

EPICOR SOFTWARE CORP
Form 10-K/A
April 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2005

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
(State or other jurisdiction of
incorporation or organization)

33-0277592
(I.R.S Employer
Identification No.)

18200 Von Karman Ave, Suite 1000

Irvine, California 92612

(Address of principal executive offices, zip code)

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

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 per share Preferred Share Purchase
Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

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. "

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

Large accelerated filer " Accelerated filer Non-accelerated filer "

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

The aggregate market value of the registrant's voting Common Stock held by non-affiliates of the registrant was approximately \$601,131,920 computed using the closing sales price of \$13.20 per share of Common Stock on June 30, 2005 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 10, 2006 was 54,743,094.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2006 Annual Meeting of Stockholders, which Proxy Statement will be filed no later than 120 days after the close of the registrant's fiscal year ended December 31, 2005, are incorporated by reference in Part III of Annual Report on Form 10-K/A.

EXPLANATORY NOTE

This Annual Report on Form 10-K/A (Form 10-K/A) is being filed as Amendment No. 1 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, which was filed with the Securities and Exchange Commission (SEC) on March 31, 2006 (the Original Filing). We are filing this Amendment No. 1 to include Note 14 in the Notes to the Consolidated Financial Statements, which was inadvertently excluded from the Original Filing. We are therefore amending and restating Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA in its entirety in this Amendment No. 1 to include Note 14 to the Notes to the Consolidated Financial Statements. Other than including Note 14 to the Notes to the Consolidated Financial Statements, there have been no other changes to the Original Filing.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

	Page
Financial Statements:	
<u>Report of Independent Registered Public Accounting Firm</u>	2
<u>Consolidated Balance Sheets as of December 31, 2005 and 2004 (Restated)</u>	3
<u>Consolidated Statements of Operations for the year ended December 31, 2005, 2004 (Restated) and 2003 (Restated)</u>	4
<u>Consolidated Statements of Comprehensive Income for the year ended December 31, 2005, 2004 (Restated) and 2003 (Restated)</u>	5
<u>Consolidated Statements of Stockholders' Equity for the year ended December 31, 2005, 2004 (Restated) and 2003 (Restated)</u>	6
<u>Consolidated Statements of Cash Flows for the year ended December 31, 2005, 2004 (Restated) and 2003 (Restated)</u>	7
<u>Notes to Consolidated Financial Statements</u>	9

Financial Statement Schedule:

<u>Schedule II Valuation and Qualifying Accounts</u>	49
--	----

All other schedules are omitted because they are not required or the required information is included in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Epicor Software Corporation

Irvine, California:

We have audited the accompanying consolidated balance sheets of Epicor Software Corporation and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Epicor Software Corporation and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 16, the accompanying consolidated balance sheet as of December 31, 2004 and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the two years in the period December 31, 2004 have been restated.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of a material weakness.

/s/ Deloitte & Touche LLP

Costa Mesa, California

March 31, 2006

EPICOR SOFTWARE CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	December 31,	
	2005	2004 (as Restated, see Note 16)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 49,768	\$ 53,711
Short term investments	3,271	
Accounts receivable, net of allowance for doubtful accounts of \$6,011 and \$6,603 as of 2005 and 2004, respectively	67,728	55,296
Deferred income taxes	20,726	
Inventory	4,572	253
Prepaid expenses and other current assets	6,759	6,466
Total current assets	152,824	115,726
Property and equipment, net	11,347	7,045
Deferred income taxes	22,449	
Intangible assets, net	73,539	45,080
Goodwill	164,451	83,492
Other assets	4,341	4,406
	\$ 428,951	\$ 255,749
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 12,150	\$ 10,437
Accrued compensation and payroll taxes	27,114	21,404
Other accrued expenses	29,595	26,372
Current portion of long-term debt	100	352
Current portion of accrued restructuring costs	2,812	3,287
Current portion of deferred revenue	57,183	61,872
Total current liabilities	128,954	123,724
Long-term debt, less current portion	124,639	30,264
Long-term portion of accrued restructuring costs	1,460	2,462
Long-term portion of deferred revenue	2,284	1,642
Long-term deferred income taxes	1,164	
Total long-term liabilities	129,547	34,368
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Series C and D convertible preferred stock, \$0.001 par value, 5,000,000 shares authorized, zero and 168,158 shares issued and outstanding as of 2005 and 2004		3,046
Common stock, \$0.001 par value, 60,000,000 shares authorized, 55,730,610 and 53,155,638 shares issued and outstanding as of 2005 and 2004, respectively	56	53
Additional paid-in capital	338,534	308,264
Less: treasury stock at cost, 884,357 and 416,825 shares as of 2005 and 2004, respectively	(10,679)	(4,431)
Less: unamortized stock compensation expense	(2,395)	(2,379)
Accumulated other comprehensive (loss)	(1,053)	(848)
Accumulated deficit	(154,013)	(206,048)

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

Net stockholders equity	170,450	97,657
	\$ 428,951	\$ 255,749

See accompanying notes to the consolidated financial statements.

EPICOR SOFTWARE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Year ended December 31,		
	2005	2004 (as Restated, see Note 16)	2003 (as Restated, see Note 16)
Revenues:			
License fees	\$ 77,052	\$ 59,037	\$ 36,715
Consulting	73,666	56,891	38,821
Maintenance	134,544	105,455	76,576
Other	4,151	3,483	2,220
Total revenues	289,413	224,866	154,332
Cost of revenues:			
License fees	15,548	11,220	6,704
Consulting	58,640	41,580	31,330
Maintenance	28,212	25,114	18,254
Other	2,046	2,108	1,342
Amortization of intangible assets and capitalized software development costs	11,759	7,327	7,097
Total cost of revenues	116,205	87,349	64,727
Gross profit	173,208	137,517	89,605
Operating expenses:			
Sales and marketing	61,034	47,975	37,537
Software development	28,454	24,736	20,058
General and administrative	42,087	35,043	20,424
Provision for doubtful accounts	1,544	1,485	(1,022)
Stock-based compensation	2,625	2,617	3,336
Restructuring charges and other	359	2,382	937
Write-off of in-process research and development	2,000		
Settlement of claim		(284)	
Total operating expenses	138,103	113,954	81,270
Income from operations	35,105	23,563	8,335
Other income (expense):			
Interest income	1,235	819	748
Interest expense	(1,471)	(604)	(70)
Other income (expense)	(935)	1,698	(410)
Other income (expense), net	(1,171)	1,913	268
Income before income taxes	33,934	25,476	8,603
Provision (benefit) for income taxes	(18,189)	1,336	399
Minority interest in income of consolidated subsidiary	88	171	
Net income	\$ 52,035	\$ 23,969	\$ 8,204
Value of beneficial conversion related to preferred stock			(241)
Net income applicable to common stockholders	\$ 52,035	\$ 23,969	\$ 7,963

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

Net income per share applicable to common stockholders:			
Basic	\$ 0.95	\$ 0.47	\$ 0.17
Diluted	\$ 0.92	\$ 0.45	\$ 0.16
Weighted average common shares outstanding:			
Basic	54,665	50,753	46,392
Diluted	56,574	53,714	49,509

See accompanying notes to consolidated financial statements.

EPICOR SOFTWARE CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Year Ended December 31,		
	2005	2004 (as Restated, see Note 16)	2003 (as Restated, see Note 16)
Net income applicable to common stockholders	\$ 52,035	\$ 23,969	\$ 7,963
Foreign currency translation adjustment	(205)	(1,093)	2,550
Comprehensive income	\$ 51,830	\$ 22,876	\$ 10,513

See accompanying notes to consolidated financial statements.

Epicor Software Corporation

Consolidated Statements of Stockholders' Equity

(in thousands, except share amounts)

	Series C and D convertible		Common Stock		Additional	Treasury Stock		Unamortized	Notes	Accumulated	Net	
	Preferred Stock	Common Stock	Paid in	Treasury Stock	Stock	Compensation	From	Other	Accumulated			
	Shares	Amount	Shares	Amount	Capital	Shares	Amount	Expense	Officers	Income	Deficit	Equity
Balance December 31, 2002, as previously reported	61,735	\$ 4,859	44,456,173	\$ 44	\$ 246,936	58,347	\$ (87)	\$ (723)	\$ (7,796)	\$ (2,305)	\$ (237,142)	\$ 3,786
Prior period adjustment (see Note 16)											(838)	(838)
Balance December 31, 2002 (as Restated, see Note 16)	61,735	\$ 4,859	44,456,173	\$ 44	\$ 246,936	58,347	\$ (87)	\$ (723)	\$ (7,796)	\$ (2,305)	\$ (237,980)	\$ 2,948
Issuance of preferred stock	300,000	5,323										5,323
Beneficial conversion option		241									(241)	
Acquisition of treasury stock related to stock option exchange program						54,714	(235)					(235)
Issuance of restricted stock			3,000,000	3	7,727			(7,727)				3
Collection of notes receivable from officers			(2,000,000)	(2)	(4,258)				7,840			3,580
Interest accrued on notes receivable from officers									(44)			(44)
Excess options in acquisition					112							112
Stock-based compensation expense			(74,591)		(112)			3,321	127			3,321
												15

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

Forfeiture of unvested restricted stock from terminated employees													
Employee stock purchases			357,988			519							519
Exercise of stock options			490,651	1		1,164							1,165
Net income (as Restated, see Note 16)												8,204	8,204
Foreign currency translation adjustment (as Restated, see Note 16)											2,550		2,550
Balance December 31, 2003 (as Restated)	361,735	\$ 10,423	46,230,221	\$ 46	\$ 252,088	113,061	\$	(322)	\$ (5,002)	\$	\$ 245	\$ (230,017)	\$ 27,461
Conversion of preferred stock	(193,577)	(7,377)	1,935,770	2	7,375								
Acquisition of treasury stock related to stock option exchange program						303,764		(4,109)					(4,109)
Stock-based compensation expense									2,617				2,617
Shares issued for acquisition of Scala, net of issuance cost of \$679			4,248,207	4	45,329								45,333
Forfeiture of unvested restricted stock from terminated employees			(4,102)		(6)				6				
Employee stock purchases			134,329			1,086							1,086
Exercise of stock options			611,213	1		2,392							2,393
Net income (as Restated, see Note 16)												23,969	23,969
Foreign currency translation adjustment (as Restated, see Note 16)									(1,093)				(1,093)

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

Balance December 31, 2004 (as Restated)	168,158	\$ 3,046	53,155,638	\$ 53	\$ 308,264	416,825	\$ (4,431)	\$ (2,379)	\$	(848)	\$ (206,048)	\$ 97,657
Conversion of preferred stock	(168,158)	(3,046)	1,681,580	2	3,044							
Acquisition of treasury stock related to stock option exchange program						467,532	(6,248)					(6,248)
Stock-based compensation expense								2,625				2,625
Issuance of restricted stock			200,000		2,643			(2,641)				2
Forfeiture of unvested restricted stock from terminated employees			(190)									
Employee stock purchases			122,997		1,326							1,326
Exercise of stock options			570,585	1	2,298							2,299
Tax benefits of excess stock option deductions					20,959							20,959
Net income										52,035		52,035
Foreign currency translation adjustment										(205)		(205)
Balance December 31, 2005	\$		55,730,610	\$ 56	\$ 338,534	884,357	\$ (10,679)	\$ (2,395)	\$	\$ (1,053)	\$ (154,013)	\$ 170,450

See accompanying notes to consolidated financial statements

EPICOR SOFTWARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2005	2004 (as Restated, see Note 16)	2003 (as Restated, see Note 16)
OPERATING ACTIVITIES			
Net income applicable to shareholders	\$ 52,035	\$ 23,969	\$ 7,963
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	16,265	10,447	9,232
Stock-based compensation expense	2,625	2,617	3,336
Provision for doubtful accounts	1,544	1,485	(1,022)
Restructuring charges and other	359	2,382	937
Write-off of in-process R&D	2,000		
Deferred income taxes	(41,179)		
Tax benefits of excess stock option deductions	20,959		
Settlement of claim		(284)	
Interest accrued on notes receivable from officers			(44)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(5,707)	(18,729)	1,114
Prepaid expenses and other current assets	2,010	5,211	(285)
Other assets	573	(541)	(514)
Accounts payable	(4,339)	2,762	2,081
Accrued expenses, compensation and payroll taxes	(3,423)	(1,664)	(1,072)
Accrued restructuring costs	(1,687)	(6,416)	(3,507)
Deferred revenue	(4,333)	6,469	(1,295)
Net cash provided by operating activities	37,702	27,708	16,924
INVESTING ACTIVITIES			
Purchases of property and equipment	(3,393)	(4,453)	(1,346)
Cash paid for acquisitions, net of cash acquired	(125,077)	(36,905)	(19,032)
Purchases of short-term investments	(12,271)		
Sales of short-term investments	9,000		
Decrease (increase) in restricted cash		501	(501)
Net cash used in investing activities	(131,741)	(40,857)	(20,879)
FINANCING ACTIVITIES			
Proceeds from long-term debt	140,101	30,000	
Proceeds from exercise of stock options	2,299	2,393	1,165
Proceeds from employee stock purchases	1,326	1,086	519
Net proceeds from issuance of restricted stock			3
Purchase of treasury stock	(6,248)	(4,109)	(235)
Costs to register shares issued for Scala acquisition		(679)	
Issuance of preferred stock, net of transaction costs			5,323
Collections of notes receivable from officers			3,580
Principal payments on long term debt	(45,255)		(2,229)
Net cash provided by financing activities	92,223	28,691	8,126
Effect of exchange rates on cash	(2,127)	(712)	3,397
Net increase (decrease) in cash and cash equivalents	(3,943)	14,830	7,568
Cash and cash equivalents at beginning of year	53,711	38,881	31,313

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

Cash and cash equivalents at end of year	\$ 49,768	\$ 53,711	\$ 38,881
--	-----------	-----------	-----------

See accompanying notes to consolidated financial statements.

EPICOR SOFTWARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)*(in thousands)*

	Year Ended December 31,		
	2005	2004	2003
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	\$ 1,458	\$ 216	\$ 92
Net income tax payments	\$ 2,382	\$ 702	\$ 320
Beneficial conversion option	\$	\$	\$ 241
NON CASH ITEMS:			
Capital lease	\$	\$ 599	\$
Purchases of property and equipment not paid during the period	\$ 664	\$	\$
Common stock received in payment of notes receivable from officers	\$	\$	\$ 4,260
Conversion of preferred stock into common stock	\$ 3,046	\$ 7,377	\$

See Note 3 for details of assets acquired and liabilities assumed in purchase transactions.

See accompanying notes to consolidated financial statements.

EPICOR SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

Epicor Software Corporation, a Delaware corporation, and its subsidiaries (Epicor or the Company) design, develop, market and support integrated enterprise business software solutions for use by mid-size businesses as well as divisions and subsidiaries of larger corporations worldwide. The Company also offers support, consulting and education services in support of its customers' use of its software products. The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America.

