EPICOR SOFTWARE CORP
Form 10-K
March 31, 2006

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

<div align="center">For the Fiscal Year Ended December 31, 2005</div>

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

<div align="center">For the transition period from _____ to _____</div>

<div align="center">

Commission file number 0-20740

EPICOR SOFTWARE CORPORATION

(Exact name of registrant as specified in its charter)

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

<div align="center">

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

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Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $.001 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 x

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 x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject

to such filing requirements for the past 90 days. Yes x No ¨

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

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

Large accelerated filer ¨   Accelerated filed x   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 x

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.

Item 1. BUSINESS

Introduction

Epicor Software Corporation (Epicor or the Company) designs, develops, markets and supports enterprise application software solutions for use by mid-sized companies, as well as the divisions and subsidiaries of larger corporations worldwide. The Company s business solutions are primarily focused on companies or divisions between $10 million and $1 billion in annual revenues. Epicor s solutions are designed to help companies focus on their customers, suppliers, partners, and employees, through enterprise-wide management of resources and information. This collaborative focus distinguishes the Company from conventional enterprise resource planning (ERP) vendors, whose primary focus is improving internal business processes and efficiencies. By automating and integrating information and critical business processes across their entire value chain, enterprises can improve not just their bottom line, but also their top line, allowing them to compete more effectively in today s increasingly global economy.

The Company s products include back office applications for manufacturing, supply chain, distribution, and financial accounting as well as front office customer relationship management (CRM) applications for sales, marketing and customer service and support. Epicor also provides industry-specific solutions to a range of vertical markets including financial services, professional services, industrial machinery and specialty retail. Epicor s solutions also offer integrated e-commerce and collaborative portal capabilities that allow companies to further extend beyond the traditional four walls of their enterprise, and further integrate their operations with those of their customers, suppliers and partners.

The Company offers solutions targeted to the following industries:

<u>Manufacturing</u> - Epicor s manufacturing solutions provide integrated ERP solutions for discrete manufacturers. The Company s solutions are designed to meet the challenges of today s agile manufacturing environment typified by short product lifecycles, continual process improvement, mass customization and lean manufacturing initiatives. The Company s products have been designed for specific types of manufacturers from a small job shop to a large manufacturer. The key industries on which Epicor focuses its manufacturing solutions include metal fabrication, industrial machinery, automotive, electronics, consumer goods and aerospace.

<u>Distribution</u> - Epicor s solution for distribution is a comprehensive suite that includes warehouse and inventory management, financials, CRM, and business intelligence solutions. The distribution suite automates customer acquisition and order management through to warehouse fulfillment, accounting and customer service. The distribution suite is an end-to-end solution set tailored for wholesale distributors including third party logistics providers.

<u>Services</u> - Epicor s solution for services companies is focused on delivering a complete, end-to-end enterprise solution designed to meet the critical business requirements of mid-sized to larger distributed service organizations. Epicor s enterprise service automation (ESA) solution provides service organizations with the tools to improve staff utilization, maximize billing and revenue recognition, optimize resources and increase cash flow. The services suite includes opportunity and bid management, CRM, resource management, and engagement management, project accounting, portfolio and performance management, and collaborative commerce applications tailored for specific industries including financial services, audit and accountancy, architectural, engineering and construction, commercial research, not-for-profit organizations, software and computer services, professional services and management consulting.

<u>Hospitality and Retail</u> - Epicor provides solutions tailored for the hospitality, entertainment and retail industries. The hospitality solutions, designed for food service, hotel, sports and recreation, and other entertainment companies, manage and streamline virtually every aspect of a hospitality organization from point-of-sale or property management system integration, to cash and sales management, food costing, core financials, and business intelligence all within a single solution. Epicor offers retail solutions for both smaller, single PC-based point-of-sale (POS) retail outlet scenarios, as well as larger scale, distributed POS environments in specialty and general merchandise retailing for the hospitality and leisure sector (hotel and restaurant chains and sports clubs) and large specialty store chains that require more comprehensive POS, loyalty management and merchandising capabilities. Epicor provides both best-of-breed retail solutions for large Tier-One retailers, as well as complete post-to-host solutions which can integrate all elements of the retail supply chain from the store register through to the enterprise merchandising, selling and planning applications.

Beyond the targeted enterprise-wide solutions mentioned above, Epicor also offers the following point solutions:

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

Supplier Relationship Management (SRM) - Epicor s supplier relationship management solutions include applications for strategic sourcing, procurement, and spend analytics. These solutions enable an organization to reduce costs by driving inefficiencies out of the procurement process. They provide a complete Web-based, buy-side commerce solution that can be rapidly deployed standalone or as part of an integrated enterprise solution.

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

Accounting and Finance - Epicor s award-winning financial and accounting solutions provide a foundation for good fiscal governance and accurate financial performance, through a combination of core ledger, cash and asset management, deferred revenue accounting and contract renewal, and electronic payment facilities.

The Company s software products incorporate a significant number of features localized to address international market opportunities, including support for multiple languages, multiple currencies and accounting for global taxation methods.

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

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

As part of its business strategy, the Company has pursued acquisitions to expand its customer base, global product offering and geographic footprint. The acquisitions of CRS Retail Technology Group, Inc. (CRS) in 2005, Scala Business Solutions N.V. (Scala) in 2004 and ROI Systems, Inc. (ROI) in 2003 are typical of this ongoing strategy.

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 Company recorded the acquisition of CRS as a purchase in 2005 and the results of CRS s operations are included in the Company s consolidated statement of operations from the date of acquisition.

CRS designs, develops, markets and supports software, hardware, and services that assist general merchandise and specialty retail companies in increasing sales, improving customer service, and reducing operating costs. CRS applications leverage Microsoft® and Java technologies and have over 50,000 in-store systems installed in 32 countries and 10 languages. The CRS acquisition provides existing customers new, complementary product offerings and creates expanded opportunities in the hospitality and retail vertical, particularly in key international markets through increased marketing, improved sales execution, enhanced viability and worldwide sales and support infrastructure.

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. 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 this date the Company became the legal owner of all outstanding Scala shares. The Company recorded the acquisition of Scala as a purchase in 2004 and the results of Scala s operations are included in the Company s consolidated statement of operations from the date of acquisition.

Scala designs, develops, markets and supports collaborative enterprise resource planning (ERP) software (*iScala*) 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.

