both transaction processing and analytics. Vantage, one of Epicor's manufacturing solutions, is designed for Progress Software Corporation's Progress RDBMS, but it is also available on the Microsoft SQL Server.NET Enterprise Server platform. The Company's Clientele suite leverages both the Microsoft Access and Microsoft SQL Server.NET Enterprise Server databases. The Company's Avante product leverages open database technology from IBM Corporation and its Vista product is built on Microsoft's FoxPro database and is also available on the Microsoft SQL Server. The Company has chosen these open databases in order to maximize the throughput of its customers' transactions, to provide realistic models of business data and to maximize price and performance under the budget constraints of its customer base.

Advanced Networking/Connectivity

The Company's products are designed to operate on local area networks (LAN), wide area networks (WAN), the Internet (including intranets and extranets) as well as through mobile and remote dial-up connections. The Company supports popular industry-standard networking protocols such as TCP/IP, Novell IPX/SPX and Microsoft NETBEUI/Named Pipes. The Company's connectivity and networking support offers advanced features such as: (i) concurrent access to data and critical functions for all network users; (ii) a high degree of fault tolerance;

(iii) high levels of security; (iv) a wide range of options for configuring different users on the network; (v) remote access and data processing; and (vi) mobile computing.

Industry Standard User Interfaces

The Company has incorporated numerous features into its user interfaces to simplify the operation of and access to its products. All of the Company's product lines incorporate the popular Microsoft Windows graphical user interface (GUI). The Company's GUI tools include industry-standard field controls, pull-down menus, tool bars and tab menus that facilitate the use of the software. The Company's products incorporate the latest and most advanced GUI features such as process wizards, cue cards, advanced on-line help and on-line documentation. The Company delivers user interfaces based upon today's single document interface (SDI) standards.

Powerful Application Development Tools

The Company provides comprehensive, ground-up application development, extension and customization capabilities for its e by Epicor, Avante, Clientele, Vantage, and Vista product lines. To accomplish this, the

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Company provides extensive, integrated application development environments for these product lines. These customization tools deliver a complete development environment, enabling a user to make changes ranging from a simple field name changes to building an integrated custom application.

The eBackOffice Financials Customization Workbench is a software development kit that enables customers and authorized resellers to build comprehensive software solutions that augment the standard product. The intuitive Windows interface of the visual forms designer provides a powerful tool to modify and extend the functionality of standard applications. In addition, industry-standard Visual Basic macro language and ActiveX Automation support enables all eBackOffice product suites to exchange and integrate with external COM-enabled Microsoft Windows applications. The Customization Workbench includes technical reference guides and entity relationship diagrams, a COM integration kit and certain report script source code. The Company has licensed Microsoft's Visual Basic for Applications (VBA) and has incorporated it in the Customization Workbench to allow customers to further tailor the applications to their specific needs. The Company is also part of Microsoft's Visual Studio for Applications (VSA) initiative, a component of the overall .NET initiative to provide server side Web customization.

The eBackOffice Distribution Customization Workbench employs PowerBuilder from Sybase, Inc. to enable customers and authorized resellers to extend the standard product. In environments that require complex extensions, integrations or significant product variations, the Company offers complete customization services through its professional services group.

In addition to its Windows-based client, the Company provides the eCommerce StoreFront, a Web-based application built using Microsoft technologies to provide electronic commerce functionality on top of the same Microsoft database platform and also leveraging Microsoft Commerce Server 2000.Net Enterprise Server.

The Clientele suite uses a proprietary forms package to build and modify the user interface for both rich client and Web browser interfaces. This suite also

includes Clientele Basic to enable users and consultants to tailor the behavior and processing of the Clientele application suite to meet their specific business needs. The Clientele suite offers additional applications designed to extend the suite's functionality, including Conductor, Connector and ClienteleNet. Conductor provides workflow routing and rules capabilities that allow any user, no matter where they are, to receive messages and tasks from the front office system. Connector enables remote sites and traveling sales and support representatives to connect to their master front office database and synchronize customer information, ensuring timely information whether the user is at headquarters, a remote site or on the road. ClienteleNet provides customer self-service functionality and uses Microsoft's Active Server Pages to allow users to customize the pages they present to their customers. The Clientele suite is available completely web-enabled as well as in a traditional client-server environment.

To minimize cost and support issues for its manufacturing customers, the Company has tightly integrated its database and development environments. Avante was developed using an object-based development tool, Avante Tools, that utilizes a graphical development tool set. Through Avante Tools, the Company is able to support products across multiple operating systems from a single object code library. Vantage is written in the Progress 4GL, which provides a powerful, graphical development tool set. Vantage supports two database options: Progress RDBMS and Microsoft SQL Server. Vista provides VB Forms, a powerful form designer tool that supports user-definable screen generation.

Additionally, the Company offers a variety of Internet-based solutions, including powerful, interactive enterprise portals that allow customers, suppliers and employees to access relevant information from both within the enterprise (account information, support activity, orders, etc) and from external sources (industry information, news feeds, weather, etc). Epicor's flexible, role-based portals incorporate powerful personalization and content aggregation tools to enhance information self-service and improve inter- and extra-enterprise wide collaboration. By opening up data over the Web through personalized enterprise portals, Epicor's customers are able to provide better service and build stronger relationships with business partners to improve overall business performance.

Technical Architecture Strategy

The Company's technology direction currently embraces the Microsoft .NET Platform for XML-based Web services. Through .NET, which is the next generation of Microsoft's Distributed interNet Applications Architecture (DNA) and component object model (COM), the Company will be able to provide comprehensive support for Web services deployment and Enterprise Application Integration (EAI). With .NET and the emerging standards for data exchange such as XML, Epicor will be able to provide increased access to information both within and between organizations -- no matter where their offices or employees are located. This technology strategy can enable the

Company's development teams to leverage Microsoft technology, while allowing each product family to continue to utilize the individual databases and development tools appropriate to the requirements of each product's target market. As a Microsoft Certified Partner and an early adopter of the .NET Platform, Epicor is able to leverage its expertise with Microsoft technology to benefit their customers.

PRODUCTS

The Company designs, develops, markets and supports enterprise and eBusiness
software applications that provide midmarket organizations with highly
functional, technically advanced business solutions. The Company's products are
aligned according to the markets that they serve – Customer Relationship
Management (Clientele), Distribution and Services (e by Epicor) and
Manufacturing and Supply Chain (Avante, Vantage, Vista).

Customer Relationship Management – Clientele

Clientele is an integrated, web-based customer relationship management solution
designed to meet the needs of rapidly growing, small and mid-sized
organizations. Clientele allows organizations to support and manage their most
important asset -- their customers. Clientele enables businesses to easily
gather, track, organize and share customer information to boost revenues and
increase customer service levels. Clientele combines employee applications such
as opportunity management with customer applications, such as web-based order
entry/inquiry to give companies and customers a true, up-to-the-minute picture
of their relationship. Clientele spans the barriers between traditional front
office and back office operations to provide marketing, sales force automation,
customer service, support, and internal help desk functionality.

Clientele Sales and Marketing empowers organizations to focus on the right
opportunities while providing access to timely information. Clientele Sales and
Marketing provides contact, lead, opportunity and account management in one
complete package. Clientele Customer Support manages the support requirements of
an organization's external customers and provides call management, product
tracking, RMA tracking, call queuing/follow-up and problem resolution. Clientele
HelpDesk provides detailed call tracking, asset/knowledge management, service
requests, maintenance and user profile tracking and management.

Clientele is designed to easily connect remote sites and laptop users to
centralized information. Data can be synchronized and exchanged between sites,
as well as between individual sites, remote users and a central database.
ClienteleNet provides access and self-service for customers over the Internet
via secure, web application.

Distribution and Services – e by Epicor

e by Epicor (incorporates products formerly named Platinum ERA and Clientele),
an integrated, customer-centric suite of client/server ERP software
applications, is designed to meet the unique business needs of mid-sized
companies worldwide (including divisions and subsidiaries of larger
corporations). e by Epicor includes the following components: eFrontOffice,
eBackOffice (Financials, Distribution, People/Human Resources, Warehouse
Management, Assembly), eCommerce Suite, ePortal, eIntelligence, and eIndustry.

e by Epicor is typically targeted to either a distribution or service-based
business with revenues between $10 million and $500 million. These organizations
require the functional depth and sophistication of traditional high-end
enterprise business applications, but desire a rapid and cost-effective product
implementation. The product is optimized for use with the Microsoft Windows
NT/2000 operating system and the Microsoft SQL Server relational database. e by
Epicor minimizes the complexities of client/server installation by providing the
user with installation wizards that help configure the Microsoft SQL Server
database based upon information provided by the installer. As previously
indicated, e by Epicor was designed for the Microsoft Windows NT server platform
and runs on Windows NT 95/98/2000 client platforms. e by Epicor supports various
industry standard technologies including, Microsoft's Message Queue Server,
Transaction Server and COM+ architecture along with eXtensible Markup Language
(XML) documents to improve componentization and support reliable integration
between applications and distributed servers. Microsoft's Visual Basic for
Applications (VBA) is also included to enhance customization and allow easy

integration with third party applications. In addition, eBackOffice is a 32-bit
client and, in order to fully utilize the capabilities of the client/server
model of computing, it is optimized for the Microsoft SQL Server database. This
implementation results in a substantial reduction in network traffic as compared
to other client/server approaches and provides scaleable high performance.