Restatement of Financial Statements

As detailed in Note 16 Restatement of Financial Statements, the Company has restated its historical consolidated financial statements for the years ended December 31, 2004 and 2003 to correct the Company's allocation of revenue between license fees and maintenance in multiple element arrangements and the timing of the recognition of these revenues. In addition, as a result of evaluating the impact of the incorrect allocation of revenues and the timing of the recognition of such revenues in the years ended December 31, 2005 and 2004, the Company has restated the quarterly financial data for the year ended December 31, 2004 and through September 30, 2005, see Note 17.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts could differ from these estimates. Significant estimates made in preparing the consolidated financial statements include the allowance for doubtful accounts, cash flows used to evaluate the recoverability of the Company's long-lived assets, deferred tax assets, and certain accrued liabilities related to restructuring activities and litigation.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Short-term investments

The Company considers all liquid interest-earning investments with a maturity of more than three months at the date of purchase to be short-term investments. Short-term investments generally mature between three months and twelve months from the purchase date based on the Company's cash management policy. All short-term investments are classified as available for sale and are recorded at market using the specific identification method; unrealized gains and losses are reflected in other comprehensive income. Cost approximates market for all classifications of cash and short-term investments; realized and unrealized gains and losses are not material.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, trade receivables and payables, and its credit facilities (Note 6). The carrying amounts of these instruments approximate fair value because of their short-term maturities and variable interest rates.

Inventory

Inventories, which are comprised solely of finished goods, are stated at the lower of cost (first-in, first-out or FIFO) or market. Probable losses from obsolete and slow moving inventories are recorded when identified.

Revenue Recognition

The Company recognizes revenue in accordance with accounting principles generally accepted in the United States of America, principally:

Statement of Position (SOP) No. 97-2, Software Revenue Recognition, issued by the American Institute of Certified Public Accountants (AICPA) and interpretations;

AICPA SOP No. 98-9, Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions;

Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, issued by the United States Securities and Exchange Commission as amended by Staff Accounting Bulletin No. 104, and

Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) EITF 00-21 Revenue Arrangements with Multiple Deliverables.

Statement of Position (SOP) No. 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, issued by the AICPA.

The Company enters into contractual arrangements with end users of its products that may include software licenses, maintenance services, consulting services, or various combinations thereof, including the sale of such elements separately. For each arrangement, revenues are recognized when both parties have signed an agreement, the fees to be paid by the customer are fixed or determinable, collection of the fees is probable, delivery of the product has occurred, vendor-specific objective evidence (VSOE) of the fair value of any undelivered elements exists and no other significant obligations on the part of the Company remain.

For multiple-element arrangements, the Company accounts for the software license component using the residual method. The residual method generally requires recognition of software license revenue in a multiple-element arrangement once all software products have been delivered and accepted by the customer and the only undelivered element is maintenance services or consulting services. The fair value of the maintenance services is determined based on VSOE of fair value and is deferred and recorded to revenue ratably over the maintenance term. The residual revenue is allocated to the license fee associated with the software products in the transaction. The Company's maintenance services' VSOE of fair value is determined by reference to the price the Company's customers are required to pay for the services when sold separately (i.e. the maintenance services fees paid by the Company's customers upon renewal).

If the services element of the arrangement is deemed essential to the functionality of the software arrangement, or if the Company enters into arrangements in which the customer payments are tied to specific milestones, the Company applies the provisions of SOP 81-1.

License Revenues: Amounts allocated to software license revenues are recognized at the time of shipment of the software when fair value for any undelivered elements is determinable and all the other revenue recognition criteria discussed above have been met.

Revenues on sales made to the Company's resellers are recognized upon shipment of the Company's software to the reseller, when the reseller has an identified end user and all other revenue recognition criteria noted above are met. Under limited arrangements with certain distributors, all the revenue recognition criteria have been met upon delivery of the product to the distributor and, accordingly, revenues are recognized at that time. The Company does not offer a right of return on its products.

Consulting Service Revenues: Consulting service revenues are comprised of consulting and implementation services and, to a limited extent, training. Consulting services are generally sold on a time-and-materials basis and can include services ranging from software installation to data conversion and building non-complex interfaces to allow the software to operate in integrated environments. Consulting engagements can last anywhere from one week to several months and are based strictly on the customer's requirements and complexities and are independent of the functionality of the Company's software. The Company's software, as delivered, can be used by the customer for the customer's purpose upon installation. Further, implementation and integration services provided are not essential to the functionality of the software, as delivered, and do not result in any material changes to the underlying software code. Services are generally separable from the other elements under the same arrangement since the performance of the services are not essential to the functionality of the other elements of the transaction, the services are described in the contract such that the total price of the arrangement would be expected to vary as the result of the inclusion or exclusion of the

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

services, and VSOE of fair value exists for the services based on sold separately data. For services performed on a time-and-material basis, revenue is

recognized when the services are performed and billed. On occasion, the Company enters into fixed fee arrangements or arrangements in which customer payments are tied to achievement of specific milestones. In fixed fee arrangements revenue is recognized on a percentage-of-completion basis as measured by costs incurred to date as compared to total estimated costs to be incurred. In milestone achievement arrangements, the Company recognizes revenue as the respective milestones are met.

The Company has recorded unbilled consulting revenues totaling \$851,000 and \$885,000 at December 31, 2005 and 2004, respectively. These unbilled revenues represent consulting services performed during the last two weeks of the quarter but not billed until the 15th of the following month. The Company cuts-off consulting billing on the 15th of each month. Unbilled consulting revenue is recorded in accounts receivable in the accompanying consolidated balance sheet.

Maintenance Service Revenues: Maintenance service revenues consist primarily of fees for providing unspecified software upgrades on a when-and-if-available basis and technical support over a specified term, which is typically twelve months. Maintenance revenues are typically paid in advance and are recognized on a straight-line basis over the term of the contract.

Hardware revenues: The Company resells third party hardware systems and related peripherals as part of an end-to-end solution requested by its customers. This revenue is included in Other Revenues on the Company's consolidated statements of operations. Hardware revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is considered probable. The Company considers delivery to occur upon shipment of the product, so long as title and risk of loss have passed to the customer.

Software License Indemnification: The Company's standard software license agreements contain an infringement indemnity clause under which we agree to defend, indemnify and hold harmless the Company's customers and business partners against liability and damages arising from third party claims that the Company's products violate or infringe the intellectual property rights of others. These clauses constitute a form of guarantee that is subject to the disclosure requirements, but not the initial recognition or measurement provisions of Financial Accounting Standards Board issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. We have never lost a third party infringement claim and to date, the Company's costs to defend such claims and/or lawsuits have been insignificant. Although it is possible that in the future third parties may claim that the Company's current or potential future software solutions infringe on their intellectual property, we do not currently expect a significant impact on the Company's business, operating results or financial condition from such claims.

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, 2005. 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 comprised of two components, one of which is based on historical collections performance and a second component based on specific collection issues. If actual bad debts differ from the reserves calculated based on historical trends and known customer issues, the Company records an adjustment to bad debt expense in the period in which the difference occurs. Such adjustment could result in additional expense or, as occurred in the first quarter of 2003, a reduction of expense.

The Company's accounts receivable go through a collection process that is based on the age of the invoice and requires attempted contacts with the customer at specified intervals and the assistance from other personnel within the Company who have a relationship with the customer. If after a specified number of days, the Company has been unsuccessful in its collection efforts, the Company may turn the account over to a collection agency. The Company writes-off accounts to its allowance when the Company has determined that collection is not likely. The factors considered in reaching this determination are (i) the apparent financial condition of the customer, (ii) the success that the Company has had in contacting and negotiating with the customer and (iii) the number of days the account has been with a collection agency. To the extent that the Company's collections do not correspond with historical experience, the Company may be required to incur additional charges.

Property and Equipment

Equipment, furniture, fixtures and leasehold improvements are recorded at cost. The Company depreciates equipment, furniture and fixtures using the straight-line method over the estimated useful lives of the assets, which are generally three to seven years. Leasehold improvements are amortized over the lesser of their estimated useful life or the remaining term of the lease.

Long-Lived Assets

Long-lived assets, such as property, plant and equipment and purchased intangible assets with finite lives, are evaluated for impairment. In accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, long-lived assets are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable from future cash flows. Based on the Company's most recent analysis, the Company has concluded there is no impairment at December 31, 2005.

Software Development Costs

Software development costs are accounted for in accordance with Statement SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*. Accordingly, 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, which is generally three to five years. In addition to internally generated software development costs, the Company purchases certain software from third-party software providers and capitalizes such costs within software development costs. Software development costs were fully amortized prior to 2005. Amortization of software development costs is included in cost of revenues and totaled \$795,000 for the year ended December 31, 2003.

Capitalized software development costs are stated at the lower of amortized cost or net realizable value. Recoverability of these capitalized costs is determined by comparing the forecasted future revenues from the related products, based on management's best estimates using appropriate assumptions and projections at the time, to the carrying amount of the capitalized software development costs. If the carrying value is determined not to be recoverable from future revenues, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the future revenues.

Intangible Assets

The Company's intangible assets were recorded as a result of the following:

DataWorks Corporation (DataWorks) acquisition in December 1998

Clarus asset purchase in December 2002

ROI acquisition in July 2003

TDC/T7 asset purchase in July 2003

Platsoft acquisition in February 2004

Scala acquisition in June 2004

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

Strongline acquisition in December 2004

Scala Romania in March 2005

Scala Italy in April 2005

CRS Retail Technology Group, Inc. (CRS) in December 2005

The intangible assets represent acquired technology, customer base, trademarks, covenants not to compete and a third party funded development agreement. 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 intangible assets and could have a material adverse impact on the Company's operating results for the periods in which such write-downs occur. Amortization of intangible assets included in cost of revenues totaled \$11,759,000 for the year

ended December 31, 2005, \$7,327,000 for the year ended December 31, 2004 and \$7,097,000 for the year ended December 31, 2003. Amortization included in general and administration expenses totaled \$581,000 for the year ended December 31, 2005, \$171,000 for the year ended December 31, 2004 and \$75,000 for the year ended December 31, 2003.

Goodwill

The Company's goodwill was recorded as a result of the Company's acquisition of ROI and TDC/T7 in July 2003, the acquisition of Platsoft in February 2004, the acquisition of Scala in June 2004, the acquisition of Strongline in April 2005 and the acquisition of CRS in December 2005. In accordance with SFAS No. 141, "Business Combinations" issued by FASB in July 2001, the Company has recorded these acquisitions using the purchase method of accounting. Also in July 2001, FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which requires that goodwill and other intangible assets with indefinite useful lives no longer be amortized, but instead tested annually and written down when impaired. In accordance with SFAS No. 142, the Company performed an impairment review of its recorded goodwill in 2005 and determined that no impairment of goodwill existed because the estimated fair value of each reporting unit exceeded its carrying amount. The Company will test its recorded goodwill for impairment on an annual basis, or more often if indicators of potential impairment exist, by determining if the carrying value of each reporting unit exceeds its estimated fair value. Factors that could trigger an impairment include, but are not limited to, underperformance relative to historical or projected future operating results, significant changes in the manner of use of the acquired assets or the Company's overall business and significant negative industry or economic trends. Future impairment reviews may require write-downs in the Company's goodwill and could have a material adverse impact on the Company's operating results for the periods in which such write-downs occur.

Advertising Costs

The Company expenses production costs of advertising upon the first showing of the advertisement. Other advertising costs are expensed as incurred. Advertising expense totaled \$1,069,000 for 2005, \$962,000 for 2004 and \$842,000 for 2003.

Foreign Currency Translation

The functional currency of the Company's foreign operations is the respective local country's currency. Assets and liabilities of the foreign operations are translated into U.S. dollars at the exchange rate at the balance sheet date, whereas revenues and expenses are translated into U.S. dollars at average exchange rates for the reporting period. Translation adjustments are included in accumulated other comprehensive income (loss) and realized transaction gains and (losses) are recorded in results of operations. For the years ended December 31, 2005, 2004 and 2003, the Company recorded translation gains (losses) of \$(205,000), \$(1,093,000) and \$2,550,000, respectively, in accumulated other comprehensive income (loss). For the years ended December 31, 2005, 2004 and 2003 the Company realized transaction gains (losses) of (\$1,207,000), \$1,698,000 and (\$414,000), respectively, in results of operations, primarily due to the strengthening of the Euro and the British pound.

The Company's board of directors has approved a foreign currency risk policy that allows the Company to enter into forward contracts and purchase option agreements to hedge foreign currency risks. The Company has an on going program to evaluate its foreign currency risk and to minimize these risks whenever possible through leading and lagging accounts payables and accounts receivables, centralized cash management and other forms of natural hedging. The Company also uses forward contracts or purchased options to hedge some of its foreign currency transaction exposure. Gains and losses resulting from these transactions are included in other income and expense. As of December 31, 2005, the Company had no open forward contracts or purchase options.

Concentration of Credit Risks

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 Value Added Resellers (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, 2005 or 2004. Receivables from VARs, software distributors and end users are unsecured.

The Company does not use derivative financial instruments in its investment portfolio. The Company places its investments with high credit quality issuers and, by policy, limits the amount of credit exposure to any one issuer. Deposits with its US issuers may exceed the amounts of federal deposit insurance provided on such deposits and deposits held outside the US are not afforded such protection. The Company is averse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk, and reinvestment risk. The Company mitigates default risk by investing in only the safest and highest credit quality securities and by constantly positioning its portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The Company has not experienced any losses on deposits of cash or cash equivalents.

Basic and Diluted Net Income per Share

Net income per share is calculated in accordance with SFAS No. 128, Earnings per Share. Under the provisions of SFAS No. 128, basic net income (loss) per share is computed by dividing the net income for the period by the weighted average number of common shares outstanding during the period and the weighted average common equivalent of convertible preferred stock outstanding for the period, excluding shares of unvested restricted stock. The convertible preferred stock is included because the holders of the convertible preferred stock participate in any dividends paid on the Company's common stock on an as-converted basis, and because the Company believes the convertible preferred stock is a participating security that is essentially equivalent to common stock, based on all the rights and preferences of both types of stock. Diluted net income per share is computed by dividing the net income for the period by the weighted average number of common and potential common shares outstanding during the period if their effect is dilutive. For the quarter ended June 30, 2004, the Company adopted EITF 03-6

Participating Securities and the Two-Class Method under FASB Statement No. 128 and such adoption had no impact on the Company's earnings per share calculation.

For the years ended December 31, 2005, 2004 and 2003 options to purchase 509,000, 529,000 and 537,000 shares, respectively, of common stock with a weighted average price of \$15.07, \$15.16 and \$8.91, respectively, were outstanding but not included in the computation because the exercise prices of the options were greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

The following table computes basic and diluted net income per share (*in thousands, except per share amounts*):

	Year Ended December 31,		
	2005	2004	2003
Net income applicable to common stockholders	\$ 52,035	\$ 23,969	\$ 7,963
Basic:			
Weighted average common shares outstanding	54,371	49,138	45,124
Weighted average common equivalent of convertible preferred stock	991	3,353	3,256
Weighted average common shares of unvested restricted stock	(697)	(1,738)	(1,988)
Shares used in the computation of basic net income per share	54,665	50,753	46,392
Net income per share applicable to common stockholders - basic	\$ 0.95	\$ 0.47	\$ 0.17
Diluted:			
Weighted average common shares outstanding	54,665	50,753	46,392
Stock options	1,594	2,096	1,708
Unvested restricted stock	315	865	1,409
Shares used in the computation of diluted net income per share	56,574	53,714	49,509
Net income per share applicable to common stockholders - diluted	\$ 0.92	\$ 0.45	\$ 0.16

Income Taxes

The Company accounts for income taxes using the asset and liability method, which recognizes deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company regularly reviews its deferred tax assets for recoverability and has established a valuation allowance when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The Company assesses the recoverability of the deferred tax assets on an ongoing basis. In making this assessment the Company is required to consider all available positive and negative evidence to determine whether, based on such evidence, it is more likely than not that some portion, or all, of the net deferred assets will be realized in future periods.