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 Company s consolidated statement of operations from the date of acquisition.

Background

Epicor designs its products and services primarily for midmarket companies and the divisions and subsidiaries of Global 1000 enterprises, which generally consist of companies with annual revenues between $10 million and $1 billion, and emerging enterprises, which generally consist of rapidly growing businesses with annual revenues under $25 million. These rapidly growing organizations number in the hundreds of thousands worldwide. In the past, midmarket companies were underserved by traditional financial and ERP systems that had originally been designed for larger corporations. These enterprise systems, though highly functional, were also extremely complex and expensive to purchase, install and maintain. Further, the complexity of the infrastructure and ongoing maintenance to support these systems often required a centralized deployment model. This limited access to critical data to the organization s information technology (IT) department, which then limited timely availability of information to decision makers, managers and key employees. Moreover, these mostly proprietary systems provided little flexibility or adaptability to the constantly evolving requirements of midmarket companies.

Beginning in the early 1990s, as Global 1000 companies aggressively invested in information technology to help them streamline and integrate disparate business processes, they created a tremendous demand in their operating subsidiaries and the small to mid-size enterprise (SME) market for enterprise-wide software applications that integrated business processes and information. Initially, only larger organizations had the technological expertise, budget and ability to support the lengthy implementations typified by the early solutions.

While SMEs understood the business value of enterprise applications, they lacked the extensive resources required to implement and support such first-generation solutions. In their own quest to boost productivity and profits as well as gain a competitive advantage, mid-sized companies increasingly turned to integrated application software to automate and link their business processes. Due to the midmarket s unique business constraints of limited budgets and rapid implementation timeframes, best-of-breed solutions and after-market application integrations were far too complex and costly to be an effective enterprise solution.

As a group, mid-sized companies face tremendous global competitive pressures as they compete for business against larger corporations, other mid-sized competitors and smaller start-ups. They understand the need to remain close to their customers and suppliers, and to make the most effective use of relatively limited resources. Mid-sized companies demand a quick return on technology investments and require that solutions be affordable not only to acquire and implement, but also to maintain and support throughout their entire operational life span.

With respect to technology, mid-sized companies are practical consumers, typically selecting affordable, proven solutions. The last decade s dramatic decrease in information technology costs, coupled with a simultaneous increase in computing power, has made key new technologies accessible to this cost-conscious market. Microsoft Corporation took advantage of increased computing capabilities to develop Microsoft BackOffice® (now the

4

Microsoft Windows Server family), a robust network operating system and scaleable relational database that provides smaller businesses with a sophisticated technology infrastructure previously accessible only to Global 1000 corporations. Microsoft has quickly become the fastest growing technology platform, attracting midmarket companies with its features, familiarity and ease-of-use.

The recent development of more cost-effective, adaptable and agile infrastructures, such as the emergence of service-oriented architecture (SOA) and pervading technologies like Microsoft .NET and Web services, has increased the mid-sized companies investment in enterprise applications. Epicor s product offerings, product development efforts and services are focused on meeting the enterprise business application needs of these growing mid-sized businesses.

According to a Gartner, Inc. report titled Midsize Business IT Challenges and Plans for 2006, December 13, 2005, the small and midsize business (SMB) IT market continues to grow. At an estimated $400 billion per year (expected to increase by 7 percent through 2006), the global opportunity is significant. Gartner also predicts, the enterprise resource planning market will grow 7.7 percent worldwide and the supply chain management market will grow 6.8 percent worldwide through 2009, according to the Forecast: ERP and SCM Software Vertical Markets, Worldwide, 2004-2009 (Executive Summary), November 28, 2005.

Industry Segments and Geographic Information

Epicor s reportable operating segments include license fees, consulting, maintenance and other. For the purposes of Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, a breakdown of the Company s sales by segment is provided in Note 15 of the Notes to Consolidated Financial Statements under Item 8, Financial Statements and Supplementary Data. A summary of the Company s sales by geographic region is incorporated herein by reference to Note 15 of the Notes to Consolidated Financial Statements under Item 8, Financial Statements and Supplementary Data.

Technology Strategy

The Company s technology strategy is to develop leading enterprise software applications using industry-standard tools where possible, and to take advantage of leading third-party, industry-standard technologies for database management systems, operating systems, user interfaces, infrastructure and connectivity (including Internet, intranet and extranet access). As the Company continues to deliver enterprise application solutions, it is increasingly focused on leveraging new technology platforms and standards, like Web services, which support the integration of computing and communication paradigms as one across multiple devices. For businesses to compete in today s increasingly real-time world, they need to adopt an infrastructure that can integrate the Internet, wireless, mobile, voice response, and personal digital assistants (PDA) to support business anytime, anywhere. Computing architectures like Microsoft .NET, allow Epicor enterprise solutions to continue to transition to service-oriented architectures (SOA), and support commerce in a distributed computing world.

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

Architecture and Web Services

The Company is increasingly using Web services to enable its solutions to be integrated with other applications more easily and to support the increased need for collaboration in today s Internet-based world. Web services are self-describing software components that allow the creation of applications that can be programmed and published over the Web. Since Web services are portable and interoperable and because they are not vendor specific, they are rapidly becoming a standard for integrating disparate systems and applications. Epicor has standardized its Web services development on the Microsoft .NET Framework. The Company s *Clientele CRM.NET*, *Epicor for Service Enterprises*, *iScala, Vantage, Vista* and recently acquired *CRS Retail Store* product suites have been architected for Web services. The *Epicor Enterprise* suite leverages Web services to more easily integrate and securely share information throughout the enterprise and with customers and suppliers.

Open Database Technology

The Company utilizes open database technology to provide extremely flexible, integrated, enterprise business applications. This open database orientation is based on widely accepted database management systems. The

5

Company s *Clientele, CRS, Enterprise, Epicor for Service Enterprises, iScala, Vantage and Vista* product suites use the Microsoft SQL Server relational database management system (RDBMS). The Company has focused the development of its *Enterprise* and *iScala* product lines using Microsoft s industry-standard SQL language as the fundamental database access methodology for both transaction processing and analytics. *Vantage* and *Vista* are designed for either Progress Software Corporation s Progress RDBMS or the Microsoft SQL Server platform. The Company s *Clientele* suite leverages both the Microsoft Access and Microsoft SQL Server databases. The Company s *Avanté* and *Manage 2000* products leverage open database technology from IBM Corporation. The Company has chosen these open databases in order to maximize the throughput of its customers transactions, to provide realistic models of business data and to maximize price performance under the budget and resource constraints typical of its primary market sector.