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eFrontOffice (powered by Clientele) provides integrated customer relationship
management capabilities that are tightly integrated with the eBackOffice
applications. This integrated approach to CRM enables companies to have a 360
degree view of their customer relationships. eFrontOffice Sales and Marketing
empowers organizations to focus on the right opportunities while providing
access to timely information. eFrontOffice Sales and Marketing provides contact,
lead, opportunity and account management in one package. eFrontOffice Support
manages the support requirements of an organizations external customers and
provides call management, product tracking, RMA tracking, call queuing/follow-up
and problem resolution. eFrontOffice HelpDesk provides detailed call tracking,
asset/knowledge management, service requests, maintenance and user profile
tracking and management.

eBackOffice includes financials, distribution, warehouse management, and human
resources suites of applications. eBackOffice Financials is an integrated
accounting solution that enables a company to automate the financial aspects of
their business. eBackOffice Distribution is a comprehensive solution designed to
improve the efficiency and responsiveness of a company's operations. It enables
companies to effectively manage their distribution operations, including
purchasing, quality control, inventory and order entry. The customer-centric
focus of eBackOffice enables companies to respond quickly to customer demands
and improve customer service. The integration of eBackOffice Financials and
Distribution with the rest of the e by Epicor suite ensures that a company's
entire enterprise is synchronized -- from the customer to the warehouse to the
supplier. Presently the following back office financial and distribution
applications are generally available in version 7.2: System Manager, General
Ledger with FRx, Accounts Receivable, Accounts Payable, Cash Management,
Multi-Currency Manager, Asset Management, Import Manager, Credit and
Collections, LockBox, Allocations, Budget Manager, Sales Order Processing,
Purchasing, Distribution, Assembly and Customization Workbench.

eBackOffice Warehouse (eWarehouse) extends the distribution functionality for
the eBackOffice product. It includes two applications: Data Collection Suite and
the Management and Fulfillment Suite. These applications are tightly integrated
with the Epicor eBackOffice Distribution suite so that information is available
real-time. eWarehouse provides wireless shop floor data collection, the use of
bar code technology to track inventory from the time it enters a facility until
it is shipped to a customer, and additional warehouse management capabilities.
With the eWarehouse solution in place, a company is able to streamline order
fulfillment, closely track inventory, and prioritize resources on the shop
floor.

eBackOffice People (ePeople) provides a human resources and payroll solution. It
consists of the following applications: HRMS/Payroll - Client and Server, Web -
Manager and Employee Self Service, Business Intelligence. The Company's ePeople,
powered by UltiPro, offers greater total business value by allowing a company to
streamline human resource and payroll processes, easily report on and analyze
key business metrics, and provide Web-based self-service to empower everyone in
its organization. The solution delivers critical business value, increasing
efficiency and allowing the entire workforce to focus on key company objectives.
The business intelligence tools enable strategic analysis of key business trends

for better planning and informed decision-making. ePeople is available as a common component with the following Epicor product families: e by Epicor, Vantage, and Avante. It is also available to companies looking for an HRMS/Payroll solution as the first step in building their enterprise solution.

eIntelligence is an integrated decision support suite and complete set of tools that allows a company to strategically analyze the data available throughout e by Epicor. eIntelligence comprises the following components: Decision Store (data warehousing), Analytics (packaged analyses that drive strategic insights), Budgeting, Reporting, and Agents.

eCommerce Suite includes eCommerce StoreFront and eProcurement. The eCommerce Suite enables companies to participate in a broad range of eCommerce activities, from posting product catalogs to selling products through an electronic storefront to linking with online marketplaces. Whether the focus is on consumers or businesses, the goal is more efficient transactions and more effective experiences. Electronically connecting customers with suppliers saves time and money, ultimately creating substantial business improvements and stronger customer relationships.

The eCommerce StoreFront enables Epicor's customers to sell products and services over the Web, providing consumers and trading partners a convenient, open location for making purchases. By supporting both business-to-business and business-to-consumer activity, the eCommerce StoreFront is a versatile eBusiness engine that can handle all of a company's requirements. Through StoreFront companies can rapidly and cost effectively introduce new products, enter new markets, or simply provide electronic access to a catalog of standard products, which can free up their salespeople to focus on closing more complex transactions. Most importantly, the business data entered over the Internet is captured and used by the other Epicor applications. In today's market, an integrated product that supports all aspects of the customer experience is critical.

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ePortal is a Web-based, self-service solution designed to help customers access relevant information from both within the enterprise (such as account information, support activity) and from external sources (industry information, news feeds, weather, etc). ePortal consists of the ePortal Enterprise Information Server, possessing the Company's powerful Stargate Engine at its heart, and which is then enriched by content specific information packs called ePortals (Customer ePortal, Supplier ePortal, Employee ePortal). ePortal provides a compelling gateway to users to all of the information they require to carry out their jobs more effectively and assist them with decision support. ePortal makes use of a personalization paradigm to allow each user's experience to be tailored to their specific role by filtering out "information overload". ePortal can also be used to host key business metrics from Epicor eIntelligence, described as XML Active Books.

eIndustry is a series of products and application extensions that provide functionality and industry best practices for specific target industries. Historically, large enterprise application vendors have created vertical industry applications and practices designed for the Fortune 1000, in industries such as automotive, retail, government and healthcare. However, for the midmarket companies in these sectors, these vertical offerings are often too expensive and overly complex for their requirements. More importantly, many midmarket companies are not necessarily part of a traditional vertical market, but rather have unique processes, best practices and highly specialized functionality that are critical to their success. Through eIndustry, Epicor

provides focused solutions and services designed specifically for the unique requirements of target industries. Customers benefit through solutions that are easier to implement, easier to use and require less customization than a horizontal solution.

Since specific industries maintain common requirements, eIndustry solutions enable customers to leverage not only a solution tailored to the unique needs of their market, but also focused industry expertise through the Company's Professional Services organization. eIndustry solutions are additionally complemented by strategic relationships with key partners to provide product extensions and domain expertise as part of an integrated, end-to-end solution. Today, the Company is targeting industry sectors including: software and computer services, wholesale distribution, hospitality, financial services, professional services, capital equipment, metal fabrication and precision machining.

eIndustry includes PSA solutions with an integrated end-to-end solution for service-based businesses. Epicor eProject is at the core of the Company's PSA solution and provides professional services organizations with the tools to improve staff efficiency, utilization and visibility to optimize resources and increase cash flow, ultimately assisting professional services organizations in translating time to the bottom line. eProject supports time and expense management, project planning, resource allocation, billing, commissions, collections, and payroll. Even sales and support are integrated to ensure maximum productivity. Flexible budgeting, reporting and analysis help support fast, informed business decisions. With support for mobile and remote users, the field has access to the critical information they need to be productive wherever they are, resulting in more profitable engagements. As with all eIndustry solutions, the comprehensive integration provided by e by Epicor provides professional service companies the tools to manage their entire value chain from sale through to successful delivery.

Manufacturing and Supply Chain

The Company's manufacturing applications include Avante, Vantage, and Vista. The Company also offers an advanced planning and scheduling application, eScheduling.

Avante is a fully integrated ERP solution that provides both a complete front and back office business performance solution to tie together every aspect of a manufacturing operation, from customer relationship management to supply chain management. Avante's capabilities are geared toward high growth, midrange manufacturers of discrete, highly engineered products with complex manufacturing requirements in eight principal industries: industrial equipment, computer/office equipment, consumer electronics, instrumentation and controls, medical/dental products, transportation/aerospace products, capital equipment and contract manufacturers. Avante combines ease-of-use with advanced functionality and technology to provide manufacturers of discrete, complex products with an affordable and comprehensive business performance solution. Avante has the flexibility that discrete manufacturers in make-to-stock and mixed-mode environments require. Built on proven technologies, Avante is a cost-effective and rapidly deployable solution that has the built-in flexibility midmarket manufacturers need to meet the challenges of constant production process improvements, global sourcing and mass customization.

Avante is comprised of groups of modules that comprehensively support a manufacturing company's business process. These modules provide and integrate feature-rich applications for front and back office, are built upon a common set of design and development standards and tools, which share a common database architecture. Presently the following applications are presently generally available in Avante version 9.2: Accounts Payable, General

Ledger, Accounts Receivable, Inventory Management, Asset Management, Job Order
Tracking, Barcode Document Manager, Master Production Scheduling, Bills of
Material, Material Requirements Planning, Capacity Requirements Planning,
Multi-Plant Planning, Cost Accounting, Product Costing, Cash Management,
Purchasing, Distribution Requirements Planning, Quality Management, Equipment
Maintenance & Repair, Return Material Tracking, Estimating & Quotations, Sales
Order Processing, Executive Information System, Shop Floor Control, Focus
Factory Management, Work Centers & Routings, Expert Product Configurator,
Service Suite, Front Office, Decision Support, Material Real Time Tracking ,
Barcode Shipping, Shop Floor Control/Time & Attendance, Advanced Planning and
Scheduling, Human Resources, Payroll, Sales Analysis DataMart, and Operational
Data Store. Avante is highly modular in nature and can be scaled from small to
large configurations on a variety of platforms supporting the Microsoft NT and
UNIX operating systems. This enterprise-wide system can be implemented in a
variety of multi-currency, multi-company and multi-plant environments networked
through client and host-based configurations. Avante also includes front office
applications through its integration with eFrontOffice.

Vantage is an integrated, Windows-based ERP solution that meets the dynamic
requirements of custom manufacturing operations in make-to-order (MTO),
configure-to-order (CTO) and job shop manufacturers. Vantage is an easy-to-use,
yet comprehensive solution that enables manufacturers to make the most of their
expanding resources through its powerful tools for quoting, visual scheduling,
job tracking and costing, as well as shop floor data collection. Vantage is
comprised of more than 20 fully integrated business modules and offers a
complete solution, from front office functionality including sales force
automation and customer support to a complete eBusiness suite including an
online storefront and portal. Vantage provides strong scheduling and online
information access capabilities. With its graphical scheduling tools and "what
if" simulation, Vantage enables users to create and execute realistic production
schedules, based on the available resources, and react quickly and efficiently
to schedule changes. Vantage supports both custom and standard part orders,
product configuration and multilevel assemblies. Vantage is optimized for the
rapid deployment, minimal support and price/performance requirements of
midmarket manufacturers in the $10 to $500 million revenue range.

Vantage is comprised of groups of modules that can be differently configured to
comprehensively support a customer's business processes. The following
applications are presently generally available in Vantage version 5.1: Quote
Management, Order Management, Product Configuration, Job Management, MRP,
Advanced Bill of Materials, Visual Scheduling, Advanced Planning and Scheduling,
Data Collection, Advanced Material Management, Quality Assurance, Multi-Site
Management, Field Service, Document Management, Inventory Management,
Shipping\Receiving, Purchasing RFQ Management, Purchasing Management, Accounts
Receivable, Accounts Payable, General Ledger, Currency Management, Payroll,
ShopVision Executive Query, Enterprise Business Intelligence, Customer Portal,
Vantage StoreFront, EDI, and Tools. Vantage also supports front office
applications through its integration with eFrontOffice.

