

EPICOR SOFTWARE CORP
Form 10-Q
May 10, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2005

OR

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

For the transition period from _____ to _____

Commission File No. 0-20740

EPICOR SOFTWARE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

33-0277592
(IRS Employer

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incorporation or organization)

Identification No.)

18200 Von Karman Avenue

Suite 1000

Irvine, California 92612

(Address of principal executive offices, zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 3, 2005, there were 52,996,128 shares of common stock outstanding.

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Table of Contents**PART I****FINANCIAL INFORMATION****Item 1 - Financial Statements:****EPICOR SOFTWARE CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS***(in thousands)**(Unaudited)*

	March 31,	December 31,
	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 53,474	\$ 53,711
Accounts receivable, net of allowance for doubtful accounts of \$6,555 and \$6,603 as of 2005 and 2004, respectively	44,923	55,296
Prepaid expenses and other current assets	6,583	6,719
Total current assets	104,980	115,726
Property and equipment, net	7,095	7,045
Intangible assets, net	44,508	45,080
Goodwill	84,496	83,492
Other assets	4,364	4,406
Total assets	\$ 245,443	\$ 255,749
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 8,040	\$ 10,437
Accrued compensation and payroll taxes	13,775	21,404
Other accrued expenses	24,151	26,372
Current portion of long-term debt	289	352
Current portion of accrued restructuring costs	2,752	3,287
Deferred revenue	60,693	60,212
Total current liabilities	109,700	122,064

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Long-term debt, less current portion	25,263	30,264
Accrued restructuring costs, less current portion	2,164	2,462
	<u> </u>	<u> </u>
Total long-term liabilities	27,427	32,726
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock	3,046	3,046
Common stock	53	53
Additional paid-in capital	309,979	308,264
Less: treasury stock at cost	(6,066)	(4,431)
Less: unamortized stock compensation expense	(1,773)	(2,379)
Accumulated other comprehensive loss	(438)	(818)
Accumulated deficit	(196,485)	(202,776)
	<u> </u>	<u> </u>
Net stockholders' equity	108,316	100,959
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 245,443	\$ 255,749
	<u> </u>	<u> </u>

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**EPICOR SOFTWARE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE OPERATIONS***(in thousands, except per share amounts)**(Unaudited)*

	Three Months Ended	
	March 31,	
	2005	2004
Revenues:		
License fees	\$ 16,738	\$ 10,448
Consulting	16,924	11,952
Maintenance	32,735	20,557
Other	941	403
	<u>67,338</u>	<u>43,360</u>
Total revenues	67,338	43,360
Cost of revenues	24,714	16,241
Amortization of intangible assets	2,783	880
	<u>27,497</u>	<u>17,121</u>
Total cost of revenues	27,497	17,121
Gross profit	39,841	26,239
Operating expenses:		
Sales and marketing	14,102	9,780
Software development	7,391	5,760
General and administrative	10,180	5,174
Provision for doubtful accounts	368	215
Stock-based compensation expense	606	655
Restructuring charges and other		1,217
	<u>32,647</u>	<u>22,801</u>
Total operating expenses	32,647	22,801
Income from operations	7,194	3,438
Other income (expense), net	(433)	225
	<u>6,761</u>	<u>3,663</u>
Income before income taxes	6,761	3,663
Provision for income taxes	439	145
Minority interest in income of consolidated subsidiary	31	
	<u>6,291</u>	<u>3,518</u>
Net income	6,291	3,518
Other comprehensive income:		
Net income	6,291	3,518
Unrealized foreign currency translation adjustments	380	(60)

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Other comprehensive income	\$ 6,671	\$ 3,458
Net income per share:		
Basic	\$ 0.12	\$ 0.07
Diluted	\$ 0.11	\$ 0.07
Weighted average common shares outstanding:		
Basic	53,973	47,807
Diluted	56,614	52,007

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**EPICOR SOFTWARE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS***(in thousands)**(Unaudited)*

	Three Months Ended	
	March 31,	
	2005	2004
Operating activities		
Net income	\$ 6,291	\$ 3,518
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,848	1,475
Stock-based compensation expense	606	655
Provision for doubtful accounts	368	215
Restructuring charges and other		1,217
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	10,141	1,281
Prepaid expenses and other current assets	69	(302)
Other assets	(3)	(34)
Accounts payable	(2,653)	(1,176)
Accrued expenses	(12,504)	(8,206)
Accrued restructuring costs	(792)	(1,794)
Deferred revenue	540	3,017
Net cash provided by (used in) operating activities	5,911	(134)
Investing activities		
Purchases of property and equipment	(918)	(1,041)
Increase in restricted cash		(1)
Cash paid for acquisitions, net of cash acquired	(480)	(956)
Net cash used in investing activities	(1,398)	(1,998)
Financing activities		
Proceeds from exercise of stock options	996	1,009
Proceeds from employee stock purchase plan	718	544
Proceeds from long-term debt	25,000	
Purchase of treasury stock	(1,635)	(172)
Principal payments on long-term debt	(30,089)	
Net cash provided by (used in) financing activities	(5,010)	1,381
Effect of exchange rate changes on cash	260	(60)
Net (decrease) in cash and cash equivalents	(237)	(811)
Cash and cash equivalents at beginning of period	53,711	38,881
Cash and cash equivalents at end of period	\$ 53,474	\$ 38,070

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 283	\$
Income taxes	\$ 1,929	\$ 31

See Note 6 for details of assets acquired and liabilities assumed in purchase transactions. See Note 10 for details of the credit facility.

See accompanying notes to unaudited condensed consolidated financial statements.

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EPICOR SOFTWARE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements included herein have been prepared by Epicor Software Corporation (the Company) in conformity with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for interim financial information for reporting on Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments necessary for a fair presentation of the Company's financial position, results of operations and cash flows.

The results of operations for the three months ended March 31, 2005, are not necessarily indicative of the results of operations that may be reported for any other interim period or for the entire year ending December 31, 2005. The balance sheet at December 31, 2004 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements, as permitted by SEC rules and regulations for interim reporting.

On June 18, 2004, the Company acquired Scala Business Solutions N.V., (Scala) a publicly held software company headquartered in Amsterdam, for a purchase price of approximately \$93.9 million, including cash and stock. The transaction was accounted for as a purchase and the results of Scala's operations are included in the accompanying consolidated statement of operations from June 18, 2004 and includes a minority interest of 1.9% at March 31, 2005 representing the amounts allocable to Scala shares that have not been tendered. Included in other accrued expenses in the accompany