Stock-Based Compensation

The Company applies with Accounting Principles Board (APB) No. 25 Accounting for Stock Issued to Employees in accounting for stock options issued to employees. Stock options are granted with an exercise price equal to the fair market value on the date of grant. Shares of stock purchased under the Company's stock purchase plan are deemed non-compensatory as the plan qualifies under Section 423 of the Internal Revenue Code. Accordingly, no compensation expense has been recognized for options issued to employees and stock issued under the stock purchase plan.

Had compensation costs for the Company's stock option plans and stock purchase plan been determined based upon fair value at the grant date consistent with SFAS No. 123, Accounting for Stock-Based Compensation, the Company's net income and net income per share would have been as follows (*in thousands, except per share amounts*):

	Year Ended December 31,		
	2005	2004	2003
Net income applicable to common stockholders as reported	\$ 52,035	\$ 23,969	\$ 7,963
Stock-based compensation included in net income	2,625	2,617	3,336
Stock based employee compensation expense determined under fair value based method for all awards net of tax	(8,431)	(5,503)	(4,850)
Net income pro forma	\$ 46,229	\$ 21,083	\$ 6,449
Net income per share applicable to common stockholders as reported:			
Basic	\$ 0.95	\$ 0.47	\$ 0.17
Diluted	\$ 0.92	\$ 0.45	\$ 0.16
Net income per share applicable to common stockholders pro forma:			
Basic	\$ 0.85	\$ 0.42	\$ 0.14
Diluted	\$ 0.83	\$ 0.39	\$ 0.13

For purposes of computing pro forma net income, the Company estimates the fair value of each option grant and employee stock purchase plan right on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable, while the options issued by the Company are subject to both vesting and restrictions on transfer. In addition, option-pricing models require input of highly subjective assumptions including expected stock price volatility. The Company uses projected data for expected volatility and estimates the expected life of its stock options based upon historical data.

The weighted average assumptions used to value the option grants and the stock purchase plan rights are as follows:

	2005		Year Ended December 31, 2004		2003	
	Stock		Stock		Stock	
	Option		Option		Option	Purchase
	Plans	Purchase Plan	Plans	Purchase Plan	Plans	Plan
Expected life (years)	4.0	0.5	4.4	0.5	3.7	0.5
Risk-free interest rate	3.8%	3.5%	3.2%	2.5%	2.4%	1.0%
Volatility	0.7	0.4	0.6	0.6	0.8	0.8
Dividend rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Comprehensive Income

Total comprehensive income represents the net change in stockholders' equity during a period from sources other than transactions with stockholders and, as such, includes net income and other specified components. For the Company, the only components of total comprehensive income, other than net income, are the change in the cumulative foreign currency translation adjustments recorded in stockholders' equity and unrealized gain/loss associated with the short term investments.

New Accounting Pronouncements

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 provides new guidelines for the evaluation and determination of whether a loss on certain investments is other-than-temporary and requires certain additional disclosures pertaining to unrealized investment losses in a company's financial statements. The effective date of the evaluation and measurement criteria of EITF Issue No. 03-1 has been delayed pending issuance of additional implementation guidance by the Financial Accounting Standards Board (FASB). The additional disclosure requirements, however, remain effective for annual periods ending after December 15, 2004. Management continues to monitor the FASB's progress and does not currently expect the adoption of the evaluation and measurement criteria, as currently drafted to have a material impact on the Company's consolidated results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123-R, "Share-Based Payment" to replace SFAS No. 123, "Accounting for Stock-Based Compensation" and APB Opinion No. 25 "Accounting for Stock Issued to Employees." SFAS 123-R requires, among other things, that all share-based payments to employees, including grants of stock options, be measured based on their grant-date fair value and recognized as expense in the financial statements effective for annual periods beginning after June 15, 2005. Unless observable market prices exist, the grant-date fair value is estimated using an appropriate option-pricing model as determined by management. Management must also make certain assumptions about employee exercise habits, forfeiture rates and select an appropriate amortization methodology for recognizing compensation expense. The Statement requires a modified prospective method of adoption or modified retrospective method. Under the modified prospective method, compensation expense will be recorded in the financial statements for (i) all awards granted after January 1, 2006 and the (ii) future vesting of awards outstanding as of January 1, 2006. Companies may also elect to restate their previously issued financial statements to provide consistency across all periods presented under the modified retrospective method. Management believes the adoption of SFAS 123-R will have a material impact on the Company's consolidated results of operations and earnings per share. The Company has selected the modified prospective method for adoption. The Company is still evaluating the impact of SFAS 123-R, but based on current methodology, the Company expects stock-based compensation to be approximately \$2.5 million for 2006.

Note 2. Composition of Certain Financial Statement Captions

The following summarizes the components of property and equipment (*in thousands*):

	December 31,	
	2005	2004
Computer equipment	\$ 19,249	\$ 23,255
Furniture, fixtures and equipment	6,205	5,512
Leasehold improvements	10,131	8,259
	35,585	37,026
Less accumulated depreciation and amortization	(24,238)	(29,981)
	\$ 11,347	\$ 7,045

The following summarizes the components of deferred revenue (*in thousands*):

	As of	
	December 31, 2005	December 31, 2004
Deferred license fees	\$ 576	\$ 1,116
Deferred maintenance	54,290	56,121
Deferred consulting	4,601	6,277
	59,467	63,514
Less current portion	(57,183)	(61,872)
Total long term deferred revenue	\$ 2,284	\$ 1,642

Deferred software license fees have been deferred because one or more of the revenue recognition criteria have not been met. Once these criteria have been fully met, the revenue will be recognized. Deferred maintenance represents fees paid in advance for unspecified software upgrades on a when-and-if available basis and technical support over a specified time and recognized on a straight-line basis over the term of the contract. Deferred consulting services represent prepaid and unearned consulting, implementation and training services. Revenue for these services will be recognized as the services are performed. Long-term deferred revenue relates to amounts deferred for maintenance expected to be provided beyond 2006.

Note 3. Acquisitions*CRS*

On December 6, 2005, pursuant to a stock purchase agreement, the Company acquired approximately 96% of the outstanding capital stock of CRS Retail Technology Group, Inc. (CRS), a privately held company. The Company acquired the remaining 4% of the outstanding capital stock of CRS effective December 20, 2005. CRS is a provider of merchandising and point-of sale software solutions, hardware and services to the retail industry.

The total preliminary purchase price of CRS as of December 31, 2005 is as follows (*in thousands*):

Cash paid	\$ 121,000
Transaction costs	2,246

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

Total purchase price	\$ 123,246
----------------------	------------

Epicor used working capital and funds available under a Credit Agreement (Note 6) in order to finance the acquisition.

In connection with the acquisition, the Company is considering closing one of the CRS facilities. This assessment is ongoing and is expected to be finalized by June 2006. Certain costs associated with such an action will result in an increase in the goodwill recorded in the transaction in accordance with EITF 95-3 Recognition of Liabilities in Connection with a Business Combination. The Company expects to incur additional transaction costs related to the acquisition, primarily legal and accounting costs, during the first quarter of 2006. These costs will also result in an increase in the amount of goodwill recorded in the transaction.

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

In accordance with SFAS No. 141, Business Combinations, the acquisition has been accounted for under the purchase method of accounting and the results of CRS's operations are included in the accompanying consolidated statement of operations from the December 6, 2005 acquisition date forward.

The preliminary purchase price was allocated to CRS's tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of December 6, 2005 with any excess being ascribed to goodwill. Management is responsible for determining the fair values of these assets. The fair value of assets acquired and liabilities assumed represent management's estimate of fair values. The following table summarizes the preliminary allocation of the purchase price, which is subject to completion (*in thousands*):

Fair value of tangible assets acquired:	
Cash and marketable securities	\$ 3,438
Accounts receivable	9,356
Inventory	3,447
Property and equipment	3,802
Prepaid and other assets	3,280
Total tangible assets acquired	23,323
Acquired technology	26,700
Acquired in-process research and development	2,000
Customer base	6,000
Trade name	2,900
Non competition agreements	800
Goodwill	78,201
Accounts payable and accrued expenses	(11,918)
Deferred revenue	(1,215)
Other long-term liabilities	(3,545)
Net assets acquired	\$ 123,246

Included in the Company's operating results for the year ended December 31, 2005 is a charge of \$2,000,000 for the write-off of the acquired in-process research and development expenses related to the CRS acquisition. The in-process research and development expenses arose from new product projects that were under development at the date of the acquisition and were expected to eventually lead to new products but had not yet established technological feasibility and for which no future alternative use was identified. Four in-process research and development projects were identified, ranging in completeness from 20% to 40%. Two of these projects are significant enhancements to existing projects; they are expected to be completed by the end of 2006 and represent 50% of the in-process research and development. The other two projects are new modules to existing products; one will be complete in mid 2006 and the other in 2007. These represent the other 50% of the in-process research and development. The total estimated cost to complete all four projects is approximately \$1.7 million. The valuation of the in-process research and development projects was based upon the discounted expected future cash flows of the products over the products expected life, reflecting the estimated stage of completion of the projects and the estimate of the costs to complete the projects.

Goodwill recorded in this transaction is not deductible for tax purposes.

Scala Italy

On April 5, 2005, the Company acquired certain assets of Scala Italia SRL (Scala Italy), a privately held company located in Italy, for approximately \$1.5 million (including transaction costs of \$0.2 million), of which approximately \$1.0 million was paid at closing, \$0.1 million paid in July 2005 and \$0.1 million is to be paid in April 2006. The final payment, which was earned as of December 31, 2005, represents the amount due on a contingent earn-out against maintenance and support revenues generated by Scala Italy's customer base. Prior to the acquisition, Scala Italy had been a distributor of Scala's products and related consulting services in Italy. This acquisition is consistent with the Company's continuing efforts to make selective acquisitions of dealers and partners in countries where the Company has a strong installed base of customers.

In accordance with SFAS No. 141, Business Combinations, the acquisition has been accounted for under the purchase method of accounting. The purchase price was allocated entirely to Scala Italy's intangible assets acquired based on their estimated fair values as of April 5, 2005 as no tangible assets or liabilities were assumed. Management is responsible for determining the fair value of these assets. The fair value of the assets acquired and

liabilities assumed represent management's estimate of fair value. The following table summarizes the components of the purchase price (*in thousands*):

Cash	\$ 1,163
Future payments, detailed above	108
Transaction costs	226
Total purchase price	\$ 1,497
Fair value of intangible assets acquired:	
Customer base	\$ 770
Acquired technology	213
Covenant not to compete	20
Goodwill	494
Net assets acquired	\$ 1,497

Goodwill is amortizable for tax purposes when determining foreign earnings subject to tax in the U.S. It is not amortizable for tax in the foreign jurisdictions. The pro forma impact of this acquisition was not significant to the Company's historical results of operations.

Scala Romania

On March 31, 2005, the Company acquired the remaining 80.1% of the outstanding shares it did not already own in SC Scala Business Solutions SRL (Scala Romania), a privately held company located in Romania, for approximately \$2.0 million (including transaction costs of \$0.1 million), of which approximately \$0.1 million was paid at closing and \$1.5 million was paid May 31, 2005. The final payment represented a contingent earn-out against maintenance and support revenues generated by Scala Romania's customer base. The contingent earn-out was finalized on December 31, 2005 for \$0.4 million and was paid on March 1, 2006. Prior to the acquisition, Scala Romania had been a distributor of Scala's products and related consulting services in the Eastern European region. This acquisition is consistent with the Company's continuing efforts to make selective acquisitions of dealers and partners in countries where the Company has a strong installed base of customers.

In accordance with SFAS No. 141, Business Combinations, the acquisition has been accounted for under the purchase method of accounting. The purchase price was allocated to Scala Romania's tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of March 31, 2005. Management is responsible for determining the fair value of these assets. The fair value of the assets acquired and liabilities assumed represent management's estimate of fair value. The following table summarizes the components of the purchase price (*in thousands*):

Cash	\$ 1,561
Future payments, detailed above	390
Transaction costs	67
Total purchase price	\$ 2,018
Fair value of tangible assets acquired:	
Cash and marketable securities	\$ 347
Accounts receivable	426
Property and equipment	79
Prepaid and other assets	118
Customer base	1,699
Covenant not to compete	56
Assumed liabilities	(707)
Net assets acquired	\$ 2,018

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

The pro forma impact of this acquisition was not significant to the Company's historical results of operations.

Strongline

On December 14, 2004, the Company acquired all of the outstanding stock of Strongline A/S (Strongline), a privately held company located in Denmark, for approximately \$5.5 million in cash (including transaction costs of

\$0.1 million); \$3.0 million was paid on December 14, 2004, \$0.5 million was paid on December 23, 2005, \$0.5 million is to be paid on December 14, 2006 and a \$1.3 million working capital adjustment as described below. Prior to the acquisition, Strongline had been a distributor of Scala's products and related consulting services in the Denmark region. This acquisition is consistent with the Company's efforts to strengthen its presence in the Nordic market and continuing efforts to make selective acquisitions of dealers and partners in countries where the Company has a strong installed base of customers.

In accordance with SFAS No. 141, Business Combinations, the acquisition has been accounted for under the purchase method of accounting. The final purchase price was subject to a working capital adjustment based on the difference of the target working capital of Strongline, as specified in the Share Purchase Agreement, and the actual working capital as of the acquisition date. In June 2005, the working capital adjustment was finalized for \$1.3 million and was paid in July 2005.

The purchase price was allocated to Strongline's tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of December 14, 2004. Management is responsible for determining the fair value of these assets. The fair value of the assets acquired and liabilities assumed represent management's estimate of fair value. The following table summarizes the components of the purchase price (*in thousands*):

Cash	\$ 4,865
Future payments, detailed above	500
Transaction costs	104
 Total purchase price	 \$ 5,469
 Fair value of tangible assets acquired:	
Cash and marketable securities	\$ 1,750
Accounts receivable	872
Property and equipment	158
Prepaid and other assets	74
Customer base	1,851
Acquired technology	500
Trademark	100
Covenant not to compete	680
Goodwill	879
Assumed liabilities	(1,395)
 Net assets acquired	 \$ 5,469

Goodwill is amortizable for tax purposes when determining foreign earnings subject to tax in the U.S. It is not amortizable for tax in the foreign jurisdictions.