Vista is a Windows-based desktop business management system specifically
designed for needs of small job shops and the MTO departments of larger
businesses that have less developed infrastructures, lower IT budgets, require a
shorter deployment period and seek established, user-friendly products. Vista
fully integrates 15 core business modules and features. WebTracker, a
business-to-business eCommerce application that allows companies to link their
Vista database to the Internet to provide customers with online access to
real-time account information, including all open orders, shipments, invoices,

and payments. Vista incorporates the DesignWare feature which permits users to, among other things, define their own screens, add fields, change colors, hide fields, change grid sizes and drag choices from menus to the desktop. Vista is comprised of groups of modules that can be configured to support a customer's business processes.

eBackOffice Scheduling (formerly Epicor APS and C-Way) is an advanced planning and scheduling solution designed to help manufacturers realize shorter lead times, accurate real-time order promising and smaller inventories. eScheduling allows a company to create and maintain schedules that coordinate all aspects of its manufacturing environment, based upon their unique business practices and customer needs. eScheduling is designed as a real-time system --there are no overnight batch processes to run-- which removes delays between collecting and actually using information. This ensures that schedules include the most up-to-date information. eScheduling provides forward and backward scheduling capabilities, as well as minimum WIP, rule- and dynamic constraint-based scheduling and dispatching. eScheduling can be used as a standalone product, or as a powerful enhancement to the scheduling capabilities included in Epicor's manufacturing solutions including Avante and Vantage.

<div align="center">9</div>

Other Products

The Company serves as an original equipment manufacturer vendor or reseller for certain third-party software applications and pays royalties to various organizations in connection with the distribution of third-party software and the sale of products that incorporate third-party technologies. In addition, in certain cases, as part of solutions requested by customers of Avante, the Company resells third party computer hardware systems and related peripherals. The Company does not carry inventory of computer hardware.

PROFESSIONAL SERVICES, TECHNICAL SUPPORT AND SOFTWARE MAINTENANCE

The Company's professional services organizations, including those within the product lines, provide consulting services to customers in the implementation of the Company's software products, as well as custom software development, education, training and other consulting and programming services. These professional services are rendered in both domestic and international markets. Professional services are generally provided on a time and materials basis, although the Company does occasionally enter into fixed fee arrangements or arrangements in which customer payments are tied to achievement of specific milestones. The Company believes its professional services, in conjunction with its current and planned product offerings, facilitates the licensing of technology to customers, stimulates demand for the Company's products and provides a key market differentiator over its competition.

The Company is committed to providing timely, high-quality technical support, which the Company believes is critical to maintaining customer satisfaction. The Company provides technical support by offering telephone support, e-mail support, facsimile support and communications through its World Wide Web site. Telephone support is available five days a week during normal business hours on a nearly worldwide basis. The Company also believes customer satisfaction can be maintained by ensuring that its VARs, distributors and Authorized Consultants are able to effectively provide front-line technical support and assistance to end users. The Company offers comprehensive training, telephone consultation and product support for its VARs, distributors and Authorized Consultants. Training courses are held regularly in major cities worldwide.

The Company's software maintenance programs are the customer's sole avenue for product updates and technical support. The annual maintenance fee is generally a percentage of the then current list price of the software purchased. Customers who subscribe for maintenance receive telephone and technical support, timely information on product enhancements and features and product updates and upgrades. Revenue from these software maintenance agreements is recognized ratably over the maintenance period. The Company provides a three-month warranty for the media on which its products are licensed and also provides a performance warranty on certain products ranging from three months to one year.

MARKETING, SALES AND DISTRIBUTION

The Company sells and markets its products and services worldwide, directly and through a network of VARs, distributors and Authorized Consultants who market the Company's products on a nonexclusive basis. The Company's products are sold to and used by a broad customer base, including manufacturing, distribution, hospitality, service organizations, computer/Internet software, healthcare, government entities, educational institutions and other users. The Company sells its e by Epicor product suite through a hybrid channel that includes a direct sales force as well as a network of VARs. The Company sells its Clientele product through an internal telesales organization, a direct sales force and through a network of VARs. The Avante and Vantage products are presently sold by direct sales forces. The Vista product is sold through a dedicated telesales organization. The Avante, Vantage and Vista products are sold in certain international locations through VARs and distributors. The Company's field sales organizations are generally organized on a geographic basis.

The Company's network of VARs and Authorized Consultants are required to undergo training and certification procedures provided by the Company on the use, installation and implementation of the Company's products as a condition of being authorized by the Company to sell its products. The Company's VARs include consulting groups and resellers, the majority of which provide computer installations, systems integration and consulting services to organizations. The Company's Authorized Consultants generally are not resellers of the Company's products, but professional firms who offer implementation services and product support to end users. The Company believes that its Authorized Consultants are product influencers and are a valuable part of the Company's marketing, sales and distribution efforts.

To support the Company's network of VARs and Authorized Consultants, the Company provides experienced personnel who are specifically tasked with the VARs growth and support. These individuals are responsible for

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educating and training the distribution channel, disseminating information, implementing marketing programs and developing regional markets.

In recognition of international opportunities for its software products, the Company has committed resources to an international sales and marketing effort. The Company has established subsidiaries in the United Kingdom, Ireland, Mexico, Germany, France, Sweden, the Netherlands, Australia, New Zealand, Canada, Hong Kong, Singapore, Taiwan, and Argentina to further such sales and marketing efforts. The Company sells its products in Europe, Central and South America, Africa, Asia and the Middle East predominately through third-party distributors and dealers.

Products are generally shipped as orders are received or within a short period thereafter and, accordingly, the Company has historically operated with little or no backlog. Because of the generally short cycle between order and shipment,

the Company does not believe that its backlog as of any particular date is meaningful.

The Company also provides access to its solutions through application hosting, which allows customers to access the software over the Internet. Through Epicor eCentre, customers purchase the infrastructure and system support on a monthly basis through leading global infrastructure providers like IBM Corporation. Hosting provides a deployment alternative to companies who do not want to invest in the hardware, IT personnel or technology infrastructure necessary to support a premise-based software deployment. By hosting the software through Epicor eCentre, a company can free up critical capital resources, both intellectual and monetary, and focus on their core business operations.

PRODUCT DEVELOPMENT AND QUALITY ASSURANCE

The Company plans to continue addressing the needs of midmarket users of client/server enterprise software by continuing to develop high quality software products that feature advanced technologies. See "Certain Factors That May Affect Future Results -- Forward Looking Statements -- Safe Harbor." The Company's technology strategy is to develop leading business application software using its own technologies combined with leading third-party, industry-standard technologies in database management systems, application development tools, operating systems, user interfaces and networks. The Company plans to use technologies from Microsoft Corporation whenever possible and plans to build technologies based on Microsoft Corporation's recommended technical architecture. In particular, the Company believes that it remains an industry leader in designing and developing products for operation on LANs/WANs and Microsoft's SQL Server database. The Company has also been a pioneer in the use of GUIs with integrated business application software. Currently, the Company continues to pursue object-oriented methodologies and Web Services-based applications that simplify the development, maintenance, deployment and customization of its products. Accordingly, the Company's tools offer a high degree of customization for its products.

The Company intends to continue to invest in product development. In particular, the Company plans to continue to (i) develop product enhancements, including additional functions and features, for its product lines, (ii) develop additional eBusiness and web-based applications supporting both business-to-business and business-to-consumer solutions, (iii) develop integration to vertical market trading exchanges, business communities or other eBusiness market places, and (iv) develop and/or acquire new applications or modules that build upon the Company's business application strategy. See "Certain Factors That May Affect Future Results - Forward Looking Statements - Safe Harbor."

The Company's technical strategy for its e by Epicor suite of applications is centered on the Microsoft .NET Platform to provide enhanced scalability, flexibility and interoperability. The architecture consists of a multi-tiered, distributed application model and a comprehensive set of infrastructure and application services. This architecture provides tools, technologies and services to develop highly adaptive applications that support multiple client deployments including thin-client, browser-based and mobile clients. More importantly, this architecture provides the infrastructure to take business to the Internet by leveraging key Microsoft technologies such Microsoft Commerce Server, Microsoft COM+ (Component Object Model) and Microsoft BizTalk Server, which provides a complete framework for enterprise application integration, electronic commerce and business interoperability through industry leading support for XML Web services. In 2001, Epicor was among the first early adopters invited by Microsoft into the Visual Studio for Applications (VSA) initiative for middle-tier XML Web Service customization, a key component of Microsoft's Visual Studio .NET and at the heart of the Microsoft .NET Platform. See "Certain Factors That May Affect Future Results - Forward Looking Statements - Safe

Harbor."

The Company translates and localizes certain of its products, either directly or through outside contractors, for sale in Europe, Latin America and Asia.

Rapid technological advances and changes in customer requirements characterize the computer software industry. The Company's future success will depend upon its ability to enhance its current products and develop and introduce new products that keep pace with technological developments, respond to evolving customer requirements and continue to achieve market acceptance. In particular, the Company believes it must continue to respond quickly to users' needs for broad functionality and multi-platform support and to advances in hardware and operating systems, particularly in the areas of eBusiness and Collaborative Commerce (c-Commerce). In the past, the Company has occasionally experienced delays in the introduction of new products and product enhancements. There can be no assurance that the Company will not experience significant delays in the introduction of new products or product enhancements in the future, which could have a material adverse effect on the Company's results of operations.

The Company's future business is dependent on the execution of the strategy that is in place to target the client/server and eBusiness enterprise software needs of mid-sized businesses. Any significant delay in shipping new modules or enhancements could have a material adverse effect on the Company's results of operations. In addition, there can be no assurance that new modules or product enhancements developed by the Company will adequately achieve market acceptance.