Advanced Networking/Connectivity

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

Industry Standard User Interfaces

The Company has incorporated numerous features into its user interfaces to simplify the operation of and access to its products. All of the Company s product lines incorporate the popular Microsoft Windows graphical user interface (GUI). The Company s GUI tools include industry-standard field controls, pull-down menus, tool bars and tab menus that facilitate the use of the software. The Company s products incorporate the latest and most advanced GUI features such as process wizards, cue cards, advanced on-line help and on-line documentation. The Company delivers user interfaces based upon today s single document interface (SDI) standards. As the model for distributed computing continues to evolve through the advent of Internet technologies, the Company offers additional client deployment models, including thin-client, smart-client, browser-based and mobile client access.

Powerful Application Development Tools

The Company provides comprehensive application development, extension and customization capabilities for its *Enterprise, Epicor for Service Enterprises, iScala, Clientele, Avanté, Manage 2000, Vantage, and Vista* product lines. To accomplish this, the Company provides extensive, integrated application development environments for these product lines. These customization tools deliver a complete development environment, enabling a user to make changes ranging from a simple field name change to building an integrated custom application. Although a high degree of customization is supported, the Company attempts to minimize customization to its products through verticalization, integral business process management, workflow, high functionality and focus on industry best practices.

Technical Architecture Strategy

The Company s technology direction currently embraces the Microsoft.NET Framework for XML-based Web services. Through .NET, which is the next generation of Microsoft s Distributed interNet Applications architecture (DNA) and component object model (COM), the Company provides comprehensive support for Web services deployment and Enterprise Application Integration (EAI). With .NET and the XML standard for data exchange, Epicor provides increased access to information both within and between organizations no matter where their offices or employees are located. This technology strategy can enable the Company s development teams to leverage Microsoft technology, while allowing each product family to continue to utilize the individual databases and development tools appropriate to the requirements of each product s target market. As a Microsoft Gold Certified Partner and an early adopter of the .NET platform, Epicor is able to leverage its expertise with Microsoft technology to benefit their customers worldwide.

Industry Strategy

Epicor for Your Industry provides focused solutions, services and application extensions designed specifically for the unique requirements of target industries. Historically, large enterprise application vendors have created vertical industry applications and practices designed for the Global 1000, in industries such as automotive, retail,

6

government and healthcare. However, for midmarket companies in these industries, these vertical offerings are often too expensive and overly complex for their requirements. More importantly, many midmarket companies are not necessarily part of a traditional vertical market, but rather have unique processes, best practices and highly specialized functionality that are critical to their success.

Epicor for Your Industry solutions enable customers to leverage not only a solution tailored to the unique needs of their market, but also focused industry expertise through the Company s professional services organization. *Epicor for Your Industry* solutions are additionally complemented by strategic relationships with key partners to provide product extensions and domain expertise as part of an integrated, end-to-end solution. Customers benefit through solutions that are easier to implement, easier to use and require less customization than a horizontal solution.

Epicor for Your Industry includes *Epicor for Service Enterprises*, a Microsoft .NET Web services-based enterprise service automation (ESA) solution for the global midmarket. Epicor for Service Enterprises is designed expressly for midmarket service organizations to streamline business processes, empower them to expand their value chain, grow revenue and drive efficiency benefits to the bottom line. Whether it s a professional services organization (PSO), embedded service organization (ESO), global development organization (R&D), or software and computer services business, the Company believes that Epicor for Service Enterprises provides a comprehensive ESA solution that offers strategic value with a quick return on investment.

Epicor for Your Industry solutions target industry sectors including: software and computer services, value-added distribution, hospitality and entertainment, financial services, professional services, and non-profit organizations in the service sector; pharmaceutical, wholesale distribution, industrial machinery, consumer packaged goods, and automotive in the industrial sector, and metal fabrication, capital equipment, aerospace, and electronics in the manufacturing sector.

Products

The Company designs, develops, markets and supports enterprise software applications that provide midmarket organizations and divisions of Global 1000 companies with industry specific, highly functional, technically advanced business solutions. The Company s products are aligned according to the markets that they serve   Distribution and Services (*Enterprise*), Industrial (*iScala*), Manufacturing and Supply Chain (*Avanté, Manage 2000, Vantage, Vista*), Retail (*CRS*), and Customer Relationship Management (*Clientele*).

Distribution and Services - Epicor Enterprise

Epicor Enterprise (incorporates products formerly named *e by Epicor, Platinum ERA* and *Clientele*), an integrated, customer-centric suite of client/server and Web-based ERP software applications, is designed to meet the unique business needs of midsized companies worldwide (including divisions and subsidiaries of larger corporations). *Epicor Enterprise* is typically targeted to either distribution or service-based businesses with revenues between $25 million and $1 billion annually. These organizations require the functional depth and sophistication of traditional high-end enterprise business applications, but desire a rapid and cost-effective product implementation.

Epicor Enterprise includes the following application suites: *CRM Suite (Sales Force Automation. Marketing Automation, Customer Support, IT Service Management), Financials Suite (General Ledger and Financial Reporting, Accounts Receivable, Credit and Collections, LockBox, Accounts Payable, Electronic Funds Transfer, Cash Management, Automated AP Matching, and Asset Management), Supply Chain Management Suite (Distribution, Procurement, Sourcing, Storefront, Warehouse Management, Assembly), Payroll/Human Resources, Portal Suite*, *Business Intelligence Suite, Project Suite*, and industry-specific solutions delivered as *Epicor for Your Industry*.

7

Epicor Enterprise is optimized for use with the Microsoft Windows operating system and the Microsoft SQL Server relational database. *Epicor Enterprise* leverages XML Web services to enable more robust integration with other applications within and external to the enterprise. In addition to the availability of XML Web services, *Epicor Enterprise* supports various industry standard technologies, including Microsoft Message Queue Services (MSMQ), Transaction Services and COM+ architecture, which along with XML documents, improve componentization and support reliable message-based integration between applications and distributed servers. Microsoft Visual Basic for Applications (VBA) is also included to enhance client customization and to facilitate integration with third party applications. In addition, the *Financials Suite and Supply Chain Management (SCM) Suite* utilizes a 32-bit client that has been optimized for the Microsoft SQL Server database in order to leverage the capabilities of the client/server model of computing. This implementation results in a substantial reduction in network traffic as compared to other client/server approaches and provides scaleable high performance. *Project Suite* was developed in the Company s *Internet Component Environment (ICE)*, a service-oriented architecture (SOA) built with Microsoft .NET and Web service technology. *ICE* is also available to customers to create customizations and extensions using ubiquitous tools like Visual Studio .NET.