Scala

On June 18, 2004, Epicor acquired 22,570,851 ordinary shares of Scala Business Solutions N.V. (Scala), a publicly held software company headquartered in Amsterdam, the Netherlands, by means of an exchange offer made for all of the outstanding ordinary shares of Scala (the Exchange Offer). On July 8, 2004, Epicor acquired 1,096,048 shares of Scala during a subsequent offering period. The shareholders of Scala received 0.1795 newly issued shares of Epicor common stock and a cash payment of \$1.8230 for each Scala ordinary share validly tendered during the initial and subsequent offering period. On July 12, 2004, Epicor purchased 27,452 additional Scala shares on Euronext for a price of \$83,500. As described below, on August 9, 2005 the Company deposited the funds to buy-out the remaining 461,074 Scala shares not owned by Epicor. Therefore, as of August 9, 2005, the Company became the legal owner of all outstanding Scala shares.

Scala designs, develops, markets and supports collaborative enterprise resource planning (ERP) software that is used by the small- and medium-size divisions and subsidiaries of large multinational corporations, as well as by independent stand-alone companies, in developed and emerging markets. Scala's solutions are based on a web services platform and utilize Microsoft technologies. Scala's software and services support local currencies and accounting regulations, are available in more than 30 languages, and are used by customers in over 140 countries. The Scala acquisition provides the Company a significantly expanded worldwide presence and synergistic product offerings; both of which contributed to a purchase price in excess of the fair value of assets acquired and liabilities assumed and the creation of goodwill.

Epicor began the buy-out procedures in the fourth quarter of 2004 of Scala ordinary shares from the remaining minority Scala shareholders in accordance with Section 2:92a of the Dutch Civil Code. As part of that process, Epicor requested the Enterprise Section of the Amsterdam Court of Appeal to enter a judgment ordering the remaining shareholders of Scala to transfer their shares in exchange for a cash payment. On May 26, 2005, the Amsterdam Court of Appeal granted Epicor's request and entered a judgment ordering the holders of the remaining 461,074 Scala shares not owned by Epicor or Scala to tender their shares to Epicor in return for payment to them of \$4.07 per Scala share (to be exchanged into euros against the rate on June 18, 2004 as published on the website of the European Central Bank), and increased by the 4% Dutch statutory interest rate over the period from the May 26, 2005 Court ruling until the consignment as referred to below. On August 9, 2005, pursuant to the order of the Amsterdam Court of Appeal, the Company deposited EUR 1,571,409.90 into a consignment account of the Ministry of Finance (*Afdeling Consignatie*) in order to fund the consignment upon which Epicor became the legal owner of the Scala ordinary shares. The admitted institutions (the banks through which the remaining individual shareholders hold their shares) have been requested by Euroclear to transfer the shares via the giro clearing system as maintained by NECIFEF (*Nederlands Centraal Instituut voor Giraal Effectenverkeer*) to the account established for this consignment purpose for payment of the corresponding amount out of the consignment account by the Ministry of Finance. Subsequently, the shares were transferred and the admitted institutions paid out such amounts to their clients (i.e. the former Scala shareholders). The process was completed by December 31, 2005.

The total purchase price of Scala as of December 31, 2005, reflecting the 22,570,851 shares tendered during the initial offering period, the 1,096,048 shares tendered during the subsequent offering period and the 27,452 shares purchased on Euronext, and the buy-out of the remaining 461,074 shares, as described above, is summarized as follows (*in thousands*). The value of the Epicor common shares issued was \$10.83 per share and is based on the average closing price for three days before, the day of, and three days after announcement of the transaction.

Value of securities issued	\$ 46,012
Cash paid	44,899
Transaction costs	4,839
 Total purchase price	 \$ 95,750

Epicor used working capital and funds available under a Credit Agreement (Note 6) in order to finance the cash portion of the offer price.

In connection with the acquisition, the Company formulated a restructuring plan for the Scala operations. As a result, the Company recorded a liability of \$6.2 million for the costs related to Scala facility closures and office consolidations and involuntary employee terminations. These liabilities were included in the allocation of the purchase price in accordance with SFAS No. 141, *Business Combinations* and EITF Issue No. 95-3 *Recognition of Liabilities in Connection with a Purchase Business Combination*. Execution of the restructuring plan was largely completed as of December 31, 2005.

The Company has evaluated Scala's pre-acquisition tax contingencies. At June 30, 2005, it was determined that a probable additional liability exists for these matters and an accrual was recorded as an adjustment to goodwill.

In accordance with SFAS No. 141, *Business Combinations*, the acquisition has been accounted for under the purchase method of accounting and the results of Scala's operations are included in the accompanying consolidated statements of income from the June 18, 2004 acquisition date forward and include a minority interest of 1.9% through August 9, 2005, representing the amounts allocable to Scala shares that have not been tendered.

The purchase price was allocated to Scala's tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of June 18, 2004 with any excess being ascribed to goodwill. Management is responsible for determining the fair value of these assets. The fair value of the assets acquired and liabilities assumed represent management's estimate of fair values. The following table summarizes (*in thousands*) the allocation of the purchase price. Such amounts will change as discussed above.

Fair value of tangible assets acquired:	
Cash and marketable securities	\$ 13,474
Accounts receivable	8,443
Property and equipment	1,406
Prepaid and other assets	5,910

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

Total tangible assets acquired	29,233
Acquired technology	21,650
Customer base	7,260
Trademark	5,740
Third party funded development agreement	950
Goodwill	74,406
Accounts payable and accrued expenses	(21,345)
Accrued restructuring	(6,248)
Deferred revenue	(15,896)
Net assets acquired	\$ 95,750

Goodwill is amortizable for tax purposes when determining foreign earnings subject to tax in the U.S. It is not amortizable for tax in the foreign jurisdictions.

Platsoft

On February 18, 2004, the Company acquired all of the outstanding stock of the Quantum Group, Amida Limited, and Platsoft Limited (Platsoft) a privately held group of companies for approximately \$1.4 million (including transaction costs of \$0.2 million); \$0.7 million was paid on February 18, 2004, \$0.2 million was paid on February 18, 2005 and \$0.2 million was paid on February 20, 2006. The group includes Platsoft, a value-added-reseller (VAR) that has been one of the Company's leading resellers in the United Kingdom and Europe delivering integrated business solutions which enable companies to reduce their costs, improve profitability and benefit from Microsoft technologies. The Company plans to continue to develop and support Platsoft's existing customer base to create new sales opportunities. The acquisition of Platsoft was driven by the continuing success of the Company's products in the United Kingdom and the synergistic strengths of the two companies. Platsoft's technical resources are expected to enhance the Company's services efforts and the combined consulting and support resources will provide a critical mass that should benefit all of the Company's customers. These factors contributed to a purchase price in excess of the fair value of assets acquired and liabilities assumed and the creation of goodwill. The Company recorded the acquisition of Platsoft as a purchase in the first quarter of 2004 and the results of Platsoft operations are included in the accompanying consolidated statements of operations from the date of acquisition.

In accordance with SFAS No. 141, Business Combinations, the acquisition has been accounted for under the purchase method of accounting. The purchase price was allocated to Platsoft's tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of February 18, 2004, with any excess being ascribed to goodwill. Management is responsible for determining the fair value of these assets. The fair value of the assets acquired and liabilities assumed represent management's estimate of fair values. The following table summarizes the components of the purchase price (*in thousands*):

Cash	\$ 1,168
Transaction costs	228
Total purchase price	\$ 1,396
Fair value of tangible assets acquired	\$ 1,267
Customer base	1,065
Covenant not to compete	38
Goodwill	406
Assumed liabilities	(1,380)
Net assets acquired	\$ 1,396

Goodwill recorded in this transaction is not deductible for tax purposes.

The pro forma impact of this acquisition was not significant to the Company's historical results of operations.

ROI

On July 8, 2003, the Company acquired all of the outstanding stock of ROI, a privately held ERP provider of manufacturing software solutions, for approximately \$20.8 million in an all cash transaction. The Company plans to continue to develop and support ROI's existing product line and to also leverage ROI's existing market position and customer base to create new sales opportunities which complement the Company's existing market position in

the discrete make-to-order manufacturing, distribution, hospitality and services-oriented industries. Further, this acquisition allows the Company to deliver its Web services manufacturing solution to an expanded base of midmarket customers. The Company recorded the acquisition of ROI as a purchase in 2003 and the results of ROI operations are included in the accompanying consolidated statement of operations from the date of acquisition.

Other Acquisitions

In June 2005, the Company purchased certain assets of a distributor of Scala's products and provider of related consulting services for approximately \$0.4 million. As no tangible assets or liabilities were acquired, the purchase price of \$0.4 million was allocated to customer base and covenant not to compete. In January 2005, the Company purchased certain assets of a distributor of Scala's products and provider of related consulting services for approximately \$0.7 million. As no tangible assets or liabilities were acquired, the purchase price of \$0.7 million was allocated to customer base. In October 2004, the Company purchased certain assets of a distributor of Scala's products and provider of related consulting services for approximately \$0.3 million. As no tangible assets or liabilities were acquired, the purchase price of \$0.3 million was allocated to customer base.

Pro Forma Information

Actual results of operations of the companies acquired in 2005 and 2004 are included in the consolidated financial statements from the dates of acquisition. The unaudited pro forma statement of operations data of the Company set forth below gives effect to the acquisitions by Epicor of CRS, Strongline, and Scala using the purchase method as if they occurred on January 1, 2004 and 2005 and include amortization of identified intangibles, interest expense on debt incurred to finance the acquisitions, elimination of amortization and interest related to CRS debt and intangibles not assumed in the acquisition, and the write-off of in-process research and development. The pro forma impact of Scala Romania, Scala Italy, and Platsoft are not included as the impact of these acquisitions was not significant to the Company's historical results of operations. This pro forma information is presented for illustrative purposes only and is not necessarily indicative of the combined financial position or results of operations for future periods or the financial position or result of operations that actually would have been realized had the acquisitions occurred at that time. *(in thousands, except per share data)*

	<i>(Unaudited)</i>	
	December 31,	
	2005	2004
Total revenues	\$ 343,022	\$ 332,270
Net income	\$ 43,810	\$ 6,170
Net income per share:		
Basic	\$ 0.80	\$ 0.12
Diluted	\$ 0.77	\$ 0.11

Note 4. Goodwill and Intangible Assets

In acquisitions accounted for using the purchase method, goodwill is recorded for the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and identified intangible assets acquired. SFAS No. 142 requires a periodic review of goodwill and indefinite life intangibles for possible impairment. In accordance with SFAS No. 142, the Company performed an impairment review of its recorded goodwill in 2005 and determined that no impairment of goodwill existed because the estimated fair value of each reporting unit exceeded its carrying amount. The following table represents the balance and changes in goodwill as of and for the years ended December 31, 2005 and 2004 *(in thousands)*:

Balance as of December 31, 2003	\$ 10,841
Scala	72,245
Platsoft	406
Balance as of December 31, 2004	\$ 83,492
Strongline goodwill	879

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

Additional Scala goodwill	2,161
Scala Italy goodwill	494
CRS goodwill	78,201
Reduction of ROI goodwill	(738)
Foreign currency translation	(38)
Balance as of December 31, 2005	\$ 164,451

The Strongline goodwill is the result of the Company recording a working capital adjustment and management completing its analysis during the year of 2005 of the fair value of the assets acquired and the liabilities assumed. The additional Scala goodwill is the result of additional transaction costs incurred during 2005, the buy-out of the remaining outstanding shares and a liability for pre-acquisition tax contingencies (Note 3). The reduction of ROI goodwill is related to the release of the deferred tax asset and is in accordance with SFAS No. 109.

The Company added or allocated the following intangible assets as a result of acquisitions completed during 2005 and the Strongline adjustment and reallocation as discussed above (*in thousands*):

	Strongline	Scala Romania	Scala Italy	CRS	Other	Foreign Currency Translation	Total	Weighted Average Amortization Period
Acquired technology	\$ 500	\$	\$ 213	\$ 26,700	\$	\$	\$ 27,413	5 years
Customer base	(653)	1,699	770	6,000	1,208	(88)	8,936	7 years
Trademark	100			2,900			3,000	5 years
Covenant not to compete	680	56	20	800	9		1,565	1-2 years
Total	\$ 627	\$ 1,755	\$ 1,003	\$ 36,400	\$ 1,217	\$ (88)	\$ 40,914	

These intangibles will be amortized on a straight-line basis over the estimated economic life of the assets. As of December 31, 2005, the Company has not identified any indicators of impairment associated with identified intangible assets.

The following table summarizes the components of intangible assets (*in thousands*):

	As of December 31, 2005			As of December 31, 2004			Amortization Period
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net	
Acquired technology	\$ 77,401	\$ 31,095	\$ 46,306	\$ 49,988	\$ 24,439	\$ 25,549	5 years
Customer base	29,486	11,608	17,878	20,550	8,295	12,255	7 years
Trademark	10,290	2,589	7,701	7,290	1,071	6,219	5 years
Third party funded development agreement	950	583	367	950	203	747	3 years
Covenant not to compete	2,115	828	1,287	550	240	310	1-2 years
Total	\$ 120,242	\$ 46,703	\$ 73,539	\$ 79,328	\$ 34,248	\$ 45,080	

Amortization expense of the Company's intangible assets included in cost of revenues for the years ended December 31, 2005, 2004 and 2003 was \$11,759,000, \$7,327,000 and \$7,097,000, respectively. Amortization expense of the Company's intangible assets included in general and administrative expense for the years ended December 31, 2005 and 2004 was \$581,000 and \$171,000, respectively. Estimated amortization expense for 2006, 2007, 2008, 2009, 2010 and thereafter is approximately \$18,222,000, \$16,586,000, \$15,542,000, \$11,584,000, \$8,433,000 and \$3,172,000, respectively.

Note 5. 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 consolidation	Asset impairments	Total restructuring costs
Balance at December 31, 2002	139	3,868		4,007
2003 restructuring charges and other		937		937
ROI acquisition	986	707	192	1,885
Write-off of impaired assets			(66)	(66)
Cash payments	(855)	(2,436)		(3,291)
Balance at December 31, 2003	270	3,076	126	3,472
2004 restructuring charges and other	437	1,945		2,382
Scala acquisition	4,897	1,351		6,248
Write-off of impaired assets			(126)	(126)
Cash payments	(3,905)	(2,322)		(6,227)
Balance at December 31, 2004	1,699	4,050		5,749
2005 restructuring charges and other	359			359
Cash payments	(929)	(907)		(1,836)
Balance at December 31, 2005	1,129	3,143		4,272
Less: current portion	\$ (1,129)	\$ (1,683)	\$	\$ (2,812)
Total long-term accrued restructuring	\$	\$ 1,460	\$	\$ 1,460

2005 Restructuring Charges and Other

For the year ended December 31, 2005, the Company recorded restructuring charges of \$359,000. This charge represents severance costs related to the fourth quarter 2005 reorganization. In connection with these restructuring activities, the Company terminated 14 employees or less than 1% of the Company's workforce at that time, from various functions across the Company. As of December 31, 2005, all of these terminations had been completed.