COMPETITION

The enterprise business applications software industry is intensely competitive, rapidly changing and significantly affected by new product offerings and other market activities. A number of companies offer enterprise application suites similar to the Company's product offerings that are targeted at the same markets. In addition, a number of companies offer a "best-of-breed," or point solution, similar or competitive to a portion of the Company's enterprise business application suite. Some of the Company's existing competitors, as well as a number of new potential competitors, have larger technical staffs, more established and larger marketing and sales organizations and significantly greater financial resources than the Company. There can be no assurance that competitors will not develop products that are superior to the Company's products or that achieve greater market acceptance. The Company's future success will depend significantly upon its ability to increase its share of its target markets and to license additional products and product enhancements to existing customers. There can be no assurance that the Company will be able to compete successfully or that competition will not have a material adverse effect on the Company's results of operations. In addition, potential customers may increasingly demand that certain of the Company's enterprise systems incorporate certain RDBMS software offered by competing products, but not currently supported by the Company's products.

The Company believes that it competes in two enterprise business applications markets: emerging enterprises and midmarket enterprises. The Company defines emerging enterprises as rapidly growing businesses under $25 million in annual revenues. Businesses in this market require solutions that provide a more sophisticated level of functionality to effectively manage their business than can be found in "off-the-shelf" applications. These businesses require applications that are easy to implement, customize, manage and use as well as being affordable. Emerging enterprises generally lack dedicated information

technology management resources and require solutions that do not require a high level of ongoing maintenance and support for their continued operation. Products in this market are principally sold through VARs and telesales persons with the purchasing decision often influenced by professionals providing consulting services. The Company believes that purchases in this market are primarily influenced by functionality, performance, and availability of a Windows-based solution, price and quality. The Company believes it competes favorably with respect to all of these factors.

The Company competes primarily in the midmarket, which the Company defines as growing enterprises with revenues between $10 million and $500 million. Although the Company does not actively target larger, Fortune 1000 corporations with its enterprise business applications, it encounters competitors from this market segment who are increasingly targeting mid-sized enterprises. Businesses in this market require solutions that provide a more sophisticated level of functionality to effectively manage their business than can be found in "off-the-shelf" applications. These businesses require applications that are easy to implement, customize, manage and use as well as being affordable. Mid-sized enterprises also often lack dedicated information technology management resources and need solutions that do not require a high level of ongoing maintenance and support for their continued operation. The Company believes that purchases in this market are primarily influenced by functionality, performance, availability of a Windows-based solution, price, quality and customer service. The Company believes it competes favorably with respect to all of these factors. Increasingly, customers in this market segment are looking for

Microsoft SQL Server based solutions and the e by Epicor, Clientele, and Vantage product lines are well positioned to address this requirement. The Company believes it is one of only a few vendors in this market space that is exclusively dedicated to providing midmarket companies with comprehensive, integrated enterprise business applications. However, there are competitors from both the high-end and low-end who are attracted to the business opportunity represented by the midmarket and are beginning to offer complete or partial enterprise business applications to this market. In order to compete in the future, the Company must respond effectively to customer needs in the area of eBusiness and c-Commerce and incorporate those technologies and application functionality that will meet the challenges posed by competitors' innovations. To accomplish this objective, the Company will be required to continue to invest in enhancing its current products and, when necessary, introduce new products to remain competitive. There can be no assurance that the Company will be able to continue to invest in such enhancements or new products, or introduce such enhancements or new products in a timely fashion or at all.

The Company has a number of competitors that vary in size, target markets and overall product scope. The Company's primary competition comes from independent software vendors in three distinct groups, including (i) large, multinational ERP vendors that are increasingly targeting mid-sized businesses as their traditional market becomes saturated, including J.D. Edwards, Oracle Corporation, PeopleSoft, Inc. and SAP AG, (ii) mid-range ERP vendors, including Lawson Corporation and Navision, and (iii) established "best-of-breed" or point solution providers that compete with only one portion of the Company's overall ERP suite, including Sage Software, Ltd., Microsoft Great Plains Business Solutions, Scala, Inc., Systems Union, Ltd., Solomon Software (now owned by Microsoft Corporation), and Geac for financial accounting; MAPICS, Inc., QAD, Inc., IFS, FrontStep Inc., Lilly Software and Made2Manage, Inc. for manufacturing; and Onyx Software Corporation, Siebel System, Inc., Pivotal

Software, Inc., FrontRange Solutions, Inc., and Best Software, Inc. (formerly Sage) for sales force automation and customer service and support. While these competitors offer dedicated applications, the Company believes that its broader product offerings and level of product integration provide a significant competitive advantage.

In the first half of 2001, Microsoft completed the acquisition of Great Plains Software, Inc. Now a division of Microsoft, Great Plains is focused on providing business solutions to small and mid-sized companies. From a competitive perspective, the Company believes that Microsoft will be most competitive in financials and business management applications at the lower end of its market. The Company believes that it can continue to competitively differentiate itself based on the depth of its product offering, which includes manufacturing, distribution, eBusiness and customer relationship management (CRM).

INTELLECTUAL PROPERTY

The Company regards its software as proprietary, in that title to and ownership of the software generally resides exclusively with the Company, and the Company attempts to protect it with a combination of copyright, trademark and trade secret laws, employee and third-party nondisclosure agreements and other industry standard methods for protecting ownership of its proprietary software. Despite these precautions, there can be no assurance unauthorized third-parties will not copy certain portions of the Company's products or reverse engineer or obtain and use information the Company regards as proprietary. To date, the Company has not relied on patent protection for its software products. While the Company's competitive position may be affected by its ability to protect its proprietary information, the Company believes that trademark and copyright protections are less significant to the Company's success than other factors such as the knowledge, ability and experience of the Company's personnel, name recognition and ongoing product development and support. There can be no assurance that the mechanisms used by the Company to protect its software will be adequate or that the Company's competitors will not independently develop software products that are substantially equivalent or superior to the Company's software products.

The Company's software products are generally licensed to end users on a "right to use" basis pursuant to a perpetual, non-exclusive license that generally restricts use of the software to the organization's internal business purposes and the end user is generally not permitted to sublicense or transfer the products. The Company licenses its Clientele, Vista, Vantage and e by Epicor (when sold through VARs and distributors) product lines pursuant to "shrink wrap" licenses that are not signed by licensees and therefore may be unenforceable under the laws of certain jurisdictions. In addition, the laws of some foreign countries do not protect the Company's proprietary rights to the same extent as do the laws of the United States. Certain components of the Company's products are licensed from third parties.

The source code for the Avante and, in certain cases, Vantage products historically has been licensed to customers to enable them to customize the software to meet particular requirements. The standard customer license contains a confidentiality clause protecting the products. In the event of termination of the license agreement, the customer remains responsible for the confidentiality obligation and for any accrued and unpaid license fees. However, there

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can be no assurance that such customers will take adequate precautions to protect the source code or other confidential information.

As the number of software products in the industry increases and the
functionality of these products further overlap, the Company believes that
software programs will increasingly become subject to infringement claims. There
can be no assurance that third-parties will not assert infringement claims
against the Company in the future with respect to current or future products or
that any such assertion may not require the Company to enter into royalty
arrangements or will result in costly litigation.

PRODUCTION

The principal materials and components used in the Company's software products
include computer media, including disks and CD-ROMs, and user manuals. For each
product, the Company prepares a master software disk or CD-ROM, user manuals,
which may be in printed form or distributed on a CD-ROM, and packaging.
Substantially all of the Company's disk and CD-ROM duplication is performed by
third-party vendors, using disks and blank CD-ROMs acquired from various
sources. Outside sources print the Company's packaging and related materials to
the Company's specifications. Portions of the completed packages are assembled
by third-party vendors. To date, the Company has not experienced any material
difficulties or delays in the manufacture and assembly of its products, or
material returns due to product defects.

EMPLOYEES

As of December 31, 2001, the Company had 973 full-time employees, including 179
in product development, 151 in support services, 260 in professional services,
184 in sales, 58 in marketing and 141 in administration. The Company's employees
are not represented by any collective bargaining organization, and the Company
has never experienced a work stoppage. The Company believes that employee
relations are good.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

FORWARD LOOKING STATEMENTS - SAFE HARBOR.

Certain statements in this Annual Report on Form 10-K are forward looking
statements within the meaning of Section 27A of the Securities Act of 1933, as
amended, and Section 21E of the Securities and Exchange Act of 1934, as amended,
that involve risks and uncertainties. Any statements contained herein (including
without limitation statements to the effect that the Company or Management
"estimates," "expects," "anticipates," "plans," "believes," "projects,"
"continues," "may," or "will" or statements concerning "potential" or
"opportunity" or variations thereof or comparable terminology or the negative
thereof) that are not statements of historical fact should be construed as
forward looking statements. These statements include the Company's expectation
that (i) severance costs and a substantial amount of the facilities costs will
be paid out by the end of 2002, (ii) restructuring obligations will be funded
from existing cash reserves, operations and its credit facility, (iii) the 2001
restructurings will provide approximately $10 million in quarterly cost savings
as compared to the first quarter of 2001, (iv) the Company's software license
revenue will increase slightly in 2002, as the economy begins to recover, with
total revenues approximately flat year over year due to the anticipated lag in
the recovery of the consulting component of services revenues, (v) the 2002
international revenues will continue to represent a significant portion of total
revenues, (vi) operating expenses will remain at or near 2001 levels in 2002 due
to the 2001 restructurings and other cost control measures, (vii) the Company
will maintain positive cash flow for the year ending December 31, 2002, (viii)
the Company will be able to develop and implement new technologies, including
web based technologies, and meet the needs of its midmarket users, and (ix) the
Company will have sufficient sources of financing to continue its operations
throughout at least the next twelve months. Actual results could differ
materially and adversely from those anticipated in such forward looking

statements as a result of certain factors, including the factors listed at pages 14 to 21. Because of these and other factors that may affect the Company's operating results, past performance should not be considered an indicator of future performance and investors should not use historical results to anticipate results or trends in future periods. The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission including its quarterly reports on Form 10-Q to be filed by the Company during 2002.