The CRM Suite provides integrated customer relationship management capabilities that are tightly integrated with the *Financials Suite* and *SCM Suite*. This integrated approach to CRM enables companies to have a 360-degree view of their customer relationships. The *CRM Suite* is the integrated version of the Company s *Clientele* product suite and includes Sales and Marketing, Support and IT Service Management Sales and Marketing empowers organizations to focus on the right opportunities while providing access to timely information. Sales and Marketing provides contact, lead, opportunity and account management in one package. Support manages the support requirements of an organization s external customers and provides call management, product tracking, RMA tracking, call queuing/follow-up and problem resolution. IT Service Management provides detailed call tracking, asset/knowledge management, service requests, maintenance and user profile tracking and management and supports the information technology information library (ITIL) standard.

The Financials Suite comprises an integrated accounting solution that enables a company to automate the financial aspects of their business. *The SCM Suite* includes Distribution, a comprehensive solution designed to improve the efficiency and responsiveness of a company s operations. It enables companies to effectively manage their distribution operations, including purchasing, quality control, inventory and the order management cycle. The customer-centric focus of *Epicor Enterprise* enables companies to respond quickly to customer demands and improve customer service. The integration of *Financials Suite and SCM Suite* with the rest of the *Epicor Enterprise* products ensures that a company s entire enterprise is synchronized from the customer to the warehouse to the supplier. Presently the following back office financial and distribution applications are generally available in version 7.3.6: System Manager, General Ledger, Average Daily Balances, Accounts Receivable, Accounts Payable, Cash Management, Multi-Currency Manager, Asset Management, Import Manager, Credit and Collections, LockBox, Electronic Funds Transfer (EFT), Advanced Allocations, Automated AP Matching, Sales Order Processing, Inventory Management, Purchasing, Distribution, Assembly, Promotions and Rebates, Royalties and Customization Workbench.

The Supply Chain Execution Suite, which comprises *Warehouse Management System (WMS) and Data Collection Suite (DCS),* extends the distribution functionality for the *SCM Suite* to supply chain execution processes. These applications are tightly integrated with *SCM Suite* so that information is available in real-time. *DCS provides* wireless shop floor data collection, radio frequency identification (RFID) and the use of bar code technology to track inventory from the time it enters a facility until it is shipped to a customer, and additional warehouse management capabilities. *WMS* enables a company to streamline order fulfillment, closely track inventory, manage third party logistics (3PL) and prioritize resources on the shop floor.

The SCM Suite also includes the *Supplier Relationship Management (SRM) Suite* that consists of *Sourcing* and *Procurement*. *Sourcing* provides a comprehensive solution for strategic control of sourcing, purchasing and selling activities from complex auctioning and dynamic pricing to optimizing trading partners, terms, goods and services. *Sourcing* provides a highly configurable framework with the flexibility to rapidly deploy collaborative RFP/RFI/RFQ (RFx) and comprehensive forward and reverse auction capabilities. *Sourcing* streamlines manual procurement processes to rapidly locate, source, and transact with qualified suppliers and eliminate the inefficiencies in the procurement process for direct, indirect and spot purchasing. *Procurement* enables the streamlined integration of the entire procurement process. It provides employee-direct requisitioning and purchasing, catalog management, supplier management and policy enforcement. This integrated e-commerce application enables organizations to gain and improve control of operational resources by leveraging the Internet to connect large populations of frontline employees, management and suppliers. *Procurement* provides a

complete planning, execution and analysis system, designed to reduce costs, increase agility, and perform predictably. *Procurement* facilitates a true trading network, allowing buyers and suppliers to maintain control over their trading relationships and provides a virtual and agile bridge between buyers and suppliers. *Procurement* also includes an integrated budget and commitment tracking feature that gives requisitioners and approvers a comprehensive view of their commitments inside and outside of procurement relative to approved budgets.

Storefront, another product in the *SCM Suite*, enables Epicor s customers to sell products and services over the Web, providing consumers and trading partners a convenient, 24/7 order entry mechanism for making purchases. By supporting both B2B and B2C activity, *Storefront* is a versatile engine that can handle all of a company s requirements. Through *Storefront* companies can rapidly and cost effectively introduce new products, enter new markets, or simply provide electronic access to a catalog of standard products, which can free up salespeople to focus on more complex transactions. Most importantly, the business data entered over the Internet is captured and used by the other Epicor applications.

Project Suite, a component of the *Epicor for Service Enterprises* industry solution, offers comprehensive project management and delivery management capabilities to support the planning and execution of service engagements. Engagements can be structured through user-definable work breakdown structures and an organization-wide resource service can be called upon as needed to match the right personnel to the right task at the right time - anywhere across the enterprise. *Project Suite* leverages XML technologies to support bidirectional integration to Microsoft Enterprise Project Management as part of an end-to-end project management solution. The *Project Suite* includes Resource Management, Engagement Management, Project Accounting, Contract Management and Performance Management.

Portal Suite is a Web-based enterprise information portal (EIP), offering a self-service solution designed to help customers, suppliers and employees access relevant information from both within the enterprise (such as account information, support activities) and from external sources (industry information, news feeds, weather, etc). *Portal Suite* consists of a Portal framework based on Microsoft SharePoint products and technologies, which is enriched by role-based access and content-specific information packs (e.g. customer content, supplier content and employee content). *Portal Suite* provides a gateway to all the information users require to carry out their jobs more effectively and assist them with decision support. *Portal Suite* makes use of the popular SharePoint personalization paradigm to allow each user s experience to be tailored and filtered to their specific function or role to minimize   information overload.