2004 Restructuring Charges and Other

For the year ended December 31, 2004, the Company recorded restructuring charges and other of \$2,382,000. This charge represents \$437,000 of separation costs related to the first quarter 2004 reorganization of one of the Company's product lines and the movement of certain development efforts to Mexico as part of an overall cost reduction program. In connection with these restructuring activities, the Company terminated 35 employees, or 4% of the Company's workforce at that time, from all functional areas of the Company. As of December 31, 2005, all of these terminations had been completed. The remaining charge includes (i) \$504,000 for an addition to a previously recorded loss on one of the Company's domestic facilities due to the renegotiation of a sublease agreement with one of the Company's current subtenants, (ii) \$98,000 for a loss recorded on one of the Company's international facilities due to the determination that sublease income on this facility would not be realized according to the original estimate due to current economic conditions in this region, (iii) \$684,000 for a loss recorded on another of the Company's international facilities due to the unanticipated loss of its sublease income, and (iv) \$659,000 for a loss recorded on one of the Company's domestic facilities as a result of a new sublease agreement entered into in 2004. At December 31, 2005, the remaining balance is \$1,374,000 and represents facility charges. Lease payments on buildings vacated or downsized will continue to be made until the respective noncancelable terms of the lease expire.

2004 Scala Acquisition

In connection with the Company's acquisition of Scala on June 18, 2004 (Note 3), the Company formulated a restructuring plan for the Scala operations. In connection with this, the Company recorded a liability of \$6,248,000 for the restructuring costs associated with the Scala

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

reduction in workforce and the closure of certain Scala offices. This liability included \$4,897,000 for separation costs for terminated employees and \$1,351,000 for the closing of certain of Scala's facilities. In conjunction with the acquisition 120 Scala employees or 21% of the Scala workforce were terminated from all functional areas. The remaining balance of severance costs of \$738,000 represents remaining payments to already terminated employees which are in accordance with their severance

agreements. The remaining balance in facilities is \$1,734,000. Lease payments on the Scala facilities that were vacated will continue to be made until the respective noncancelable terms of the leases expire.

2003 ROI Acquisition

In connection with the Company's acquisition of ROI on July 8, 2003, the Company assumed a liability of \$1,885,000 for the restructuring costs associated with the ROI reduction in workforce and the closure of certain ROI offices. This liability represents \$986,000 for separation costs for terminated employees, \$707,000 for the closing of certain of ROI's facilities and \$192,000 for asset impairment. In conjunction with the acquisition, 41 ROI employees or 26% of the ROI workforce were terminated from all functional areas. At December 31, 2005, the balance of the ROI accrued restructuring is \$25,000 representing facilities costs related to the closing of certain ROI offices.

2003 Restructuring Charges and Other

During 2003, the Company recorded an additional restructuring charge of \$937,000 related to a facility that was to be consolidated as part of the Company's 2002 restructuring. The Company determined that sublease income on this facility would not be realized according to the original estimate used in the 2002 restructuring due to the unanticipated loss of sublease income. The Company recorded the additional restructuring charge based on revised sublease income as a result of a new sublease agreement entered into during 2004.

For facility costs included in the restructuring charge, the associated subleased and unoccupied space is physically separate from the utilized space of the facility. The lease payments on the facilities to be closed or consolidated were considered net of contractual and estimated future sublease income. For leased space not currently sublet, sublease income was estimated based on prevailing market rates and conditions. Any future losses or changes in sublease income that is not realized according to the Company's original estimates will be recognized as a restructuring charge in the period in which the Company makes the determination that such additional losses will be incurred. Although the consolidation efforts were substantially completed as of the end of 2002, lease payments on buildings being vacated or downsized will continue to be made until the respective noncancelable terms of the leases expire. At December 31, 2005 the balance was zero.

2002 Restructuring Charges and Other

In the fourth quarter of 2002, the Company underwent a restructuring of its operations in an effort to reduce its cost structure through a reduction in workforce and the consolidation of certain of its facilities.

For facility costs included in the restructuring charge, the associated subleased and unoccupied space is physically separate from the utilized space of the facility. The balance at December 31, 2005 is \$42,000. The lease payments on the facilities to be closed or consolidated were considered net of contractual and estimated future sublease income. For leased space not currently sublet, sublease income was estimated based on prevailing market rates and conditions. Any future losses or changes in sublease income that is not realized according to the Company's original estimates will be recognized as a restructuring charge in the period in which the Company makes the determination that such additional losses will be incurred. Although the consolidation efforts were substantially completed as of the end of 2002, lease payments on buildings being vacated or downsized will continue to be made until the respective noncancelable terms of the leases expire.

Note 6. Revolving Credit Facility and Long-Term Debt

Long-term debt consists of the following (*in thousands*):

	December 31,	
	2005	2004
Term loan	\$ 124,438	\$ 30,000
Other	301	616
	124,739	30,616
Less current portion	(100)	(352)
Total long-term debt	\$ 124,639	\$ 30,264

In January 2004, the Company entered into a two year \$15 million senior revolving credit facility with a financial institution. On May 26, 2004, the revolving credit facility was amended to increase the loan commitment under

the facility to \$30 million. In connection with the Scala acquisition, the Company borrowed \$30 million available under this credit facility. The Company used funds generated from operations to make a discretionary \$5 million principal payment on the credit facility in January 2005.

In March 2005, the Company syndicated a two year \$50 million senior revolving credit facility with several financial institutions. This new facility also has an accordion feature that allowed the Company to increase the line of credit up to \$125 million under certain conditions. At the time of closing this new facility, the Company had \$25 million in outstanding borrowings. The proceeds from the new facility were used to payoff the balance owed on the prior line of credit, which was terminated in March of 2005 at the Company's election.

The new facility was amended in April 2005 to allow borrowings in major foreign currencies. Interest payments are due quarterly and the principal balance is due at the maturity date in March of 2007. The Company can reduce the outstanding principal in whole or in part at its election without any prepayment penalties. The facility interest rate is based on various possible rates at prime rate or LIBOR plus an applicable margin based on the Company's leverage ratio (measured quarterly), at the Company's option. Borrowings under the facility are secured by substantially all of the Company's assets. The Company is required to comply with various financial covenants. The significant financial covenants are as follows:

Achieving minimum earnings before interest, taxes, depreciation and amortization (EBITDA)

Achieving minimum funded debt to EBITDA ratios

Achieving minimum fixed charge coverage ratios

Maintaining minimum cash balances through maturity

Additional material covenants under the agreement include limitations on the Company's indebtedness, liens on Company assets, guarantees, investments, dividends, repurchases of securities and certain acquisitions and dispositions of assets by the Company. The Company used funds generated from operations to make discretionary \$5 million principal payments on the new credit facility in April, July and October 2005, as described above. On November 21, 2005 the commitment was increased to \$125 million and the Company borrowed \$115 million available under the facility to acquire CRS.

As of December 31, 2005, the Company was in compliance with all covenants included in the terms of the credit agreement. Also, as of December 31, 2005, the credit facility had an outstanding balance of \$124.4 million, which balance included multiple currency borrowings as part of the Company's on going hedging strategy. From time to time the Company may borrow in foreign currencies to hedge its currency risks around the world.

By December 31, 2005, the Company paid \$20 million of the \$30 million of debt used to acquire Scala, with cash from operations. In January of 2006, the Company used funds generated from operations to make a discretionary principal payment of \$5 million reducing the outstanding balance to \$119 million. At December 31, 2005 the interest rate was 6.03%. As a result of the additional borrowings, the Company's leverage ratio increased effective December 31, 2005, and as a result the applicable margin for borrowings under the credit facility made after December 31, 2005 also increased.

Note 7. Commitments and Contingencies**Leases**

The Company leases certain of its operating facilities and equipment under operating leases with terms expiring through 2019. The Company also leases certain equipment in which the agreement contains a purchase option of \$1.00 until 2007. As a result, the present value of the remaining future minimum lease payments is recorded as a capitalized lease obligation. The following is a schedule of future minimum lease payments under capital leases, operating leases and future noncancellable sublease income (*in thousands*):

Years Ending December 31,	Future Minimum Capital Lease Payments	Future Minimum Lease Payments	Future Noncancellable Sublease Income	Net Future Minimum Lease Payments
2006	\$ 100	\$ 15,674	\$ 2,793	\$ 12,981
2007	96	12,228	2,689	9,635
2008		11,575	2,719	8,856
2009		7,427	1,837	5,590
2010		4,240		4,240
Thereafter		11,492		11,492
Total	\$ 196	\$ 62,636	\$ 10,038	\$ 52,794
Less amount representing interest		10		10
	\$ 186	\$ 62,636	\$ 10,038	\$ 52,784

Rental expense under operating leases, net of sublease income, was \$8,725,000 for 2005, \$6,878,000 for 2004 and \$5,266,000 for 2003.

Employment Agreements

The Company has entered into agreements that provide its executive officers with compensation totaling from 6 to 12 months base salary and bonus in the event the Company terminates the executive without cause. The agreements also call for such payments as well as the acceleration of vesting of certain stock options and restricted stock under certain circumstances related primarily to a change in control of the Company.

Guarantees

The Company from time to time enters into certain types of contracts that contingently require the Company to indemnify parties against third-party claims. These contracts primarily relate to: (i) divestiture and acquisition agreements, under which the Company may provide customary indemnifications to either (a) purchasers of the Company's businesses or assets; or (b) entities from whom the Company is acquiring assets or businesses; (ii) certain real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company's use of the applicable premises; (iii) certain agreements with the Company's officers, directors and employees, under which the Company may be required to indemnify such persons for liabilities arising out of their relationship with the Company; and (iv) Company license and consulting agreements with its customers, under which the Company may be required to indemnify such customers for intellectual property infringement claims, and other claims arising from the Company's provision of services to such customers.

The terms of such obligations vary. A maximum obligation arising out of these types of agreements is not explicitly stated and therefore, the overall maximum amount of these obligations cannot be reasonably estimated. Specifically with respect to past divestiture agreements, the Company has been subject to capped indemnification provisions for claims by the acquirer of a nature specified in such agreements. These indemnity caps have ranged from \$1.0 million to \$3.5 million, but all such capped indemnity provisions have expired. Historically, the Company has not been obligated to make significant payments for these obligations. The fair value of indemnities, commitments and guarantees that the Company issued during the year ended December 31, 2005 is not considered significant to the Company's financial position, results of operations or cash flows.

Litigation

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.

Note 8. Income Taxes

The provision (benefit) for income taxes is comprised of the following (*in thousands*):

	Year Ended December 31,		
	2005	2004	2003
Current:			
Federal	\$ 888	\$ 361	\$ 359
State	369	66	40
Foreign	1,119	909	
Total	2,376	1,336	399
Deferred:			
Federal	8,534	7,531	4,018
State	1,317	4,841	962
Foreign	(128)	2,709	488
Valuation Allowance	(30,288)	(15,081)	(5,468)
Total	(20,565)		
Total	\$ (18,189)	\$ 1,336	\$ 399

The income (loss) before income taxes is allocated between U.S. federal and foreign jurisdictions as follows (*in thousands*):

	Year Ended December 31,		
	2005	2004	2003
Federal	\$ 18,346	\$ 17,818	\$ 7,754
Foreign	15,588	7,658	849
Total	\$ 33,934	\$ 25,476	\$ 8,603

The reported provision (benefit) for income taxes differs from the amount computed by applying the statutory U.S. federal income tax rate of 35% to the income before income taxes as follows (*in thousands*):

	Year Ended December 31,		
	2005	2004	2003
Provision (benefit) computed at statutory rates	35.0%	35.0%	35.0%
Increase (reduction) resulting from:			
Earnings in jurisdictions taxed at rates different from the statutory U.S. federal rate	(15.1%)	(11.0%)	
State and Local Taxes, Net of Fed Benefit	(3.4%)		
Write-off of In-Process R&D	2.1%		
Current year R&D credit		(1.0%)	(2.0%)
Excess officers compensation	2.9%	4.0%	10.0%
Other	4.0%	4.0%	2.0%

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

Valuation allowance	(79.1%)	(25.8%)	(40.4%)
Total	(53.6%)	5.2%	4.6%

The tax effects of temporary differences and carryforwards that give rise to the Company's deferred income taxes assets and liabilities consist of the following (in thousands):

	December 31,	
	2005	2004
Net operating loss carryforwards	\$ 86,700	\$ 81,877
Other accruals and reserves	7,489	3,315
Deferred revenue	2,039	1,387
Allowance for doubtful accounts	1,491	1,386
Research credit carryforward	1,988	8,263
Other credit carryforwards	1,462	593
Accrued restructuring costs	1,143	1,966
Depreciation	2,304	1,634
State taxes	(1,425)	
Purchased intangibles	(20,343)	(6,615)
Valuation allowance	(40,837)	(93,806)
 Total	 \$ 42,011	 \$

The Company had provided a valuation allowance of \$93.8 million as of December 31, 2004 on 100% of its net deferred tax assets as it had been determined that it was more likely than not that the deferred tax assets would not be realized. As previously disclosed, the Company had been assessing its valuation allowance related to the deferred tax assets. During 2005, the Company released the valuation allowance related to substantially all U.S. federal and state deferred tax assets and certain foreign deferred tax assets. For the remaining deferred tax assets the Company intends to maintain a valuation allowance until sufficient positive evidence exists to determine that realization of such deferred tax assets is more likely than not to occur.

Additionally, under the provisions of SFAS No. 109, Accounting for Income Taxes, and related interpretations, future period reductions to the valuation allowance related to Scala's deferred tax assets that existed as of the date of acquisition of Scala are first credited against goodwill, then to the other identifiable intangible assets existing at the date of acquisition, and then, once these assets have been reduced to zero, credited to the income tax provision. The valuation allowance related to Scala's pre-acquisition deferred tax assets is approximately \$13.8 million at December 31, 2005. Such amount will be credited to goodwill if or when the valuation allowance reverses.

The Company has U.S. federal, state and foreign net operating loss carryforwards as of December 31, 2005 of approximately \$124.3 million, \$65.4 million and \$134.4 million, respectively. The federal and state losses expire in the years 2006 through 2022. Approximately \$28.0 million of the U.S. federal NOL is subject to annual limitations on utilization pursuant to section 382 of the Internal Revenue Code. The foreign losses generally have no expiration date. In addition, the Company has approximately \$2.0 million of federal and state research and development credit carryforwards that expire in the years 2006 through 2025.

U.S. deferred income taxes were not provided for on undistributed earnings from certain non-U.S. subsidiaries at December 31, 2005. Those earnings are considered to be permanently reinvested in accordance with Accounting Principles Board (APB) Opinion 23. It is not practical to calculate the deferred taxes on these earnings.

The Company believes it has adequately provided for income tax issues not yet resolved with federal, state and foreign tax authorities. Although not probable, the most adverse resolution of these issues could result in additional charges to earnings in future periods. Based upon a consideration of all relevant facts and circumstances, the Company does not believe the ultimate resolution of tax issues for all open tax periods will have a material adverse effect upon its results of operations or financial condition.

Note 9. Stock Plans

Stock Option Plans

The Company has a total of eight stock option plans and has available a total of 3,641,460 shares of its common stock for issuances pursuant to incentive and non-qualified stock option and stock purchase rights that may be granted to officers, key employees, and directors of the Company as of December 31, 2005. Stock options are granted with an exercise price equal to the fair market value on the date of grant, generally vest over four years

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

and expire ten years from the date of grant. In December 2005, the Company accelerated the vesting of all existing underwater or out of the money stock options with a strike price of \$14.31 or higher. Stock options issued with an exercise price of \$14.31 or higher and unvested are now all vested and may be exercised and traded subject to any other limitations such as company black out periods.