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SINCE DECEMBER 31, 2000, OUR CASH AND CASH EQUIVALENTS AND WORKING CAPITAL HAVE DECLINED. WE MAY NOT BE ABLE TO COLLECT AGED ACCOUNTS RECEIVABLE AND WE MAY NEED TO RAISE ADDITIONAL CASH TO FUND OUR WORKING CAPITAL REQUIREMENTS.

The Company's cash and cash equivalents have decreased from $26.8 million at December 31, 2000 to $24.4 million at December 31, 2001. The Company's working capital has declined from a working capital deficit at December 31, 2000 of $2.0 million to a working capital deficit at December 31, 2001 of $16.2 million. If the Company is not successful in achieving targeted revenues and expenses or maintaining a positive cash flow during 2002, the Company may be required to take further actions to reduce its operating expenses, such as additional reductions in work force, and/or seek additional sources of funding. In addition, although the Company currently has in place a bank line of credit, the Company has in prior quarters violated the financial covenants included in the terms of that credit agreement. The Company received waivers from its lender for these violations and renegotiated the financial covenants to reduce the thresholds required for compliance with the covenants. The Company complied with the revised covenants in the third and fourth quarters of 2001. However, if the Company is unable to maintain a positive cash flow or achieve operating profitability, there can be no assurance that the Company will not violate the covenants in the future. Should such violations occur, there can be no assurance that the Company would be able to secure alternative funding or, if secured, on favorable terms. Since December 31, 1999, the Company has also experienced fluctuations in the proportion of accounts receivable over 90 days old. Although the proportion of accounts receivables over 90 days old has decreased since the end of 2000, if the Company cannot successfully collect a significant portion of its net accounts receivable, the Company may be required to seek alternative financing sources in addition to its current bank credit facility. In addition, should the Company not reduce its aged receivables, its ability to borrow against the revolving portion of the credit facility may be severely restricted due to the fact that borrowings are limited to 85% of eligible receivables, as defined, which excludes receivables over ninety days old.

OUR QUARTERLY OPERATING RESULTS ARE SUBJECT TO FLUCTUATIONS AND IF WE FAIL TO MEET EXPECTATIONS OF SECURITIES ANALYSTS OR INVESTORS OUR SHARE PRICE MAY DECREASE.

The Company's quarterly operating results have fluctuated in the past. The Company's operating results may fluctuate in the future as a result of many factors that may include:

-       The demand for the Company's products, including reduced demand related to changes in marketing focus for certain products, software market conditions or general economic conditions

-       Fluctuations in the length of the Company's sales cycles

- Changes in accounting standards, including revenue recognition standards

- The size and timing of orders for the Company's products

- The number, timing and significance of new product announcements by the Company and its competitors

- The Company's ability to introduce and market new and enhanced versions of its products on a timely basis

- The level of product and price competition

- Changes in operating expenses of the Company

- Changes in average selling prices

In addition, the Company has historically realized a significant portion of its revenues in the final month of any quarter with a concentration of such revenues recorded in the final ten business days of that month.

Due to the above factors, among others, the Company's revenues will be difficult to forecast. The Company, however, will base its expense levels, in significant part, on its expectations of future revenue. As a result, the Company expects its expense levels to be relatively fixed in the short term. The Company's failure to meet revenue expectations could adversely affect operating results. Further, an unanticipated decline in revenue for a particular quarter may disproportionately affect the Company's operating results because a relatively small amount of the Company's expenses will vary with its revenues in the short run. As a result, the Company believes that period-to-period comparisons of the Company's results of operations are not and will not necessarily be meaningful, and you should not rely upon them as an indication of future performance. Due to the foregoing factors, it is likely that in some future quarter the Company's operating results will be below the expectations of public market analysts and investors. Such an event would likely have a material adverse effect upon the price of the Company's Common Stock.

IF WE FAIL TO RAPIDLY DEVELOP AND INTRODUCE NEW PRODUCTS AND SERVICES, WE WILL NOT BE ABLE TO COMPETE EFFECTIVELY AND OUR ABILITY TO GENERATE REVENUES WILL SUFFER.

The market for the Company's software products is subject to ongoing technological developments, evolving industry standards and rapid changes in customer requirements. The Company believes the Internet is transforming

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the way businesses operate and the software requirements of customers. Specifically, the Company believes that customers desire eBusiness software applications, or applications that enable a customer to engage in commerce or service over the Internet. As companies introduce products that embody new technologies or as new industry standards emerge, such as web-based applications or applications that support eBusiness, existing products may become obsolete and unmarketable. Development of new technologies may also cause the Company to change how it licenses or prices its products, possibly adversely impacting the Company's revenues and operating results. Such emerging licensing models include subscription based licensing in which the licensee essentially rents the software for a defined period of time as opposed to the current perpetual license model. The Company's future business, operating results and financial condition will depend on its ability to:

- Enhance its existing products

- Develop, deliver and achieve market acceptance of new and/or improved products that address the increasingly sophisticated needs of its customers, particularly in the areas of eBusiness and eCommerce

- Develop products for additional platforms

- Effectively train its sales force to sell an integrated suite of eBusiness products

- Effectively recognize and implement emerging industry standards and models

Further, if the Company fails to respond to technological advances, emerging industry standards, including licensing models, and end-user requirements, or experiences any significant delays in product development or introduction, the Company's competitive position and revenues could be adversely affected. The Company's success will depend on its ability to continue to develop and successfully introduce new products and services, including those in the eBusiness arena. The Company cannot assure you that it will successfully develop and market such new and/or improved products on a timely basis, if at all. In developing new products, the Company may encounter software errors or failures that force the delay in the commercial release of the new products. Any such delay or failure to develop could have a material adverse effect on the Company's business, results of operations and financial condition. From time to time, the Company or its competitors may announce new products, capabilities or technologies that have the potential to replace or shorten the life cycles of the Company's existing products. The Company cannot assure you that such announcements will not cause customers to delay or alter their purchasing decisions, which could have a material adverse effect on the Company's business, operating results and financial condition.

OUR SOFTWARE PRODUCTS MAY CONTAIN ERRORS OR DEFECTS, WHICH COULD RESULT IN THE REJECTION OF OUR PRODUCTS AND DAMAGE OUR REPUTATION AS WELL AS CAUSE LOST REVENUE, DELAYS IN COLLECTING ACCOUNTS RECEIVABLE, DIVERTED DEVELOPMENT RESOURCES AND INCREASED SERVICE COSTS AND WARRANTY CLAIMS.

Software products as complex as the ERP products offered by the Company may contain undetected errors or failures when first introduced or as new versions are released. Despite testing by the Company, and by current and potential customers, the Company's products may contain errors after their commercial shipment. Such errors may cause loss of or delay in market acceptance of the Company's products, damage to the Company's reputation, and increased service and warranty costs. The Company from time to time is notified by some of its customers of errors in its various product lines. Although it has not occurred to date, the possibility of the Company being unable to correct such errors in a timely manner could have a material adverse effect on the Company's results of operations and its cash flows. In addition, technical problems with the current release of the database platforms on which the Company's products operate could impact sales of these products, which could have a material adverse effect on the Company's results of operations.

BUSINESS INTERRUPTIONS COULD ADVERSELY AFFECT OUR BUSINESS.

Our operations are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure and other events beyond our control. A substantial portion of our facilities, including our corporate headquarters and other critical business operations, are located near major earthquake faults. We do not carry earthquake insurance and do not fund for earthquake-related losses. Although the facilities in which we host our computer systems are designed to be fault tolerant, the systems are susceptible to damage from fire, floods, earthquakes, power loss, telecommunications failures, and similar events. Our

facilities in California were subjected to an increased probability of rolling electrical blackouts during the summer of 2001 as a consequence of a shortage of available electrical power. It is possible that we could again be subject to such blackouts in the future. In the event these blackouts occur or increase in severity, they could disrupt the operations of our affected facilities. In addition, terrorist acts or acts of war may cause damage or disruption to the Company, its employees, facilities, suppliers, distributors and VARs, and customers, which could have a material adverse effect on the Company's operations and

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financial results. We do not carry financial reserves against business interruptions and although we do carry business interruption insurance limited to special causes of loss, if a business interruption occurs, our business could be seriously harmed.

REVENUE RECOGNITION ACCOUNTING STANDARDS AND INTERPRETATIONS MAY CHANGE, CAUSING THE COMPANY TO RECOGNIZE LOWER REVENUES.

In October 1997, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) No. 97-2, "Software Revenue Recognition." The Company adopted SOP 97-2, as amended by SOP 98-4 "Deferral of the Effective Date of a Provision of SOP 97-2" as of July 1, 1998. In December 1998, the AICPA issued SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions." The Company adopted SOP 98-9 on January 1, 2000. These standards address software revenue recognition matters primarily from a conceptual level and do not include specific implementation guidance. The Company believes that it is currently in compliance with SOPs 97-2 and SOP 98-9. In addition, in December 1999, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101), which provides further guidance with regard to revenue recognition, presentation and disclosure. The Company adopted SAB 101 during the fourth quarter of fiscal 2000.

The accounting profession and the SEC continue to discuss certain provisions of SOP 97-2, SAB 101 and other revenue recognition standards and related interpretations with the objective of providing additional guidance on potential application of the standards and interpretations. These discussions could lead to unanticipated changes in revenue recognition standards and, as a result, in the Company's current revenue accounting practices, which could cause the Company to recognize lower revenues. As a result, the Company may need to change its business practices.

WE MAY PURSUE STRATEGIC ACQUISITIONS, INVESTMENTS, AND RELATIONSHIPS. WE MAY NOT BE ABLE TO SUCCESSFULLY MANAGE OUR OPERATIONS IF WE FAIL TO SUCCESSFULLY INTEGRATE ACQUIRED BUSINESSES AND TECHNOLOGIES.