Epicor Enterprise also includes several tools that help customers maintain, audit, and extend their Epicor system, and reduce total cost of ownership. These tools are *DBAudit, Customization Workbench, Import Manager,* and *Epicor Integration Hub. DBAudit* provides the ability to detect database changes and report on who made the addition, modification, and/or deletion and when. *Customization Workbench* provides a toolset for creating custom forms, database objects, and logic to meet specialized customer requirements. *Import Manager* and *Epicor Integration Hub* provide the ability to exchange data between *Epicor Enterprise* and other systems via SQL and XML while adhering to the data validation and business rules defined in *Epicor Enterprise*.

Business Intelligence Suite is an integrated decision support suite offering a complete set of tools that allows a company to strategically analyze the data available throughout *Epicor Enterprise*. *Business Intelligence Suite* comprises the following components: *DecisionStore* (data warehousing), *Explorer AI* (OLAP visualization and packaged key performance indicators that drive strategic insights), *Active Planner* (active, continuous planning and forecasting, and enterprise performance management), *Microsoft FRx (financial reporting),* transaction reporting, ad hoc queries, and agents/alerts.

UltiPro Workforce Management (a Payroll/HRMS solution offered via a reseller relationship with Ultimate Software) provides a complete workforce management solution. This solution allows a company to streamline human resource and payroll processes, report on and analyze key business metrics, and provide Web-based self-service to empower its employees. Business intelligence tools enable strategic analysis of key business trends for better planning and informed decision-making. Ultimate Software s *UltiPro Workforce Management* solution is available as a common component with the following Epicor product families: *Epicor Enterprise, Vantage,* and *Avanté*.

9

Industrial - iScala

iScala is an integrated ERP, CRM and SCM solution targeting the divisions and subsidiaries of Global 1000 corporations and large local and regional companies worldwide. *iScala* s collaborative functionality, country-specific localizations and multi-language capabilities are designed to support global, multi-company deployments with significant cross-border trading requirements. *iScala* is targeted to meet the unique needs of companies in industry segments including: Pharmaceutical, Industrial Machinery, Light Engineering, Automotive Components, Consumer Packaged Goods and Hospitality.

iScala enables Global 1000 enterprises to standardize their plants and operating divisions on a single system, while supporting country specific localizations and languages at each site. This allows a corporate headquarters consistent visibility of plant information and operations, as well as supporting the implementation of consistent procedures, practices and controls worldwide.

iScala is optimized for use with the Microsoft Windows 2000/2003 operating system and the Microsoft SQL Server 2000 relational database. *iScala* leverages XML Web services to enable integration with other applications within and external to the enterprise. In addition to the availability of XML Web services, *iScala* supports various industry standard technologies, including Microsoft Message Queue Services (MSMQ), Transaction Services and COM+ architecture, which along with XML documents, improve componentization and support reliable message-based integration between applications and distributed servers.

iScala can be configured as an Enterprise Server version targeted at multi-site operations or as a Business Server version targeted at single-site operations. Each server version consists of the following optional suites and components: *Financials (General Ledger, Sales Ledger, Purchase Ledger, Promissory Notes, Cash Flow Forecasting), Asset Management, Customer Relationship Management, Sales Order Management, Supply Chain Management (Material Management, Warehouse Management, Manufacturing), Contract Management, Project Management, Service Management* and *Payroll.* In addition to these application components, *iScala Connectivity Solution* enables collaboration between applications, suppliers and customers, and the *iScala Business Intelligence Server* offers a suite of analytical and reporting tools designed to convert data into information that can be presented by the web, portals, Windows or Office 2003 documents.

iScala s global functionality and numerous country-specific localisations provide the ability to deliver a solution for over 140 countries with the local requirements for tax management, currency handling, language capabilities, statutory reporting, banking interfaces and asset depreciation rules.

Local and distributed multi-company capabilities enable customers to manage complex business infrastructures. Multiple companies on a single server or on a server farm (multiple local servers), can be consolidated across differing charts of accounts and differing currencies, as well as inquiring or reporting across companies or sharing Accounts Receivable and Accounts Payable. Global calendar management enables the system to manage companies, customers, suppliers, engineers, warehouses and any other resources cross multiple time-zones. *Global Administration* provides central IT staff with the ability to manage distributed *iScala* system assets anywhere in the world, as if they were local, including system updates, user roles and security, menu configuration and databases.

iScala s customization and personalization capabilities provide the ability to enhance the application through parameterized set-up, tailored documents, reports and user databases. Users may have their own customized menus, screens in their own language, as well as their own queries, reports and business intelligence analytics. Microsoft Visual Basic for Applications (VBA) is also included to enhance client customization and facilitate integration with third party applications.

iScala Connectivity Solution provides collaboration and integration between subsidiaries, and their corporate headquarters and to customers and suppliers to support integrated supply chain trading. Collaboration provides visibility through a web-based portal, transaction exchange and system-to-system connectivity. Workflow management maximizes the automation of standard processes with events and alerts to handle exceptions.

Manufacturing and Supply Chain

The Company s manufacturing applications include *Avanté, Manage 2000, Vantage*, and *Vista*.

Vantage is an integrated ERP solution that meets the dynamic requirements of discrete mixed-mode progressive manufacturers who have a lean or to-order manufacturing requirement. *Vantage* handles many manufacturing philosophies simultaneously including make-to-order (MTO), configure-to-order (CTO), engineer-to-order (ETO), make-to-stock (MTS) and flow manufacturing. *Vantage* is an easy-to-use, yet comprehensive solution

that enables manufacturers to leverage their resources through its powerful tools for customer relationship management, estimating, visual scheduling, job tracking and costing, as well as shop floor data collection. *Vantage* can manage enterprises from a single site, to multiple locations, to large global multi-company enterprises whose systems span multiple servers and databases across different geographies and languages.

Vantage is comprised of more than 25 integrated business modules and offers a complete solution, from front office functionality including sales force automation and customer support, to advanced planning and scheduling, supplier relationship management, advanced quality management, product lifecycle management and a complete e-business suite including customer, supplier and partner portals. *Vantage* provides strong scheduling and online information access capabilities. With its graphical scheduling tools and   what-if   simulation, *Vantage* enables users to create and execute realistic production schedules, based on the available resources, and react quickly and efficiently to schedule changes.