The Company has an Employee Stock Purchase Plan (the Purchase Plan) authorizing the issuance of up to 1,250,000 shares of common stock to participating employees. The Purchase Plan permits employees to purchase common stock at a price equal to 85% of the fair market value at the beginning or end of a six-month offering period, whichever is lower. As of December 31, 2005, 615,314 shares have been issued under this plan.

The following is a summary of activity under the stock option plans:

	Year Ended December 31,					
	2005		2004		2003	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	4,127,333	\$ 6.68	3,443,614	\$ 3.26	3,305,771	\$ 3.71
Granted	155,500	12.40	1,535,000	12.98	1,197,150	3.89
Exercised	(570,585)	4.03	(611,213)	3.91	(490,651)	2.37
Expired or canceled	(249,267)	9.88	(240,068)	4.95	(568,656)	7.95
Outstanding, end of period	3,462,981	\$ 7.14	4,127,333	\$ 6.68	3,443,614	\$ 3.26
Options exercisable	2,262,492	\$ 6.68	1,406,015	\$ 3.25	1,161,247	\$ 4.11

For the options granted during the years ended December 31, 2005, 2004 and 2003, the weighted average fair value on the date of grant was \$4.86, \$6.46 and \$2.32, per option, respectively.

The following table summarizes information about stock options outstanding at December 31, 2005:

Range of Exercise Prices	Outstanding			Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Weighted Average Exercise Price
\$ 0.75 to 1.13	130,437	5.61	\$ 1.04	130,312	\$ 1.04	\$ 1.04
1.14 to 1.49	597,027	5.64	1.15	592,277	1.15	1.15
1.50 to 3.48	681,531	6.71	2.26	357,533	2.23	2.23
3.65 to 3.94	252,025	6.64	3.66	158,275	3.66	3.66
4.06 to 4.71	86,785	6.35	4.52	55,661	4.44	4.44
6.00 to 7.56	146,155	7.14	6.21	72,473	6.76	6.76
7.62 to 10.89	295,746	8.28	10.28	96,215	10.18	10.18
11.10 to 11.89	87,319	2.60	11.54	83,726	11.54	11.54
12.03 to 23.50	1,185,956	8.53	13.64	716,020	14.33	14.33
	3,462,981	7.14	\$ 7.16	2,262,492	\$ 6.68	\$ 6.68

Stock Option Exchange Program

In January 2001, the Company offered to current employees that held stock options the opportunity to exchange all of their outstanding stock options for restricted shares of the Company's common stock, at a price equal to the par value of such Common Stock. All employees who accepted the offer received one share of restricted stock for every two options exchanged. The restricted stock vests over a period of two to four

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

years, depending upon whether the exchanged options were vested or unvested at the time of the exchange. Employees who elected to exchange their options were ineligible for stock option grants for a period of six months and one day following the

exchange date of January 26, 2001. For the years ended December 31, 2005, 2004 and 2003, the Company recorded compensation expense of \$15,000, \$254,000 and \$336,000, respectively, related to this restricted stock.

Restricted Stock Grants

In July 2005, the Company granted to certain executives the right to receive 140,000 shares of restricted stock for a purchase price equal to the par value of such stock. In October 2005, the Company granted to certain Vice Presidents the right to receive 60,000 shares of restricted stock for a purchase price equal to the par value of such stock. Based on the market value of the Company's stock on the each of the grant dates of the restricted shares issued, the Company recorded stock compensation expense related to these grants of \$247,000 for the year ended December 31, 2005.

Future Stock-Based Compensation

Estimated future stock-based compensation expense to be charged to operations for 2006, 2007, 2008 and 2009 is as follows:

Years Ending December 31,	Restricted Stock Compensation Expense	FAS 123-R Stock Compensation Expense	Total
2006	\$ 660,000	\$ 2,469,000	\$ 3,129,000
2007	660,000	1,998,000	2,658,000
2008	660,000	561,000	1,221,000
2009	415,000	41,000	456,000
Total estimated future stock-based compensation expense	\$ 2,395,000	\$ 5,069,000	\$ 7,464,000

The above includes estimated stock-based compensation expense to be charged to expense as a result of the Company's adoption of FAS 123-R, which requires expense recognition for the fair value of all share-based payments to employees effective for annual periods beginning after June 15, 2005. All restricted shares issued in the stock option exchange program fully vested as of January 26, 2005 and all compensation expense related to these shares has been recorded as of December 31, 2005. On December 18, 2005, the Compensation Committee of the Board of Directors of the Company authorized the Company to accelerate the vesting of certain unvested and out-of-the-money stock options outstanding under the Company's stock plans that have exercise prices per share of \$14.31 or higher. Options to purchase approximately 475,000 million shares of the Company's common stock became exercisable immediately. Options held by non-employee directors were not included in the vesting acceleration. In addition, in order to prevent unintended personal benefits to executive officers, restrictions will be imposed on any shares received through the exercise of accelerated options held by those individuals. Those restrictions will prevent the sale of any shares received from the exercise of an accelerated option until the date on which such shares would have vested under the options original vesting terms.

The breakdown of the total stock-based compensation charge for the stock option exchange program, the restricted shares issued to certain executives and Vice Presidents, and the issuance of restricted shares to the Company's CEO (Note 13) for the years ended December 31, 2005, 2004 and 2003 by the Company's operating functions is as follows:

	Year Ended December 31,		
	2005	2004	2003
Cost of revenues	\$ 4,000	\$ 79,000	\$ 102,000
Sales and marketing	4,000	63,000	69,000
Software development	1,000	9,000	28,000
General and administrative	2,616,000	2,466,000	3,137,000
Total compensation expense	\$ 2,625,000	\$ 2,617,000	\$ 3,336,000

Note 10. Common Stock

As of December 31, 2005, the total number of reserved shares of common stock remaining for future issuance is as follows:

Stock Option Plans	3,006,774
Employee Stock Purchase Plan	634,686
	3,641,460

On March 9, 1994, the Board of Directors adopted a Shareholder Rights Plan (the Plan) that is intended to protect stockholders from unfair takeover practices. Under the Plan, each share of common stock carries a right to obtain additional stock according to terms provided in the Plan. The rights will not be exercisable or separable from the common stock until a third-party acquires at least 20% of the Company's then outstanding common stock or commences a tender offer for at least 20% of the Company's then outstanding common stock. In the event the Company is acquired in a merger or other business combination transaction in which the Company is not the surviving corporation or 50% or more of the Company's consolidated assets or earning power are sold or transferred, each right will entitle its holder to receive, at the then current exercise price, common stock of the acquiring company having a market value equal to two times the exercise price of the right. If a person or entity were to acquire 20% or more of the outstanding shares of the Company's common stock, or if the Company is the surviving corporation in a merger and its common stock is not changed or exchanged, each right will entitle the holder to receive at the then current exercise price common stock having a market value equal to two times the exercise price of the right. Until a right is exercised, the holder of a right, as such, will have no rights as a stockholder of the Company, including, without limitation, the rights to vote as a stockholder or receive dividends.

On October 30, 2001, pursuant to Section 27 of the Plan, the Company's Board of Directors agreed to restate the dividend it had declared under the Plan in an Amended and Restated Preferred Stock Right Agreement dated November 13, 2001. The Company amended and restated the Plan to provide, among other things, that each right entitles the holder to purchase from the Company one one-hundredth of a share of preferred stock for \$8.00 and that the rights will become exercisable ten days after a person or group announces acquisition of 15% or more of the Company's Common Stock or ten days after the commencement of a tender offer that would result in ownership of the offeror of 15% or more of the Company's Common Stock (unless the rights are redeemed by the Company). The rights, which expire on November 13, 2011, may be redeemed by the Company at a price of \$0.01 per right.

On October 27, 2004, pursuant to Section 27 of the Plan, the Company's Board of Directors agreed to restate the dividend it had declared under the Plan in an Amended and Restated Preferred Stock Right Agreement dated as of October 27, 2004. The Company amended and restated the Plan to provide, among other things, that each right entitles the holder to purchase from the Company one one-hundredth of a share of preferred stock for \$96.00 and that the rights will become exercisable ten days after a person or group announces acquisition of 15% or more of the Company's Common Stock or ten days after the commencement of a tender offer that would result in ownership of the offeror of 15% or more of the Company's Common Stock (unless the rights are redeemed by the Company). The rights, which expire on November 13, 2011, may be redeemed by the Company at a price of \$0.01 per right.

Note 11. Preferred Stock*Series C*

On May 26, 1995, the Company issued 231,598 shares of newly created Series C Preferred Stock. The preferred shares were issued at a price of \$78.70 per share. Such Series C preferred stock was convertible into common shares of the Company on a ten-for-one basis at any time at the option of the holders. These shares have been fully converted as of December 31, 2005 with the final conversion of the remaining 61,735 shares completed on November 12, 2004. These shares were converted on a ten-for-one basis to 617,350 shares of common stock.

Series D

On February 13, 2003, the Company completed a private placement of 300,000 shares of newly created Series D preferred stock resulting in gross proceeds to the Company of \$5,730,000. The Company sold the shares, each of

which were convertible into 10 shares of the Company's common stock, to investment funds affiliated with Trident Capital (Trident), a venture capital firm, pursuant to a Series D Preferred Stock Purchase Agreement, dated as of February 11, 2003, between the Company and Trident. The price of the Series D preferred stock was determined to be \$19.10, reflecting the Company's common stock closing price of \$1.91 on February 10, 2003, the day preceding the purchase agreement.

The Company's Series D preferred stock was convertible into common shares of the Company on a ten-for-one basis at any time at the option of the holders. On November 12, 2004, 131,842 Series D shares were converted to 1,318,420 common stock shares. On August 3, 2005, 168,158 Series D shares were converted to 1,681,580 common stock shares.

Following the conversions of the Series C and Series D preferred stock, the Company has no outstanding preferred stock.

Note 12. Treasury Stock

The shares held in treasury were acquired by the Company as a result of the vesting of restricted stock, pursuant to the stock option exchange program executed in January 2001 and the issuance of restricted shares to the Company's CEO (Note 13). The Company repurchased a portion of the vested shares as consideration for the Company's payment of the required withholding taxes. As of December 31, 2005, these repurchased shares are held in treasury and are available for future reissuance.

In conjunction with the quarterly vesting of the restricted stock issued in connection with the stock option exchange program and the issuance of restricted shares to the Company's CEO, the following treasury stock acquisitions were made during the years ended December 31, 2005 and 2004:

Vesting Date	Shares acquired	Value of Shares
January 26, 2004	10,017	\$ 172,000
April 26, 2004	8,707	126,000
June 30, 2004	89,368	1,255,620
July 26, 2004	8,468	93,000
September 30, 2004	89,367	1,075,085
October 26, 2004	8,469	128,807
December 31, 2004	89,368	1,259,195
January 26, 2005	10,066	141,000
March 31, 2005	114,366	1,494,000
June 30, 2005	114,366	1,509,000
September 30, 2005	114,367	1,487,000
December 31, 2005	114,367	1,617,000

Note 13. Related Party Transactions

Restricted Stock - CEO

In February 1996, the Company's CEO purchased 2,000,000 shares of restricted stock at a purchase price of \$3.50 per share, the then fair market value of the Company's common stock. As payment for the restricted stock, the Company executed a secured five-year full recourse promissory note in the principal amount of \$3,500,000, bearing interest at 6% per annum, and an unsecured five-year full recourse promissory note also in the principal amount of \$3,500,000, bearing interest at the rate of 6% per annum. In April 1998, the Board of Directors forgave any interest accrued or to be accrued on such notes. In February 2001, the Company extended the due date on both loans to February 2003. In consideration for the extension, interest on the notes was reinstated at a then market rate of 6% per annum from the date of the extension, with principal and interest due and payable upon maturity of the notes in February 2003. In 2003, the Company recorded interest income of \$44,000 related to these notes.

In December 2001, the Company entered into a management retention agreement with its CEO which both affirmed previously established severance benefits as contained in his original 1996 offer letter and also provided for his receipt of additional benefits in the event of a Change in Control of the Company as defined in the management retention agreement. Among other things, the agreement provides that in the event of a Change in Control during the CEO's employment with the Company, or the involuntary termination of his employment as

defined in the management retention agreement, any unpaid principal balance and accrued interest on any indebtedness of the CEO to the Company, including the promissory notes described above, would be forgiven and any imputed income from such forgiveness would be grossed-up by the Company to account for the tax effect of such forgiveness. In the event of forgiveness of the above promissory notes, the CEO is required to forfeit back to the Company any shares of restricted stock held by him as a result of his February 1996 restricted stock agreement with the Company to the extent the fair market value of the shares does not exceed the principal amount of forgiven indebtedness. Outstanding principal and interest related to these notes was \$7,796,000 as of December 31, 2002. In February 2003, the promissory notes came due and the CEO repaid these notes with a combination of a cash payment of \$3,580,000 and the return of the 2,000,000 shares of common stock related to the February 1996 restricted stock agreement. The market value of the shares on the repayment date was \$2.13 per share. These shares were retired and are not available for reissuance.

On March 18, 2003, the compensation committee of the board of directors granted to the Company's CEO the right to receive 3,000,000 shares of restricted stock for a purchase price equal to the par value of such stock. The first grant was effective immediately and consisted of 1,000,000 shares. The second grant of 2,000,000 was conditioned upon stockholder approval of an increase in the number of shares reserved under the Company's 1999 Nonstatutory Stock Option Plan. Such stockholder approval was obtained on May 20, 2003. Based on the market value of the Company's stock on the grant date for the 1,000,000 share grant and the market value of the Company's stock on the stockholder approval date for the 2,000,000 share grant, the Company recorded stock compensation expense of \$2,364,000 and \$2,364,000 for the years ended December 31, 2005 and 2004, respectively. The restricted stock is fully vested as of December 31, 2005, and there is no future compensation expense related to these shares.

Restricted Stock Other Executives

In April 1996, one of the Company's former officers purchased 450,000 shares of restricted stock at a purchase price of \$6.25 per share, the then fair market value of the Company's common stock. As payment for the restricted stock, the Company executed a secured five-year promissory full recourse note in the principal amount of \$1,406,250 bearing interest at 6% per annum, and an unsecured five-year full recourse promissory note, also in the principal amount of \$1,406,250, bearing interest at 6% per annum. In April 1998, the Board of Directors forgave any interest accrued or to be accrued on such notes. As of December 31, 2000, the repurchase right lapsed with respect to 445,000 of the 450,000 shares and the 5,000 unvested and unearned shares were returned to the Company. In February 2001, the Company extended the due date on the remaining principal balance of the secured and unsecured notes to April 2002 and then subsequently on October 30, 2001 extended the due date to February 2003. In consideration for these extensions, interest on the notes was reinstated at a then market rate of 6% per annum beginning in April 2001. In 2002 and 2001, the Company recorded interest income of \$209,000 and \$97,000, respectively, related to these notes.