As part of its business strategy, the Company intends to continue to expand its product offerings to include application software products that are complementary to its existing ERP applications, particularly in the areas of eBusiness and eCommerce. This strategy may involve acquisitions, investments in other businesses that offer complementary products, joint development agreements or technology licensing agreements. The risks commonly encountered in the acquisitions of businesses would accompany any future acquisitions or investments by the Company. Such risks may include the following:

-       The difficulty of integrating previously distinct businesses into one business unit

- The substantial management time devoted to such activities

- The potential disruption of the Company's ongoing business

- Undisclosed liabilities

- Failure to realize anticipated benefits (such as synergies and cost savings)

- Issues related to product transition (such as development, distribution and customer support)

The Company expects that the consideration it would pay in such future acquisitions would consist of stock, rights to purchase stock, cash or some combination of the aforementioned. If the Company issues stock or rights to purchase stock in connection with these future acquisitions, earnings (loss) per share and then-existing holders of the Company's Common Stock may experience dilution.

The risks that the Company may encounter in licensing technology from third parties include the following:

- The difficulty in integrating the third party product with the Company's products

- Undiscovered software errors in the third party product

- Difficulties in selling the third party product

- Difficulties in providing satisfactory support for the third party product

- Potential infringement claims from the use of the third party product

- Discontinuation of third party product lines

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WE RELY IN PART, ON DISTRIBUTORS AND VARS TO SELL OUR PRODUCTS. DISRUPTIONS TO THESE CHANNELS WOULD ADVERSELY AFFECT OUR ABILITY TO GENERATE REVENUES FROM THE SALE OF OUR PRODUCTS.

The Company distributes products through a direct sales force as well as through VARs and distributors. The Company's distribution channel includes distributors, VARs and authorized consultants, which consist primarily of professional firms. If the Company's VARs or authorized consultants cease distributing or recommending the Company's products or emphasize competing products, the Company's results of operations could be materially and adversely affected. The Company recently announced that effective February 1, 2002, the Company's e by Epicor VAR program would no longer require VARs to sell the Company's products exclusive of competing product lines. The Company is currently in the process of implementing this change to its VAR program. The long term impact of this change in the VAR channel to the Company's performance is as of yet undetermined, as is whether the Company's ability to generate license revenue from its e by Epicor products will prove to be adversely or favorably impacted, which would effect the Company's consolidated results of operations and cash flows.

There can be no assurance that having a direct sales force will not lead to conflicts with the Company's VAR channels.

WE DERIVE A SUBSTANTIAL PORTION OF OUR REVENUE FROM THE SALE OF ENTERPRISE

APPLICATION SOFTWARE AND RELATED SUPPORT SERVICES. IF THOSE SALES SUFFER, OUR
BUSINESS WILL BE NEGATIVELY IMPACTED.

The Company derives its revenue from the sale of its various ERP application
software packages and related services. Accordingly, any event that adversely
affects fees derived from the sale of such systems would have a material adverse
affect on the Company's business, results of operations and performance. For
example, the market for ERP applications was negatively impacted in 1999 and the
first half of 2000 by Year 2000 concerns. Similarly, in 2001, the market for ERP
applications continued to be negatively impacted by the domestic economic
slowdown. Other such events may include:

-      Competition from other products

-      Significant flaws in the Company's products

-      Incompatibility with third-party hardware or software products

-      Negative publicity or evaluation of the Company or its products

-      Obsolescence of the hardware platforms or software environments in which
       the Company's systems run

OUR PRODUCTS RELY ON THIRD PARTY SOFTWARE PRODUCTS AND OUR REPUTATION AND
RESULTS OF OPERATIONS COULD BE ADVERSELY AFFECTED BY OUR INABILITY TO CONTROL
THEIR OPERATIONS.

The Company's products incorporate and use software products developed by other
entities. The Company cannot assure you that such third parties will:

-      Remain in business

-      Support the Company's product lines

-      Maintain viable product lines

-      Make their product lines available to the Company on commercially
       acceptable terms

Any significant interruption in the supply of such third-party technology could
have a material adverse effect on the Company's business, results of operation,
cash flows and financial condition.

THE MARKET FOR WEB-BASED DEVELOPMENT TOOLS, APPLICATION PRODUCTS AND CONSULTING
AND EDUCATION SERVICES IS EMERGING AND IT COULD NEGATIVELY AFFECT OUR
CLIENT/SERVER-BASED PRODUCTS.

The Company's development tools, application products and consulting and
education services generally help organizations build, customize or deploy
solutions that operate in a client/server computing environment. There can be no
assurance that these markets will continue to grow or that the Company will be
able to respond effectively to the evolving requirements of these markets. The
Company believes that the environment for application software is continuing to
change from client/server to a web-based environment to facilitate eBusiness. If
the Company fails to respond effectively to evolving requirements of this
market, the Company's business, financial condition, results of operations and
cash flows will be materially and adversely affected.

THE CONTINUING IMPACT ON THE COMPANY OF EMERGING AREAS SUCH AS THE INTERNET, ON-LINE SERVICES, EBUSINESS APPLICATIONS AND ELECTRONIC COMMERCE IS UNCERTAIN AND COULD NEGATIVELY IMPACT OUR BUSINESS.

There can be no assurance that the Company will be able to continue to provide a product offering that will satisfy new customer demands in these areas. In addition, standards for web-enabled and eBusiness applications, as well as other industry adopted and de facto standards for the Internet, are continuing to evolve rapidly. There can be no assurance that standards chosen by the Company will position its products to compete effectively for business opportunities as they arise on the Internet and other emerging areas. The success of the Company's product offerings depends, in part, on its ability to continue developing products that are compatible with the Internet. The increased commercial use of the Internet will require substantial modification and customization of the Company's products and the introduction of new products. The Company may not be able to effectively compete in the Internet-related products and services market.

Critical issues concerning the commercial use of the Internet, including security, demand, reliability, cost, ease of use, accessibility, quality of service and potential tax or other government regulation, remain partially and/or fully unresolved and may affect the use of the Internet as a medium to support the functionality of our products and distribution of our software. If these critical issues are not favorably resolved, the Company's business, operating results, cash flows and financial condition could be materially and adversely affected.

THE MARKET FOR OUR PRODUCTS IS HIGHLY COMPETITIVE. IF WE ARE UNABLE TO COMPETE EFFECTIVELY WITH EXISTING OR NEW COMPETITORS OUR BUSINESS COULD BE NEGATIVELY IMPACTED.

The business information systems industry in general and the ERP computer software industry in particular are very competitive and subject to rapid technological change. Many of the Company's current and potential competitors have (1) longer operating histories, (2) significantly greater financial, technical and marketing resources, (3) greater name recognition, (4) larger technical staffs, and (5) a larger installed customer base than the Company has. A number of companies offer products that are similar to the Company's products and that target the same markets. In addition, any of these competitors may be able to respond quicker to new or emerging technologies and changes in customer requirements (such as eBusiness and Web-based application software), and to devote greater resources to the development, promotion and sale of their products than the Company. Furthermore, because there are relatively low barriers to entry in the software industry, the Company expects additional competition from other established and emerging companies. Such competitors may develop products and services that compete with those offered by the Company or may acquire companies, businesses and product lines that compete with the Company. It also is possible that competitors may create alliances and rapidly acquire significant market share. Accordingly, there can be no assurance that the Company's current or potential competitors will not develop or acquire products or services comparable or superior to those that the Company develops, combine or merge to form significant competitors, or adapt quicker than will the Company to new technologies, evolving industry trends and changing customer requirements. Competition could cause price reductions, reduced margins or loss of market share for the Company's products and services, any of which could materially and adversely affect the Company's business, operating results and financial condition. There can be no assurance that the Company will be able to compete successfully against current and future competitors or that the competitive pressures that the Company may face will not materially adversely affect its business, operating results, cash flows and financial condition.

WE MAY NOT BE ABLE TO MAINTAIN AND EXPAND OUR BUSINESS IF WE ARE NOT ABLE TO

RETAIN, HIRE AND INTEGRATE SUFFICIENTLY QUALIFIED PERSONNEL.

The Company's success depends on the continued service of key management personnel that are not subject to an employment agreement. In addition, the competition to attract, retain and motivate qualified technical, sales and operations personnel is intense. The Company has at times experienced, and continues to experience, difficulty in recruiting qualified personnel, particularly in software development and customer support. There is no assurance that the Company can retain its key personnel or attract other qualified personnel in the future. The failure to attract or retain such persons could have a material adverse effect on the Company's business, operating results, cash flows and financial condition.

OUR FUTURE RESULTS COULD BE HARMED BY ECONOMIC, POLITICAL, REGULATORY AND OTHER RISKS ASSOCIATED WITH INTERNATIONAL SALES AND OPERATIONS.

The Company believes that any future growth of the Company will be dependent, in part, upon the Company's ability to maintain and increase revenues in international markets. There is no assurance that the Company will maintain or expand its international sales. If the revenues that the Company generates from foreign activities are inadequate to offset the expense of maintaining foreign offices and activities, the Company's business, financial condition and results of operations could be materially and adversely affected. International sales are subject to inherent risks, including:

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- Changes in regulatory requirements

- Tariffs and other barriers

- Unfavorable intellectual property laws

- Fluctuating exchange rates

- Difficulties in staffing and managing foreign sales and support operations

- Longer accounts receivable payment cycles

- Potentially adverse tax consequences, including repatriation of earnings

- Development and support of localized and translated products

- Lack of acceptance of localized products in foreign countries

- Burdens of complying with a wide variety of foreign laws

- Effects of high local wage scales and other expenses

- Shortage of skilled personnel required for the local operation

- Euro adoption

Any one of these factors could materially and adversely affect the Company's future international sales and, consequently, the Company's business, operating results, cash flows and financial condition. A portion of the Company's revenues from sales to foreign entities, including foreign governments, has been in the form of foreign currencies. The Company does not have any hedging or similar foreign currency contracts. Fluctuations in the value of foreign currencies could adversely impact the profitability of the Company's foreign operations.

IF THIRD PARTIES INFRINGE OUR INTELLECTUAL PROPERTY, WE MAY EXPEND SIGNIFICANT
RESOURCES ENFORCING OUR RIGHTS OR SUFFER COMPETITIVE INJURY.