Vantage is comprised of groups of modules that can be differently configured to comprehensively support a customer s business processes. The following applications are presently generally available in *Vantage* version 8.0: Customer Connect, Supplier Connect, Sales Connect, Mobile Connect, Service Connect, Marketing, Sales, Support, Help Desk, Returned Material Authorization, Estimate and Quote Management, Order Management, EDI, Forecasting and Master Production Scheduling, Material Requirements Planning, Scheduling, Advanced Planning & Scheduling, Global Multi-Site Management, Project Management, Job Management, Lean Manufacturing, Manufacturing Execution System, Quality Assurance, Product Lifecycle Management, Advanced Quality Management, Data Collection and Hand-held, Advanced Material Management, Inventory Management, Shipping/Receiving, Supplier Relationship Management, Purchase Management, Advanced Bill of Materials, Product Configuration, Product Costing, Routings, Engineering Change and Revision Control, Accounts Receivable, Accounts Payable, General Ledger, Currency Management, Payroll, Fixed Asset Management, Multi-National Financials, Field Service, Document Management, Business Intelligence, Portal, FRx, Active Planner, and Dashboard. *Vantage* is optimized for the rapid deployment, minimal support and price/performance requirements of midmarket manufacturers in the $10 million to $1 billion annual revenue range.

Vista is an enterprise software solution specifically designed for the needs of smaller job shops, emerging manufacturers, and the MTO departments of larger businesses that have less developed infrastructures, lower IT budgets, require a shorter deployment period and seek established, user-friendly products. *Vista* fully integrates over 20 business modules including: Customer Connect, EDI, Contact Management, Quotes, Orders, Shipping/Receiving, Jobs, Scheduling, Data Collection, Quality Assurance, Advanced Bill of Materials, Document Management, Inventory, Purchasing, Advanced Inventory Management, Purchasing RFQ, Accounts Receivable, Accounts Payable, General Ledger, Payroll, Currency Management and Dashboard.

Customer Relationship Management   Clientele

Clientele is an integrated customer relationship management solution designed to meet the needs of rapidly growing, small and mid-sized organizations. *Clientele* combines employee applications such as opportunity management with customer applications, such as Web-based order entry/inquiry to provide companies and customers a true, up-to-the-minute picture of their relationship.

Clientele CRM is comprised of *Clientele Customer Support* which provides call management, product tracking, RMA tracking, call queuing/follow-up and problem resolution and *Clientele Sales and Marketing which* provides contact, lead, opportunity and account management.

Clientele ITSM provides IT help desk functionality and focuses on the support of users of technology within an organization. *Clientele ITSM* provides detailed call tracking, asset/knowledge management, service requests, maintenance and user profile tracking and management.

Clientele offers additional applications designed to extend the suite s functionality, including *Conductor, Connector* and *Epicor Portal*. *Conductor* provides workflow routing and rules capabilities that allow any user to receive messages and tasks from the front office system. *Connector* enables remote sites and sales and support representatives in the field to connect to their master front office database and synchronize customer information, ensuring timely information whether the user is at headquarters, a remote site or on the road.

The *Clientele CRM.NET* suite is the first CRM application built completely on Microsoft s .NET Platform. A smart client application, *Clientele CRM.NET* uses the Internet to interact with XML Web services, providing

11

13

access to data according to specific business rules. *Clientele CRM.NET* leverages XML Web services to enable integration with other applications within and external to the enterprise.

Clientele CRM.NET uses Microsoft Visual Studio .NET as its standard customization tool and can support extensions using any of the .NET-compatible programming languages. The enhanced customization model supports the development of new functionality by inheriting from existing forms and Web services templates. This allows custom enhancements and extensions to be isolated from source code, so future upgrades and migrations do not overwrite customizations.

The *Clientele CRM.NET Suite* includes *Clientele Customer Support*, *Clientele Sales and Clientele Self-Service Portal* which provides a browser-based user interface to support self-service to customers via the Internet. Epicor ITSM, a next generation Information Technology Infrastructure Library (ITIL) compliant help desk application is also built on the *Clientele CRM.NET* application framework.

The *Clientele Self-Service Portal* enables customers to submit support calls as well as check on the status of existing calls, view their detailed product information and returned merchandise authorizations, or drill down into the usage and adjustment details of their service agreements directly over the Web. The *Clientele Self-Service Portal* is a companion product for *Clientele CRM.NET Suite.*

The *Clientele Suite* also includes *eMarketing*, an e-mail marketing campaign manager and *Advanced Surveys*, a Web-based survey toolset (offered via a reseller relationship with Narragansett Technologies).

Other Products

The Company serves as an original equipment manufacturer vendor or reseller for certain third-party software applications and pays royalties to various organizations in connection with the distribution of third-party software and the sale of products that incorporate third-party technologies. In addition, in certain cases, as part of solutions requested by customers of *Avanté* and CRS, the Company resells third party computer hardware systems and related peripherals.

Professional Services, Technical Support and Software Maintenance

The Company s professional services organization provides consulting services to customers in the implementation and integration of the Company s software products, as well as education, training and other consulting and programming services. These professional services are rendered on a global basis. Professional services are generally provided on a time and materials basis, although the Company does occasionally enter into fixed fee arrangements or arrangements in which customer payments are tied to achievement of specific milestones. The Company believes its professional services, in conjunction with its current and planned product offerings, facilitates the licensing of technology to customers, stimulates demand for the Company s products and provides a key market differentiator over its competition as a single source vendor.

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

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

To support the Company s network of VARs and authorized consultants, the Company provides experienced personnel who are specifically tasked with the VARs growth and support. These individuals are responsible for educating and training the distribution channel, disseminating information, implementing marketing programs and developing regional markets.

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

Marketing, Sales and Distribution

The Company sells, markets and distributes its products and services worldwide, primarily through a direct sales force as well as through an indirect channel including a network of VARs, distributors and authorized consultants who market the Company s products on a nonexclusive basis. The Company s products are sold to and used by a broad customer base, including manufacturing, distribution, hospitality, service organizations, computer/Internet software, healthcare, government entities, educational institutions and other users. The Company sells its *Enterprise, iScala* and *Vantage* solutions through a hybrid channel that includes a direct sales force as well as a network of VARs. The Company sells its *Clientele* and *Vista* solutions through an internal telesales organization and through a network of VARs. The *Avanté* and *Manage 2000* products are presently sold by direct sales forces. The *Avanté* product is sold in certain international locations through VARs and distributors. The Company s field sales organizations are generally organized on a geographic basis.