In December 2001, the Company entered into a management retention agreement with this officer, which provided for his receipt of certain benefits in the event of a Change in Control of the Company as defined in the management retention agreement. Among other things, the agreement provided that in the event of a Change in Control during the officer's employment with the Company, or the involuntary termination of his employment as defined in the management retention agreement, any unpaid principal balance and accrued interest on any indebtedness of the officer to the Company, including the promissory notes described above, would be forgiven and any imputed income from such forgiveness would be grossed-up by the Company to account for the tax effect of such forgiveness. In the event of forgiveness of the above promissory notes, the officer would be required to forfeit back to the Company any shares of restricted stock held by him as a result of his April 1996 restricted stock agreement with the Company to the extent the fair market value of the shares does not exceed the principal amount of forgiven indebtedness.

In February 2003, the officer resigned his position and concurrently asserted a claim of constructive termination against the company and claimed that pursuant to the terms of his management retention agreement the Company should forego collection of the notes and pay the applicable taxes associated with such write-off. Pursuant to the terms of a subsequent settlement and the terms of the management retention agreement, the former officer agreed to pay the Company \$100,000, remit the 445,000 outstanding shares to the Company and execute a full release in return for the Company foregoing collection of the remainder of the notes and payment of the applicable income taxes associated therewith. The market value of the shares at the repayment date was \$1.91 per share. The Company recorded a charge totaling \$4,288,000 in the fourth quarter of 2002 related to the settlement. As part of the settlement agreement, the officer's indebtedness to the Company was forgiven and such forgiveness and any imputed income from such forgiveness was grossed-up by the Company to account for the tax effect of such

forgiveness. However, per the settlement agreement, any amount paid to the officer by the Company in excess of the actual taxes paid by the officer was required to be repaid to the Company. During 2004, the Company received a refund of approximately \$284,000 as a result of the reduction of actual taxes paid related to this settlement.

During a portion of the time that this officer's notes and restricted stock were outstanding he was not employed by the Company. Therefore, the Company was required to account for his restricted stock pursuant to SFAS 123. Prior to this officer returning to the Company as an employee in October 2001, the Company recorded \$158,000 of stock compensation expense related to this note, which was calculated using the Black-Scholes option pricing model. On the date of change in grantee status, there was no intrinsic value related to these notes, and as a result, no additional compensation expense was recorded for these notes.

Note 14. Employee Benefit Plan

The Company has a 401(k) salary deferral plan (the 401(k) Plan), which is funded based on employee contributions. Terms of the 401(k) Plan provide for the Company to make contributions to the 401(k) Plan on behalf of each eligible employee (as defined) in an amount equal to 50% on the first 4% of the eligible employee's deferred compensation contribution (as defined). The Company's contributions to the 401(k) Plan were approximately \$979,000 for the year ended December 31, 2005, \$993,000 for the year ended December 31, 2004 and \$718,000 for the year ended December 31, 2003.

Note 15. Segment and Geographic Information

In accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company has prepared operating segment information to report components that are evaluated regularly by the Company's chief operating decision maker, or decision making groups, in deciding how to allocate resources and in assessing performance.

The Company's reportable operating segments include software licenses, consulting, maintenance and other. Other consists primarily of resale of third-party hardware and sales of business forms. Currently, the Company does not separately allocate operating expenses to these segments, nor does it allocate specific assets to these segments. Therefore, the segment information reported includes only revenues, cost of revenues and gross profit.

Operating segment data for the years ended December 31, 2005, 2004 and 2003 is as follows (*in thousands*):

	Software Licenses	Consulting	Maintenance	Other	Total
Year Ended December 31, 2005:					
Revenues	\$ 77,052	\$ 73,666	\$ 134,544	\$ 4,151	\$ 289,413
Cost of revenues	27,307	58,640	28,212	2,046	116,205
Gross Profit	\$ 49,745	\$ 15,026	\$ 106,332	\$ 2,105	\$ 173,208
Year Ended December 31, 2004:					
Revenues	\$ 59,037	\$ 56,891	\$ 105,455	\$ 3,483	\$ 224,866
Cost of revenues	18,547	41,580	25,114	2,108	87,349
Gross Profit	\$ 40,490	\$ 15,311	\$ 80,341	\$ 1,375	\$ 137,517
Year Ended December 31, 2003:					
Revenues	\$ 36,715	\$ 38,821	\$ 76,576	\$ 2,220	\$ 154,332
Cost of revenues	13,801	31,330	18,254	1,342	64,727
Gross Profit	\$ 22,914	\$ 7,491	\$ 58,322	\$ 878	\$ 89,605

The following schedule presents the Company's operations by geographic area for the years ended December 31, 2005, 2004 and 2003 (*in thousands*):

	North America	Europe	Australia and New Zealand	Asia	Other	Consolidated
Year Ended December 31, 2005:						
Revenues	\$ 168,895	\$ 90,639	\$ 9,197	\$ 18,062	\$ 2,620	\$ 289,413
Identifiable assets	260,750	150,841	3,421	11,368	2,571	428,951
Year Ended December 31, 2004:						
Revenues	\$ 142,361	\$ 60,940	\$ 6,933	\$ 11,060	\$ 3,572	\$ 224,866
Identifiable assets	76,196	155,431	7,823	13,274	3,025	255,749
Year Ended December 31, 2003:						
Revenues	\$ 118,429	\$ 27,624	\$ 5,948	\$ 2,277	\$ 54	\$ 154,332
Identifiable assets	66,464	23,320	9,373	2,637	429	102,223

Revenues are attributed to geographic areas based on the location of the Company's subsidiary that entered into the related contract. No single customer accounts for greater than 10% of revenues.

Note 16. Restatement of Financial Statements

Subsequent to the issuance of the Company's 2004 consolidated financial statements, the Company's management determined that it had not properly applied certain accounting guidance contained in the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, *Software Revenue Recognition*, and SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect To Certain Transactions*. Specifically, the Company had improperly applied the residual method under SOP 98-9, and as a result the Company determined that it had incorrectly allocated revenue between license fees and maintenance in multiple element arrangements.

The Company has restated the accompanying consolidated financial statements for the years ended December 31, 2004 and 2003 to correct the Company's allocation of revenue between license fees and maintenance in multiple element arrangements and the timing of the recognition of such revenues.

Consolidated Statements of Operations

The following table sets forth the effects of the Restatement on the Consolidated Statements of Operations for the years ended December 31, 2004 and 2003 (in thousands, except per share amounts):

	Year Ended	
	December 31, 2004	2003
License fee revenues - as previously reported	\$ 61,869	\$ 38,700
Impact of restatement	(2,832)	(1,985)
License fee revenues - as restated	\$ 59,037	\$ 36,715
Maintenance revenues - as previously reported	\$ 103,967	\$ 75,681
Impact of restatement	1,488	895
Maintenance revenues - as restated	\$ 105,455	\$ 76,576
Total revenues - as previously reported	\$ 226,210	\$ 155,422
Impact of restatement	(1,344)	(1,090)
Total revenues - as restated	\$ 224,866	\$ 154,332
Gross profit - as previously reported	\$ 138,861	\$ 90,695
Impact of restatement	(1,344)	(1,090)
Gross profit - as restated	\$ 137,517	\$ 89,605
Operating income - as previously reported	\$ 24,907	\$ 9,425
Impact of restatement	(1,344)	(1,090)
Operating income - as restated	\$ 23,563	\$ 8,335
Net income applicable to common stockholders - as previously reported	\$ 25,313	\$ 9,053
Impact of restatement	(1,344)	(1,090)
Net income applicable to common stockholders - as restated	\$ 23,969	\$ 7,963
Net income per applicable to common stockholders - basic - as previously reported	\$ 0.50	\$ 0.21
Impact of restatement	(0.03)	(0.04)
Net income per share applicable to common stockholders - basic - as restated	\$ 0.47	\$ 0.17
Net income per share applicable to common stockholders - diluted - as previously reported	\$ 0.47	\$ 0.18
Impact of restatement	(0.02)	(0.02)
Net income per share applicable to common stockholders - diluted - as restated	\$ 0.45	\$ 0.16

Consolidated Balance Sheet

The following table sets forth the effects of the Restatement on the Consolidated Balance Sheet for the year ended December 31, 2004 (*in thousands*):

Selected Balance Sheet Data at December 31, 2004:	As Previously Reported	Adjustments	As Restated
Deferred revenue	\$ 60,212	\$ 3,302	63,514
Total liabilities	154,790	3,302	158,092
Accumulated other comprehensive loss	(818)	(30)	(848)
Accumulated deficit	(202,776)	(3,272)	(206,048)
Net stockholders' equity	100,959	(3,302)	97,657

Note 17. Selected Quarterly Information (Unaudited)

The following tables set forth below include the unaudited as restated amounts resulting from the restatement (see Note 16) of the Company's financial statements for the first three quarters of the year ended December 31, 2005 and all of the quarters for the year ended December 31, 2004 from amounts previously reported. The Company believes that all necessary adjustments (which, except as discussed below, consisted only of normal recurring adjustments) have been included in the amounts stated below to present fairly the results of such periods when read in conjunction with the annual financial statements and related notes (*in thousands, except per share data*):

	2005			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
License fee revenues - as previously reported	\$ 16,738	\$ 19,028	\$ 18,271	
Impact of restatement	(1,065)	(659)	(917)	
License fee revenues - as restated/reported	\$ 15,673	\$ 18,369	\$ 17,354	\$ 25,656
Maintenance revenues - as previously reported	\$ 32,735	\$ 32,815	\$ 32,849	
Impact of restatement	511	673	730	
Maintenance revenues - as restated/reported	\$ 33,246	\$ 33,488	\$ 33,579	\$ 34,231
Total revenues - as previously reported	\$ 67,338	\$ 71,009	\$ 70,135	
Impact of restatement	(554)	14	(187)	
Total revenues - as restated/reported	\$ 66,784	\$ 71,023	\$ 69,948	\$ 81,658
Gross profit - as previously reported	\$ 39,841	\$ 42,758	\$ 42,145	
Impact of restatement	(554)	14	(187)	
Gross profit - as restated/reported	\$ 39,287	\$ 42,772	\$ 41,958	\$ 49,191
Operating income - as previously reported	\$ 7,194	\$ 10,969	\$ 9,713	
Impact of restatement	(554)	14	(187)	
Operating income - as restated/reported	\$ 6,640	\$ 10,983	\$ 9,526	\$ 7,956
Net income - as previously reported	\$ 6,291	\$ 28,235	\$ 8,987	
Impact of restatement	(554)	1,319	(187)	
Net income - as restated/reported	\$ 5,737	\$ 29,554	\$ 8,800	\$ 7,944
Net income per share - basic - as previously reported	\$ 0.12	\$ 0.52	\$ 0.16	
Impact of restatement	(0.01)	0.02	0.00	
Net income - basic - as restated/reported	\$ 0.11	\$ 0.54	\$ 0.16	\$ 0.14
Net income per share - diluted - as previously reported	\$ 0.11	\$ 0.50	\$ 0.16	
Impact of restatement	(0.01)	0.02		
Net income - diluted - as restated/reported	\$ 0.10	\$ 0.52	\$ 0.16	\$ 0.14
Shares outstanding - basic	53,973	54,486	54,938	55,245
Shares outstanding - diluted	56,614	56,592	56,500	56,573

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

Significant to the second quarter of 2005 and the fourth quarter of 2005 are the release of discrete tax items of \$19,917,000 and \$1,562,000. Additionally, the fourth quarter of 2005 includes the results of CRS from the date of acquisition of December 6, 2005.

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

	2004			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
License fee revenues - as previously reported	\$ 10,448	\$ 12,247	\$ 15,295	\$ 23,879
Impact of restatement	(377)	(600)	(648)	(1,207)
License fee revenues - as restated	\$ 10,071	\$ 11,647	\$ 14,647	\$ 22,672
Maintenance revenues - as previously reported	\$ 20,557	\$ 22,510	\$ 30,104	\$ 30,796
Impact of restatement	335	360	382	411
Maintenance revenues - as restated	\$ 20,892	\$ 22,870	\$ 30,486	\$ 31,207
Total revenues - as previously reported	\$ 43,360	\$ 48,620	\$ 62,180	\$ 72,050
Impact of restatement	(42)	(240)	(266)	(796)
Total revenues - as restated	\$ 43,318	\$ 48,380	\$ 61,914	\$ 71,254
Gross profit - as previously reported	\$ 26,239	\$ 29,147	\$ 37,414	\$ 46,061
Impact of restatement	(42)	(240)	(266)	(796)
Gross profit - as restated	\$ 26,197	\$ 28,907	\$ 37,148	\$ 45,265
Operating income - as previously reported	\$ 3,438	\$ 5,648	\$ 6,337	\$ 9,484
Impact of restatement	(42)	(240)	(266)	(796)
Operating income - as restated	\$ 3,396	\$ 5,408	\$ 6,071	\$ 8,688
Net income - as previously reported	\$ 3,518	\$ 5,559	\$ 6,291	\$ 9,945
Impact of restatement	(42)	(240)	(266)	(796)
Net income - as restated	\$ 3,476	\$ 5,319	\$ 6,025	\$ 9,149
Net income per share - basic - as previously reported	\$ 0.07	\$ 0.11	\$ 0.12	\$ 0.19
Impact of restatement	0.00	(0.00)	(0.01)	(0.01)
Net income - basic - as restated	\$ 0.07	\$ 0.11	\$ 0.11	\$ 0.18
Net income per share - diluted - as previously reported	\$ 0.07	\$ 0.11	\$ 0.11	\$ 0.18
Impact of restatement		(0.01)		(0.01)
Net income - diluted - as restated	\$ 0.07	\$ 0.10	\$ 0.11	\$ 0.17
Shares outstanding - basic	47,807	48,835	52,892	53,423
Shares outstanding - diluted	52,007	52,564	56,227	55,577

Significant to the first, second and fourth quarters of the year ended December 31, 2004 are restructuring charges of \$1,217,000, \$685,000 and \$480,000, respectively, and results of Scala from the date of acquisition of June 18, 2004.

Note 18. Subsequent Event (Unaudited)

On March 30, 2006, the Company syndicated a \$100 million senior secured term loan facility and \$100 million senior secured revolving credit facility with several financial institutions including KeyBank National Association. The new revolving credit facility also has an accordion feature that allows the Company to increase the line of credit up to \$100 million under certain conditions and allows for borrowings in major foreign currencies. At the time of closing these facilities, the Company had \$100 million in outstanding borrowings under the term loan facility and \$22 million in outstanding borrowings under the revolving credit facility. The proceeds from these facilities were used to payoff the balance owed on the Company's previous line of credit with several financial institutions, including KeyBank National Association, which was terminated on March 31, 2006 at the Company's election.

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

Interest and minimum principal installments of \$250,000 are payable quarter on the term loan facility. Any then unpaid principal on such facility is due at the facility s maturity date in March of 2011. Interest payments on the

revolving credit facility are payable quarterly and the principal balance for such facility is due at the facility's maturity date in March of 2009.