The Company relies on a combination of copyright, trademark and trade secret
laws, employee and third-party nondisclosure agreements and other industry
standard methods for protecting ownership of its proprietary software. However,
the Company cannot assure you that in spite of these precautions, an
unauthorized third party will not copy or reverse-engineer certain portions of
the Company's products or obtain and use information that the Company regards as
proprietary. From time to time, the Company does take legal action against third
parties whom the Company believes are infringing upon the Company's intellectual
property rights. However, there is no assurance that the mechanisms that the
Company uses to protect its intellectual property will be adequate or that the
Company's competitors will not independently develop products that are
substantially equivalent or superior to the Company's products.

The Company may from time to time receive notices from third parties claiming
that its products infringe upon third-party intellectual property rights. The
Company expects that as the number of software products in the country increases
and the functionality of these products further overlaps, the number of these
types of claims will increase. Any such claim, with or without merit, could
result in costly litigation and require the Company to enter into royalty or
licensing arrangements. The terms of such royalty or license arrangements, if
required, may not be favorable to the Company.

In addition, in certain cases, the Company provides the source code for some of
its application software under licenses to its customers and distributors to
enable them to customize the software to meet their particular requirements or
translate or localize the products for resale in foreign countries, as the case
may be. Although the source code licenses contain confidentiality and
nondisclosure provisions, the Company cannot be certain that such customers or
distributors will take adequate precautions to protect the Company's source code
or other confidential information.

SUBSTANTIAL SALES OF OUR STOCK COULD CAUSE OUR STOCK PRICE TO DECLINE.

As of March 15, 2002, the Company had 44,814,605 shares of common stock
outstanding as well as 63,535 shares of Series C Preferred Stock outstanding.
Each share of Series C Preferred Stock is convertible into ten shares of common
stock, as adjusted for stock dividends, combinations or splits at the option of
the holder and is entitled to vote with the holders of common stock on an
as-converted basis on all matters presented for shareholder approval. The
holders of the Series C Preferred Stock have the right to cause the Company to
register the sale of the shares of common stock issuable upon conversion of the
Series C Preferred Stock. Also, the Company has a substantial number of options
or shares issuable to employees under employee option, stock grant, or
restricted stock grant plans. As a result, a substantial number of shares of
common stock will be eligible for sale in the public market at various times in
the future. Sales of substantial amounts of such shares could adversely affect
the market price of the Company's Common Stock.

THE MARKET FOR OUR STOCK IS VOLATILE AND FLUCTUATIONS IN OPERATING RESULTS,
CHANGES IN EARNINGS ESTIMATES BY ANALYSTS AND OTHER FACTORS COULD NEGATIVELY
AFFECT OUR STOCK'S PRICE.

The market prices for securities of technology companies, including the Company,

have been quite volatile. Quarter to quarter variations in operating results, changes in earnings estimates by analysts, announcements of technological innovations or new products by the Company or its competitors, announcements of major contract awards, changes in accounting standards or regulatory requirements as promulgated by the FASB, SEC, Nasdaq or other regulatory entities, and other events or factors may have a significant impact on the market price of the Company's Common Stock. In addition, the securities of many technology companies have experienced extreme price and volume fluctuations, which have often been unrelated to the companies' operating performance. These conditions may adversely affect the market price of the Company's Common Stock.

Because of these and other factors affecting the Company's operating results, past financial performance should not be considered an indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

ITEM 2. PROPERTIES

The Company leases approximately 175,000 square feet of office space in Irvine, California located in five buildings. The majority of the leases expire in April 2004. Of the total space, approximately 22,000 square feet is on the market to be sublet to third parties. The principal activities in Irvine, California are corporate headquarters, sales, marketing, development and customer support. In addition, the Company leases approximately 173,000 square feet of office space in San Diego, California. The lease expires in August 2009. Approximately 116,000 square feet of the San Diego facility is currently sublet to three third parties. The Company also leases approximately 47,000 square feet of office space in Minneapolis, Minnesota. The lease expires in March 2007. The principal activities in San Diego and Minneapolis are sales, development, consulting and customer support.

In addition to the locations listed above the Company leases other offices for sales, service, product development, and administration in various locations worldwide. The Company is continually evaluating its facilities for cost effectiveness and suitability for purpose and will adjust its facilities portfolio to fit the needs of the Company at any point in time. However, the Company believes its current facilities are suitable for their respective uses and adequate for the Company's needs.

ITEM 3. LEGAL PROCEEDINGS

In August 1999, DataWorks Corporation, which was acquired by the Company in December 1998, filed for arbitration against AAR Corporation (AAR) with the American Arbitration Association in Denver, Colorado. The arbitration arose out of the development, licensing and sale of Impresa for MRO software by DataWorks to AAR in 1997. AAR counterclaimed against DataWorks alleging breach of contract. In January 2001, the Company settled this matter by agreeing to pay AAR $2,000,000. The settlement was charged to operations in 2000. The Company paid this settlement in 2001.

In December 1998, Alyn Corporation (Alyn) filed a lawsuit against DataWorks in San Diego, California Superior Court arising from the licensing and sale of software by DataWorks to Alyn in December 1996. In March 2000, the Company agreed to pay Alyn $1,800,000 to settle the lawsuit. The settlement was charged to operations in 1999. The Company paid this amount during the first half of 2000.

In November 1998, a securities class action was filed in the United States District Court for the Southern District of California (the Court) against DataWorks, certain of its current and former officers and directors, and the Company. The consolidated complaint was purportedly brought on behalf of purchasers of DataWorks stock between October 30, 1997 and July 16, 1998. The

complaint alleged that the defendants made material misrepresentations and
omissions concerning DataWorks' acquisition of Interactive Group, Inc. and
demand for DataWorks' products. The Company was named as a defendant solely as
DataWorks' successor, and was not alleged to have taken part in the alleged
misconduct. No damage amount was specified in the complaint. On January 31,
2002, the Court issued an order granting the defendants' motion to dismiss the
complaint with prejudice as to all claims and defendants. Subsequently, the
plaintiffs appealed the dismissal. The Company believes there is no merit to
this lawsuit or to the appeal and intends to continue to defend against it
vigorously. The ultimate outcome of this suit or any potential loss is not
presently determinable and no amount has been recorded in the consolidated
financial statements.

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The Company is subject to other legal proceedings and claims in the normal
course of business. The Company is currently defending these proceedings and
claims, and anticipates that it will be able to resolve these matters in a
manner that will not have a material adverse effect on the Company's
consolidated financial position, results of operations or cash flows.

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

No matters were submitted to a vote of the security holders during the fourth
quarter of the fiscal year ended December 31, 2001.

PART II

ITEM 5. MARKET VALUE OF COMMON STOCK

The Company's Common Stock was traded on the over-the-counter market (The Nasdaq
National Market) under the symbol PSQL until May 3, 1999 and under the symbol
EPIC subsequent to that date. The following table sets forth the range of high
and low sale prices for the Company's Common Stock for the periods indicated.

Fiscal Year ended December 31, 1999:	High	Low
1st Quarter	$ 13.69	$ 5.88
2nd Quarter	$ 8.13	$ 6.06
3rd Quarter	$ 7.28	$ 3.56
4th Quarter	$ 6.78	$ 4.09
Fiscal Year ended December 31, 2000:		
1st Quarter	$ 10.88	$ 3.75
2nd Quarter	$ 8.38	$ 2.31
3rd Quarter	$ 4.91	$ 2.65
4th Quarter	$ 3.56	$ .66
Fiscal Year ended December 31, 2001:		
1st Quarter	$ 2.13	$ .81
2nd Quarter	$ 1.71	$ .69
3rd Quarter	$ 1.49	$ .80
4th Quarter	$ 1.72	$ .65

There were approximately 1,468 security holders of record as of March 15, 2002.
The Company has not paid dividends to date and intends to retain any earnings

for use in the business for the foreseeable future.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes thereto appearing elsewhere in this Annual Report. The following selected consolidated statement of operations data for the years ended December 31, 2001, 2000 and 1999, and the consolidated balance sheet data at December 31, 2001 and 2000, have been derived from audited consolidated financial statements included elsewhere in this Report. The consolidated statement of operations data presented below for the six months ended December 31, 1998 and fiscal years ended June 30, 1998 and 1997 and the consolidated balance sheet data at December 31, 1999 and 1998 and at June 30, 1998 and 1997, are derived from audited consolidated financial statements that are not included in this report (in thousands, except per share amounts).

	As of or for the year ended December 31, 2001	As of or for the year ended December 31, 2000	As of or for the year ended December 31, 1999	As of or fo the six months ende December 31 1998
	(4)	(3)	(1)(2)	(1)(2)
Total revenues	$ 171,011	$ 219,768	$ 258,176	$ 63,716
Net income (loss)	$ (28,730)	$ (40,735)	$ (50,633)	$ (2,056
Diluted earnings (loss) per share	$ (0.69)	$ (0.98)	$ (1.25)	$ (0.07
Diluted shares	41,929	41,409	40,605	28,373
Total assets	$ 86,771	$ 134,787	$ 170,177	$ 212,277
Long-term debt, less current portion	$ 2,229	$ 5,621	$ 520	$ 1,116
Net stockholders' equity	$ 7,171	$ 34,067	$ 71,806	$ 117,995

(1) Effective December 31, 1998, the Company acquired DataWorks Corporation. The Company's Consolidated Balance Sheet data includes DataWorks' consolidated balance sheet as of December 31, 1998. The Company's Consolidated Statement of Operations do not include the revenues and expenses of DataWorks until the year ended December 31, 1999. See Note 3 of Notes to Consolidated Financial Statements.

(2) For the year ended December 31, 1999, loss from operations included

restructuring charges of $9,975,000 recorded relative to the Company's restructuring activities, related charges aggregating $7,713,000 recorded in cost of license fees and general and administrative expenses to reflect the write down of certain operating assets, and a litigation charge of $1,800,000. For the six months ended December 31, 1998 and the year ended June 30, 1997, loss from operations included $5,950,000 and $1,600,000 of charges for restructuring, respectively. See Notes 1, 3 and 6 of Notes to Consolidated Financial Statements.

(3) For the year ended December 31, 2000, loss from operations included a charge of $5,337,000 recorded in cost of license fees related to the write-down of capitalized software development costs, provision for doubtful accounts of $18,480,000 and a $2,000,000 litigation charge. See Notes 1 and 6 of Notes to Consolidated Financial Statements.