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

The Company translates and localizes certain products, either directly or through outside contractors, for sale in Europe, the Middle East, Africa, Latin America and Asia.

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

No single customer accounted for more than 10% of revenue for the years ended December 31, 2005, 2004 and 2003. Products are generally shipped as orders are received or within a short period thereafter and, accordingly, the Company has historically operated with little or no backlog. Because of the generally short cycle between order and shipment, the Company believes that its backlog as of any particular date is neither significant nor meaningful.

Product Development and Quality Assurance

The Company plans to continue addressing the needs of midmarket users of client/server and Web-based enterprise software by continuing to develop high quality software products that feature advanced technologies. See Certain Factors That May Affect Future Results Forward Looking Statements Safe Harbor. The Company s technology strategy is to develop leading business application software using its own technologies, based on and combined with leading third-party, industry-standard technologies in database management systems, application development tools, operating systems, user interfaces and networks. The Company plans to use technologies from Microsoft Corporation whenever possible and plans to build technologies based on Microsoft Corporation s recommended technical architecture. In particular, the Company believes that it remains an industry leader in designing and developing products for Microsoft platforms, including the .NET Framework.

The Company has also been a pioneer in the use of browsers and GUIs with integrated business application software. Currently, the Company continues to pursue applications based on a service-oriented architecture (SOA) and Web services that can simplify the development, maintenance, deployment and customization of its products.

The Company intends to continue to invest in product development. In particular, the Company plans to continue to (i) develop product enhancements, including additional functions and features, for its product lines, (ii) increasingly leverage a SOA, Web services and the Microsoft .NET Framework, (iii) develop additional enterprise applications supporting both business-to-business and business-to-consumer solutions and (iv) develop and/or acquire new applications or modules that build upon the Company s business application strategy. See Certain Factors That May Affect Future Results Forward Looking Statements Safe Harbor.

The Company s technical strategy for its *Enterprise, Epicor for Service Enterprises, iScala*, *Clientele, CRS, Vantage,* and *Vista* suites of applications is centered on the Microsoft .NET Framework to provide enhanced scalability, flexibility and interoperability. The architecture consists of a multi-tiered, distributed application model and a comprehensive set of infrastructure and application services. This architecture provides tools, technologies and services to develop highly adaptive applications that support multiple client deployments including smart-client, browser-based and mobile clients. More importantly, this architecture provides the infrastructure for connecting enterprises through the Internet by leveraging key Microsoft technologies such as Microsoft Commerce Server, Microsoft COM+ (Component Object Model) and Microsoft BizTalk Server, which provide a complete framework for enterprise application integration, electronic commerce and business interoperability through industry leading support for XML Web services. Epicor has maintained a leadership position with respect to Web services and .NET. The Company was among the first early adopters invited by Microsoft into the Visual Studio for Applications (VSA) initiative for middle-tier XML Web Service customization and participated with Microsoft in the launch of the Web Services Interoperability Organization (WS-I.org) to promote standards for interoperability and accelerate the adoption and deployment of Web services. The Company was also the first vendor to release enterprise CRM and ESA applications fully re-architected for the Microsoft .NET Framework. See Certain Factors That May Affect Future Results Forward Looking Statements Safe Harbor.

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

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

Expenditures for software development were $28.5 million, $24.7 million and $20.1 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Competition

The enterprise business applications software industry is intensely competitive, rapidly changing and significantly affected by new product offerings and other market activities. A number of companies offer enterprise application suites similar to the Company s product offerings that are targeted at the same markets. In addition, a number of companies offer best-of-breed, or point solutions, similar to or competitive with a portion of the Company s enterprise business application suite. Some of the Company s existing competitors, as well as a number of new potential competitors, have larger technical staffs, larger more established marketing and sales organizations, and significantly greater financial resources than the Company. There can be no assurance that competitors will not develop products that are superior to the Company s products or that achieve greater market

14

acceptance. The Company s future success will depend significantly upon its ability to increase its share of its target markets and to license additional products and product enhancements to existing customers. There can be no assurance that the Company will be able to compete successfully or that competition will not have a material adverse effect on the Company s results of operations. In addition, potential customers may increasingly demand that certain of the Company s enterprise systems incorporate certain RDBMS or operating system software offered by competing products, but not currently supported by the Company s products.

The Company believes that it competes in three enterprise business applications markets: emerging enterprises, midmarket enterprises, and divisions of the Global 1000. The Company defines emerging enterprises as rapidly growing businesses under $25 million in annual revenues. Emerging enterprises generally lack dedicated information technology management resources and require affordable solutions that do not require a high level of ongoing maintenance and support for their continued operation. Products in this market are principally sold through VARs and telesales persons with the purchasing decision often influenced by professionals providing consulting services. The Company believes that purchases in this market are primarily influenced by functionality, performance, availability of a Windows-based solution, price and quality. The Company believes it competes favorably with respect to all of these factors.

The Company competes primarily in the midmarket, which the Company defines as growing enterprises with revenues between $10 million and $1 billion. Businesses in the midmarket require solutions that provide a more sophisticated level of functionality to effectively manage their business. These businesses require applications that are easy to implement, extend, manage and use, as well as being affordable. Midmarket enterprises also often lack dedicated information technology management resources and need solutions that do not require a high level of ongoing maintenance and support for their continued operation. The Company believes that purchases in this market are primarily influenced by functionality, performance, availability of a Windows-based solution, price, quality and customer service. The Company believes it competes favorably with respect to all of these factors. Increasingly, customers in this market segment are looking for Microsoft SQL Server based solutions and the *Enterprise, Epicor for Services Enterprises, iScala, Clientele, CRS* and *Vantage* product lines are well positioned to address this requirement.

The Company also competes for the divisions and subsidiaries of larger Global 1000 corporations, which the Company defines as enterprises with over $1 billion in annual revenue. Global 1000 companies seeking to deploy a standard business solution across their subsidiary operations have typically been challenged with the total cost of ownership (TCO) of deploying their corporate level Tier-1 system to operating units which often operate more like midmarket entities. Additionally, localization issues and technical infrastructure problems in remote locations have made Tier-1 global roll-outs cost prohibitive. These businesses may require a single standardized application that can be deployed worldwide using a low cost decentralized implementation, as opposed to implementing through a centralized infrastructure. At the same time, they require the ability to roll-up management information on a daily or weekly basis, as well as support drill-down from corporate or regional offices to the underlying data in the subsidiaries as required. The Company believes that purchases in this market are primarily influenced by availability, high functionality, integration, localization, overall cost of ownership, availability of a Windows-based solution, standardization and a global customer support infrastructure. The Company believes it competes favorably with respect to all of these factors. Increasingly, customers in this market segment are looking for Microsoft SQL Server based solutions and the *Enterprise, Epicor for Services Enterprises, iScala, CRS* and *Vantage* product lines are well positioned to address this requirement.