The Company can reduce the outstanding principal under the revolving credit facility in whole or in part at its election without any prepayment penalties and under the term loan facility in whole or in part without any prepayment penalties after the first anniversary of the closing date of the facility. Voluntary prepayments made during the first anniversary of the term loan facility are subject to penalty equal to 1.0% of the amount prepaid. In certain circumstances, proceeds generated from asset sales and/or debt or securities issuances must be used to prepay the principal balance under the term loan facility. Interest for the facilities is based on various possible rates at prime rate or LIBOR plus an applicable margin based on the Company's leverage ratio, at the Company's option; provided that the initial borrowing for each such facility must be based on the prime rate plus applicable margin for a 14-day period, in the case of the term loan, and 3-day period, in the case of the revolving loan, following the closing of such facilities. Borrowings under the facilities are secured by substantially all of the Company's assets. The Company is required to comply with various financial covenants. The significant financial covenants are as follows:

Achieving minimum earnings before interest, taxes, depreciation and amortization (EBITDA)

Achieving minimum funded debt to EBITDA ratios

Achieving minimum fixed charge coverage ratios

Maintaining minimum cash balances through maturity

Additional material covenants under the agreement include limitations on the Company's indebtedness, liens on Company assets, guarantees, investments, dividends, and certain acquisitions and dispositions of assets by the Company and the requirement that the Company maintain ratings with Moody's Investor Services, Inc. and Standard & Poor's Ratings Group.

The interest rates applicable to the term loan and revolving credit facilities were 8.65% and 8.30%, respectively, at March 31, 2006. Each facility was initially drawn on March 31, 2006, and accordingly, the interest rate applicable to each was based on the prime rate plus applicable margin as required by the facilities as described above. Had the Company been permitted to convert the prime rate-based borrowings to LIBOR-based borrowings as of March 31, 2006, the applicable interest rates would have been 7.64% on the term loan facility and 7.54% on the revolving credit facility (assuming 6-month LIBOR-based rate).

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Report on 10-K/A:

1. Financial Statements

See Index to Consolidated Financial Statements at Item 8 on page 1 of this Report.

2. Financial Statement Schedule

See Index to Consolidated Financial Statements at Item 8 on page 1 of this Report.

3. Exhibits

Index to Exhibits

Exhibit No.	Description	Location
2.1	Agreement and Plan of Reorganization and Merger dated as of June 27, 1997 among the Company, CSI Acquisition Corp., Clientele Software, Inc., Dale E. Yocum, Pamela Yocum, William L. Mulert. (Schedules not included pursuant to Rule 601(b)(2) of Reg. S-K)	(9)
2.2	Agreement and Plan of Reorganization dated as of November 4, 1997 by and among the Company, FS Acquisition Corp., FocusSoft, Inc., John Lococo, Michael Zimmerman and Joseph Brumleve. (Schedules not included pursuant to Rule 601(b)(2) of Reg. S-K).	(11)
2.3	Agreement and Plan of Reorganization by and among the Company, Zoo Acquisition Corp. and DataWorks Corporation, dated as of October 13, 1998, as amended as of October 30, 1998. (Schedules not included pursuant to Rule 601(b)(2) of Reg. S-K).	(14)
2.4	Merger Protocol by and between the Company and Scala Business Solutions N.V. dated as of November 14, 2003	(40)
2.5	Stock Purchase Agreement dated as of December 6, 2005 by and among Epicor Software Corporation, Cougar Acquisition Corporation, CRS Retail Technology Group, Inc., certain principal stockholders of CRS Retail Technology Group, Inc., and certain other parties	(43)
3.1	Second Restated Certificate of Incorporation of the Company.	(1)
3.2	Certificate of Amendment to Second Restated Certificate of Incorporation.	(10)
3.3	Certificate of Amendment to Second Restated Certificate of Incorporation	(39)
3.4	Amended and Restated Bylaws of the Company, as currently in effect.	(10)
3.6	Specimen Certificate of Common Stock.	(2)
3.7	Certificate of Designation of Rights, Preferences and Privileges of Series A Junior Participating Preferred Stock.	(4)
3.8	Certificate of Designation of Preferences of Series C Preferred Stock.	(6)
3.9	Certificate of Designation of Preferences of Series D Preferred Stock.	(37)
10.1*	Platinum Software Corporation Incentive Stock Option, Nonqualified Stock Option and Restricted Stock Purchase Plan - 1990 (the 1990 Plan).	(2)
10.2*	Form of Incentive Option Agreement pertaining to the 1990 Plan.	(2)
10.3*	Form of Nonqualified Stock Option Agreement pertaining to the 1990 Plan.	(2)
10.4*	Form of Restricted Share Agreement pertaining to the 1990 Plan.	(2)
10.5	Form of Indemnification Agreement for Officers and Directors of the Company.	(2)
10.6*	Platinum Software Corporation Employee Stock Purchase Plan, as amended.	(2)
10.10*	1993 Nonqualified Stock Option Plan.	(3)
10.11*	Form of Nonqualified Stock Option Agreement pertaining to the 1993 Nonqualified Stock Option Plan.	(3)
10.12*	1994 Incentive Stock Option, Non-qualified Stock Option and Restricted Stock Purchase Plan.	(31)
10.13*	Form of Non-qualified Stock Option Agreement pertaining to the 1994 Plan.	(31)
10.28	Stock Purchase Agreement dated September 22, 1994 between the Company and the Series B Preferred Stock Investors.	(6)
10.29	Registration Rights Agreement dated September 22, 1994 between the Company and the Series B Preferred Stock Investors.	(6)
10.30	Amendment to Stock Purchase Agreement dated May 26, 1995 between the Company and the Series C Preferred Stock Investors.	(6)

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

10.31	Amendment to Registration Rights Agreement dated May 26, 1995 between the Company and the Series C Preferred Stock Investors.	(6)
10.33*	Employment Offer letter with L. George Klaus dated February 7, 1996.	(7)
10.34*	Restricted Stock Purchase Agreement between the Company and L. George Klaus dated as of February 7, 1996.	(7)
10.44*	1996 Nonqualified Stock Option Plan and Form of Nonqualified Option Agreement.	(12)
10.45*	Platinum Software Corporation Clientele Incentive Stock Plan.	(12)
10.47*	1997 Nonqualified Stock Option Plan.	(13)
10.48*	Amended and Restated 1998 Nonqualified Stock Option Plan.	(15)
10.49	Software Distribution License Agreement with FRx Software Corporation, as amended to date.	(15)

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

10.52*	DataWorks 1995 Equity Incentive Plan, as amended (Equity Plan).	(18)
10.54*	DataWorks 1995 Non-Employee Directors Stock Option Plan, as amended	(18)
10.55	Sublease Agreement dated November 22, 1991 between DataWorks and Titan Corporation (Sublease).	(17)
10.56	First Amendment to Sublease dated December 1, 1994.	(17)
10.57	Lease Agreement dated January 16, 1997 between DataWorks and Whiop Real Estate Limited Partnership.	(19)
10.58*	1995 Stock Option Plan, as amended of Interactive (the Interactive Option Plan).	(20)
10.59	Form of Incentive Stock Option Plan under the Interactive Option Plan.	(21)
10.61	Lease between James S. Hekiman and William Finard, as Trustees of the Burlington Woods Office Trust No. 11 under a declaration of trust dated September 10, 1980 and Interactive dated September 23, 1991.	(21)
10.62*	1997 Nonstatutory Stock Plan of Interactive.	(22)
10.63	Single Tenant lease between ADI Research Partners, LP and DataWorks, dated as of August 14, 1998.	(23)
10.64	1999 Merger Transition Stock Option Plan.	(24)
10.65	Trademark License Agreement between the Company and Platinum Technology, Inc. dated as of January 14, 1999.	(24)
10.66	Value Added Reseller Agreement with Ardent Software.	(24)
10.67*	1999 Nonstatutory Stock Option Plan.	(25)
10.68	Bracknell Lease Agreement dated May 19, 1999.	(26)
10.70*	Nonstatutory Stock Option Agreement with Richard L. Roll dated November 16, 1999.	(27)
10.71*	Nonstatutory Stock Option Agreement with Richard L. Roll dated November 16, 1999.	(27)
10.72	Loan and Security Agreement by and among Epicor Software Corporation as borrower and Foothill Capital corporation as lender dated as of July 26, 2000.	(28)
10.73	Amendment to Loan and Security Agreement dated November 20, 2000.	(29)
10.74	Amendment to Loan and Security Agreement dated May 21, 2001.	(30)
10.75*	Amendment to Note Secured by Stock Pledge Agreement dated February 7, 2001 by and between the Company and L. George Klaus.	(38)
10.76*	Amendment to Unsecured Note dated February 7, 2001 by and between the Company and L. George Klaus.	(38)
10.77*	Management Retention Agreement dated as of December 17, 2001 by and between the Company and L. George Klaus.	(38)
10.78	Amendment to Loan and Security Agreement dated June 25, 2002.	(34)
10.79*	Epicor Software Corporation 2002 Employee Stock Purchase Plan.	(35)
10.80	Series D Preferred Stock Purchase Agreement dated as of February 11, 2003 by and among the Company and certain Purchasers.	(37)
10.81*	Employment Offer Letter with Michael A. Piraino dated April 30, 2003	(39)
10.82	Lease Agreement dated October 14, 2003 between Epicor Software Corporation and Koll Center Irvine Number Two, L.L.C.	(40)
10.83*	Compromise Agreement with Andreas Kemi effective August 13, 2005	(39)
10.84*	Final Statement of Account under Employment Agreement with Andreas Kemi dated September 6, 2004	(40)
10.85*	Consulting Agreement dated October 18, 2004 between Epicor Software Corporation and CHB Management GmbH, a Swiss Corporation	(40)
10.86	Credit agreement by and among Epicor Software Corporation and KeyBank National Association dated March 29, 2005	(41)
10.87*	2005 Stock Incentive Plan	(42)
10.88*	Deferred Compensation Plan	(42)

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

- 21.1 Subsidiaries of the Company (44)
- 23.1 Consent of Independent Registered Public Accounting Firm Deloitte & Touche LLP.
- 31.1 Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensatory plan or arrangement.

- (1) Incorporated by reference to the referenced exhibit number to the Company's Registration Statement on Form S-1, Reg. No. 33-57294.

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

- (2) Incorporated by reference to the referenced exhibit number to the Company's Registration Statement on Form S-1, Reg. No. 33-51566.
- (3) Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the year ended June 30, 1993.
- (4) Incorporated by reference to the Company's Registration Statement on Form 8-A, dated April 14, 1994.
- (5) Incorporated by reference to the referenced exhibit to the Company's Amended Registration Statement on Form 8-A, filed November 21, 2001, Reg. No. 000-20740.
- (6) Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the year ended June 30, 1995.
- (7) Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.
- (8) Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated June 30, 1997.
- (9) Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996.
- (10) Incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K dated November 14, 1997.
- (11) Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the year ended June 30, 1997.
- (12) Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.
- (13) Incorporated by reference to Exhibit 1 to the Company's Schedule 13D filed with the SEC on October 23, 1998, as amended.
- (14) Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the year ended June 30, 1998, as amended.
- (15) Incorporated by reference to Company's Registration Statement on Form S-4, Reg. No. 333-67577.
- (16) Incorporated by reference to the DataWorks Registration Statement on Form S B-2 (No. 33-97022LA) or amendments thereto.
- (17) Incorporated by reference to the referenced exhibit to the DataWorks Annual Report on Form 10-K for its fiscal year ended December 31, 1997.

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

(18) Incorporated by reference to the DataWorks Annual Report on Form 10-K for its fiscal year ended December 31, 1996.

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

- (19) Incorporated by reference to the Interactive Group, Inc. Annual Report on Form 10-K for its fiscal year ended December 31, 1996.
- (20) Incorporated by reference to the Interactive Group, Inc. Registration Statement on Form S-1 (Reg. No. 33-90816).
- (21) Incorporated by reference to the Interactive Group, Inc. Registration Statement on Form S-8 (Reg. No. 333-30259).
- (22) Incorporated by reference to the referenced exhibit to the Company's Transition Report on Form 10-K for the six months ended December 31, 1998.
- (23) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.
- (24) Incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 333-85105.
- (25) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999.
- (26) Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.
- (27) Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.
- (28) Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.
- (29) Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
- (30) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended June 30, 1994.
- (31) Incorporated by reference to the referenced exhibit to the Company's Amendment No. 1 to Annual Report on Form 10-K for the year ended December 31, 1999, filed March 31, 2000.
- (32) Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2001.
- (33) Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- (34) Incorporated by reference to the Company's Registration Statement on Form S-8, Reg. No. 333-97063.

Edgar Filing: EPICOR SOFTWARE CORP - Form 10-K/A

- (35) Incorporated by reference to the Company's Current Report on Form 8-K filed December 23, 2002.
- (36) Incorporated by reference to the Company's Current Report on Form 8-K filed February 18, 2003.
- (37) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2001.
- (38) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
- (39) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.

- (40) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2003.
- (41) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.
- (42) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
- (43) Incorporated by reference to the Company's Current Report on Form 8-K filed December 12, 2005.
- (44) Incorporated by reference to the Company's Annual Report on Form 10-K filed March 31, 2006.

(b) Reports on Form 8-K.

The Company furnished a Current Report on Form 8-K dated December 22, 2004 under Item 1.01 (Entry into Material Definitive Agreement (Executive Deferred Compensation Plan)); a Current Report on Form 8-K dated November 1, 2004 under Item 3.03 (Material Modifications to Rights of Security Holders (Amended and Restated Preferred Stock Rights Agreement)); and a Current Report on Form 8-K dated October 20, 2004 under item 2.02 (Results of Operations and Financial Condition), attaching financial statements related to the fiscal quarter ended September 30, 2004 to the latter Form 8-K.

(c) Exhibits.

The exhibits required by this Item are listed under Item 15(a).

(d) Financial Statement Schedule

The financial statement schedule required by this Item is listed under Item 15(a).

The following trademarks may be mentioned in the foregoing Annual Report on Form 10-K: *Epicor*, *e by Epicor*, *Vantage*, *Avanté*, *Vista*, *Clientele* and *Platinum*. *Epicor*, *e by Epicor*, *Vantage*, *Avanté*, *Vista*, and *Clientele* are trademarks or registered trademarks of the Company. *Platinum* is a registered trademark of Computer Associates International, Inc. All other product names are trademarks or registered trademarks of their respective companies.

EPICOR SOFTWARE CORPORATION
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS*(in thousands)***ALLOWANCE FOR DOUBTFUL ACCOUNTS**

	Balance at Beginning of Period	Provision for Doubtful Accounts	Amounts Written Off (Recoveries)	Balance at End of Period
For the Year Ended December 31, 2003	\$ 5,846	\$ (1,022)	\$ (832)	\$ 3,992
For the Year Ended December 31, 2004	\$ 3,992	\$ 1,485	\$ 1,126	\$ 6,603
For the Year Ended December 31, 2005	\$ 6,603	\$ 1,544	\$ (2,136)	\$ 6,011

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in the City of Irvine, State of California, on April 14, 2006.

EPICOR SOFTWARE CORPORATION

By: */s/ L. George Klaus*
L. George Klaus
Chairman of the Board and

Chief Executive Officer

(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<i>/s/ L. George Klaus</i>	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	April 14, 2006
L. George Klaus		
<i>/s/ Michael A. Piraino</i>	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	April 14, 2006
Michael A. Piraino		
*	Director	April 14, 2006
Robert H. Smith		
*	Director	April 14, 2006
Harold D. Copperman		
*	Director	April 14, 2006
Michael Kelly		
*	Director	April 14, 2006
Thomas F. Kelly		

* By: /s/ L. George Klaus
L. George Klaus

(Attorney-in-Fact)