(4) For the year ended December 31, 2001, loss from operations included gain from sales of product lines of $11,880,000, provision for doubtful accounts of $10,108,000, restructuring charges of $9,658,000 and a charge of $1,500,000 recorded in cost of revenues, related to the write-down of capitalized development costs and reduction in the carrying value of certain intangible assets. See Notes 1, 3 and 5 of Notes to Consolidated Financial Statements.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

OVERVIEW

The Company designs, develops, markets and supports integrated enterprise business software solutions for use by mid-sized companies, as well as divisions and subsidiaries of larger corporations worldwide. These integrated solutions address customers' requirements in the areas of customer relationship management, financials, distribution, manufacturing and eBusiness. The Company's business solutions are focused on the midmarket, which generally includes companies between $10 million and $500 million in annual revenues. The Company's products and services are sold worldwide by its direct sales force and an authorized network of VARs, distributors and Authorized Consultants.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. As such, management is required to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The significant accounting policies which are most critical to aid in fully understanding and evaluating reported financial results include the following:

Revenue Recognition

The Company enters into contractual arrangements with end users that may include licensing of the Company's software products, product support and maintenance services, consulting services or various combinations thereof, including the sale of such products or services separately. The Company's accounting policies

regarding the recognition of revenue for these contractual arrangements is fully described in Note 1 of Notes to Consolidated Financial Statements.

The Company considers many factors when applying accounting principles generally accepted in the United States of America related to revenue recognition. These factors include, but are not limited to:

- The actual contractual terms, such as payment terms, delivery dates, and pricing of the various product and service elements of a contract

- Availability of products to be delivered

- Time period over which services are to be performed

- Creditworthiness of the customer

- The complexity of customizations to the Company's software required by service contracts

- The sales channel through which the sale is made (direct, VAR, distributor, etc.)

- Discounts given for each element of a contract

- Any commitments made as to installation or implementation "go live" dates

Each of the relevant factors is analyzed to determine its impact, individually and collectively with other factors, on the revenue to be recognized for any particular contract with a customer. Management is required to make judgments regarding the significance of each factor in applying the revenue recognition standards, as well as whether or not each factor complies with such standards. Any misjudgment or error by management in its evaluation of the factors and the application of the standards, especially with respect to complex or new types of transactions, could have a material adverse affect on the Company's future operating results.

Allowance for Doubtful Accounts

The Company sells its products directly to end users, generally requiring a significant up-front payment and remaining terms appropriate for the creditworthiness of the customer. The Company also sells its products to VARs and other software distributors generally under terms appropriate for the creditworthiness of the VAR or distributor. The Company believes no significant concentrations of credit risk existed at December 31, 2001. Receivables from customers are generally unsecured. The Company continuously monitors its customer account balances and actively pursues collections on past due balances. The Company maintains an allowance for doubtful accounts which is

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comprised of a general reserve based on historical collections performance plus a specific reserve for certain known customer collections issues. If actual bad debts are greater then the reserves calculated based on historical trends and known customer issues, the Company may be required to book additional bad debt expense which could have a material adverse impact on our operating results for the periods in which such additional expense occurs.

Capitalized Software Development Costs

Software development costs incurred subsequent to the determination of technological feasibility and marketability of a software product are capitalized. Amortization of capitalized software development costs commences when the products are available for general release. Amortization is determined on a product by product basis using the greater of a ratio of current product revenues to projected current and future product revenues or an amount calculated using the straight-line method over the estimated economic life of the product, generally three to five years. In addition to in-house software development costs, the Company purchases certain software from third-party software providers and capitalizes such costs in software development costs. The Company continually evaluates the recoverability of its capitalized software development costs and considers any events or changes in circumstances that would indicate that the carrying amount of an asset may not be recoverable. Any material changes in circumstances, such as a large decrease in revenues or the discontinuation of a particular product line could require future write-downs in the Company's capitalized software development costs and could have a material adverse impact on our operating results for the periods in which such write-downs occur.

Intangible Assets

The Company's intangible assets were recorded as a result of an acquisition in December 1998 and represent acquired technology and customer base. These intangibles are amortized on a straight-line basis over the estimated economic life of the asset. The Company continually evaluates the recoverability of the intangible assets and considers any events or changes in circumstances that would indicate that the carrying amount of an asset may not be recoverable. Any material changes in circumstances, such as large decreases in revenue or the discontinuation of a particular product line could require future write-downs in the Company's intangibles assets and could have a material adverse impact on our operating results for the periods in which such write-downs occur.

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RESTRUCTURING CHARGES AND OTHER

The following table summarizes the activity in the Company's reserves associated with its restructurings (in thousands):

	Separation costs for terminated employees and contractors	Facilities closing and downsizing	Remaining accrual from prior periods -- 1998, 1997 and 1996	As impa
Balance at December 31, 1998	$ -	$ -	$ 7,957	$
1999 restructuring charges and other	2,072	4,756	-	
Write-down of intangible assets	-	-	-	
Cash payments	(67)	(44)	(6,772)	
Balance at December 31, 1999	2,005	4,712	1,185	
Write-off of fixed assets	-	(1,435)	-	

Reversal of facility accrual		–		(700)		–	
Cash payments		(2,005)		(2,373)		(850)	
		------------		------------		------------	------
Balance at December 31, 2000		–		204		335	
2001 restructuring charges and other		4,271		3,654		–	
Write-down of intangible assets		–		–		–	
Cash payments		(2,745)		(1,582)		(147)	
		------------		------------		------------	------
Balance at December 31, 2001	$	1,526	$	2,276	$	188	$
		============		============		============	======

> (1) Also included in the 1999 restructuring charges and other is the
> reversal of $178,000 of the December 31, 1998 DataWorks merger-related
> accrual as a result of lower than anticipated severance and facilities
> closing costs in the Sweden and Netherlands offices.

2001 Restructurings

In April 2001, the Company underwent a restructuring of its operations in an
effort to reduce its cost structure through a workforce reduction and the
closure or reduction in size of certain of its facilities. In connection with
this restructuring, the Company recorded a restructuring charge of $5,890,000
during the quarter ended June 30, 2001. As part of the restructuring the Company
terminated 199 employees or 15% of the workforce from all functional areas of
the Company. As of December 31, 2001, these terminations were completed.

In December 2001, the Company underwent another restructuring to further reduce
its cost structure. In connection with this restructuring, the Company recorded
a restructuring charge of $2,035,000 during the quarter ended December 31, 2001.
As part of this restructuring, the Company terminated 162 employees or
approximately 15% of the workforce from all functional areas of the Company. As
of December 31, 2001, 152 of these terminations were completed. The remaining 10
terminations, which are from all functional areas of the Company, will be
completed by July 31, 2002. The Company expects the remaining severance costs
and a substantial amount of the facilities costs to be paid out by the end of
2002. The Company believes these obligations will be funded from existing cash
reserves, operations and its credit facility.

Although the closure and consolidation efforts were substantially completed as
of the end of 2001, lease payments on buildings being vacated or downsized will
continue to be made until the respective noncancelable terms of the leases
expire.

For the year ended December 31, 2001, an additional charge of $1,733,000 was
included in restructuring charges and other for the write-down of fixed assets
related to assets to be disposed of as a result of the facility closures in
accordance with Statement of Financial Accounting Standards (SFAS) No. 121
Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to
be Disposed of. These assets consist primarily of leasehold improvements and
computer equipment related to buildings being vacated or downsized.

Although the Company believes the restructuring activities were necessary, no
assurance can be given that the anticipated benefits of the restructuring will
be achieved or that similar action will not be required in the future. The
Company expects that the 2001 restructurings will provide approximately $10

million in quarterly cost savings during 2002, as compared to the first quarter of 2001.

The remaining restructuring reserves from prior periods of $188,000 relate primarily to lease commitments on which the Company will continue to make payments until the respective noncancelable term of the leases expire.

1999 Restructuring

In December 1999, the Company underwent a restructuring as a result of reorganizing certain aspects of its business. Elements of the restructuring plan included refocusing development activities of certain product lines on sales to current users of these products as opposed to new customers; termination of plans to market certain products in selected international markets; organizing into product lines with profit and loss responsibilities; reducing the workforce; and closing or significantly reducing the size of various offices worldwide. In connection with this reorganization, the Company incurred various charges totaling $9,975,000 during the year ended December 31, 1999.

As part of the restructuring, 130 employees or 11% of the Company's workforce across all functional areas of the Company were terminated and non-strategic offices were closed or consolidated. In addition, the Company recorded a charge of $3,325,000 to write-down impaired intangible assets from businesses acquired prior to 1999 to their fair values.

The Company's 1999 restructuring resulted in or contributed to the recording of additional reserves and write-downs of prepaid software licenses, capitalized software development costs and other assets due to change in product focus and reorganization. These charges of $2,713,000 and $5,000,000 are included in cost of license fees and general and administrative expenses, respectively, in the accompanying Consolidated Statement of Operations for 1999.

During 2000, the Company determined that $700,000 of the reserves recorded as part of the 1999 restructuring were not needed. This was the result of the Company's ability to close certain facilities for less than the amount originally estimated. This amount has been accounted for as a reduction of restructuring and other charges in the accompanying Consolidated Statement of Operations for the year ended December 31, 2000.

SALES OF PRODUCT LINES

In April 2001, the Company sold the assets of its Impresa for MRO (Impresa) product line, which primarily consisted of intellectual property, accounts receivable, customer lists, contracts and fixed assets, for approximately $2,900,000 in cash, plus other future consideration. Additionally, certain liabilities of the Impresa product line were assumed by the buyer. In September 2001, the Company received $1,513,000 in cash, as final consideration for this sale. This sale resulted in an after tax gain of $3,196,000 and is included in gain on sales of product lines in the Consolidated Statement of Operations for the year ended December 31, 2001. The operations of the Impresa product line were not material to the Company's results of operations.

In May 2001, the Company sold the assets of its Platinum for Windows (PFW) product line, which primarily consisted of intellectual property, accounts receivable, inventories, customer lists, contracts and fixed assets, for $