

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

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**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

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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.

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### 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.

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**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**

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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)
<b>ASSETS</b>		
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
<b>Total current assets</b>	<b>152,824</b>	<b>115,726</b>
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
	<b>\$ 428,951</b>	<b>\$ 255,749</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
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
<b>Total current liabilities</b>	<b>128,954</b>	<b>123,724</b>
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	
<b>Total long-term liabilities</b>	<b>129,547</b>	<b>34,368</b>
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)

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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)
<b>Revenues:</b>			
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
<b>Total revenues</b>	<b>289,413</b>	<b>224,866</b>	<b>154,332</b>
<b>Cost of revenues:</b>			
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
<b>Total cost of revenues</b>	<b>116,205</b>	<b>87,349</b>	<b>64,727</b>
<b>Gross profit</b>	<b>173,208</b>	<b>137,517</b>	<b>89,605</b>
<b>Operating expenses:</b>			
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)	
<b>Total operating expenses</b>	<b>138,103</b>	<b>113,954</b>	<b>81,270</b>
<b>Income from operations</b>	<b>35,105</b>	<b>23,563</b>	<b>8,335</b>
<b>Other income (expense):</b>			
Interest income	1,235	819	748
Interest expense	(1,471)	(604)	(70)
Other income (expense)	(935)	1,698	(410)
<b>Other income (expense), net</b>	<b>(1,171)</b>	<b>1,913</b>	<b>268</b>
<b>Income before income taxes</b>	<b>33,934</b>	<b>25,476</b>	<b>8,603</b>
Provision (benefit) for income taxes	(18,189)	1,336	399
Minority interest in income of consolidated subsidiary	88	171	
<b>Net income</b>	<b>\$ 52,035</b>	<b>\$ 23,969</b>	<b>\$ 8,204</b>
Value of beneficial conversion related to preferred stock			(241)
<b>Net income applicable to common stockholders</b>	<b>\$ 52,035</b>	<b>\$ 23,969</b>	<b>\$ 7,963</b>



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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
<b>Comprehensive income</b>	<b>\$ 51,830</b>	<b>\$ 22,876</b>	<b>\$ 10,513</b>

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	Shares	Amount	Paid in	Shares	Amount	Stock	Receivable	Other	Accumulated	Stockholders
	Shares	Amount	Shares	Amount	Capital	Shares	Amount	Expense	From	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

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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)

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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)
<b>OPERATING ACTIVITIES</b>			
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)
<b>Net cash provided by operating activities</b>	<b>37,702</b>	<b>27,708</b>	<b>16,924</b>
<b>INVESTING ACTIVITIES</b>			
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)
<b>Net cash used in investing activities</b>	<b>(131,741)</b>	<b>(40,857)</b>	<b>(20,879)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from long-term debt	140,101		