The Company believes it is one of only a few vendors in this market space that is dedicated to providing midmarket companies and the divisions and subsidiaries of the Global 1000 with comprehensive, integrated enterprise business applications. However, there are competitors from both the high-end and low-end who are attracted to the business opportunity represented by the midmarket and are beginning to offer complete or partial enterprise business applications to this market. In order to compete in the future, the Company must respond effectively to customer needs in the area of business process management (BPM) and service-oriented architecture (SOA) and incorporate those technologies and application functionality that will meet the challenges posed by competitors innovations. To accomplish this objective, the Company will be required to continue to invest in enhancing its current products and, when necessary, introduce new products to remain competitive. There can be no assurance that the Company will be able to continue to invest in such enhancements or new products, or introduce such enhancements or new products in a timely fashion or at all.

The Company has a number of competitors that vary in size, target markets and overall product scope. The Company s primary competition comes from independent software vendors in three distinct groups, including (i) large, multinational ERP vendors that are increasingly targeting mid-sized businesses as their traditional market

becomes saturated, including Oracle Corporation (includes Peoplesoft and J.D. Edwards), and SAP AG, (ii) mid-range ERP vendors, including Infor (includes Geac, Mapics and Symix), Lawson Software Inc., IFS and Microsoft Business Solutions (includes Great Plains, Axapta, and Navision), and (iii) established best-of-breed or point solution providers that compete with only one portion of the Company s overall ERP suite, including Sage Software, Ltd., and Systems Union, Ltd. for financial accounting; ChangePoint (owned by Compuware Corporation), Deltek Systems, Inc., Unit 4 Agresso, N.V, BST Global, and QuickArrow, Inc., for professional services automation; HighJump Software (part of 3M), Prophet21 (owned by Activant), and Manhattan Associates for distribution and warehousing; QAD, Inc., for manufacturing; and Salesforce.com, Siebel Systems Inc. (owned by Oracle Corporation), FrontRange Solutions, Inc. and SalesLogix (owned by Best Software, Inc.) for sales force automation, customer service and support. While these competitors offer dedicated applications, the Company believes that its broader product offerings, global infrastructure and level of product integration provide a significant competitive advantage.

Intellectual Property

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

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

The source code for the *Avanté* and, in certain cases, *Manage 2000*, *Vantage and Enterprise* products historically has been licensed to customers to enable them to customize the software to meet particular requirements. The standard customer license contains a confidentiality clause protecting the products. In the event of termination of the license agreement, the customer remains responsible for the confidentiality obligation and for any accrued and unpaid license fees. However, there can be no assurance that such customers will take adequate precautions to protect the source code or other confidential information.

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

16

Employees

As of January 31, 2006, the Company had 1,887 full-time employees, including 333 in product development, 313 in support services, 661 in professional services, 284 in sales, 45 in marketing and 251 in administration. The Company s employees are not represented by any collective bargaining organization, and the Company has never experienced a work stoppage. The Company believes that employee relations are good.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website at www.epicor.com, as soon as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission.

17

Item 1A.   RISK FACTORS
Certain Factors That May Affect Future Results

Forward Looking Statements   Safe Harbor

Certain statements in this Annual Report on Form 10-K are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, that involve risks and uncertainties. Any statements contained herein (including without limitation statements to the effect that the Company or Management   estimates,   expects,   anticipates,   plans,   believes,   projects,   continues,   may,   or   will   or statements concerning   potential   or   opportunity   or variations there comparable terminology or the negative thereof) that are not statements of historical fact should be construed as forward-looking statements including statements about (i) the Company s future revenues, (ii) the impact of new accounting pronouncements, (iii) future sales and marketing expenses, software development expenses and general and administrative expenses, (iv) 2006 tax rate, (v) the Company s capital spending, (vi) the Company s future cash flow from operations, (vii) sufficient sources of financing to continue operations for next twelve months, (viii) the effect of current legal proceedings, (ix) future cash tax payments and net operating loss carry forwards; (x) the future use of forward or other hedging contracts; (xi) the future impact of recent acquisitions on the Company; (xii) future levels of international revenues and (xiii) future investments in product development. Actual results could differ materially and adversely from those anticipated in such forward looking statements as a result of certain factors, including the factors listed at pages 18 to 26. Because these factors may affect the Company s operating results, past performance should not be considered an indicator of future performance and investors should not use historical results to anticipate results or trends in future periods. The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the risk factors described below and in other documents the Company files from time to time with the Securities and Exchange Commission.

Our quarterly operating results are difficult to predict and subject to substantial fluctuation.

The Company s quarterly operating results have fluctuated significantly in the past. For example, from the first quarter of 2001 through the fourth quarter of 2005, quarterly operating results have ranged from an operating loss of $22.1 million to operating income of $11.0 million. The Company s operating results may continue to fluctuate in the future as a result of many specific factors that include:

> The demand for the Company s products, including reduced demand related to changes in marketing focus for certain products, software market conditions or general economic conditions as they pertain to information technology (IT) spending

> Fluctuations in the length of the Company s sales cycles which may vary depending on the complexity of our products as well as the complexity of the customer s specific software and service needs

> The size and timing of orders for the Company s software products and services, which, because many orders are completed in the final days of each quarter, may be delayed to future quarters

> The number, timing and significance of new software product announcements, both by the Company and its competitors

> Customers   unexpected postponement or termination of expected system upgrades or replacement due to a variety of factors including economic conditions, changes in IT strategies or management changes

> Changes in accounting standards, including software revenue recognition standards

> Currency fluctuations

> Fluctuations in number of customers renewing maintenance

In addition, the Company has historically realized a significant portion of its software license revenues in the final month of any quarter, with a concentration of such revenues recorded in the final ten business days of that month. Further, the Company generally realizes a significant portion of its annual software license revenues in the final quarter of the fiscal year.

Due to the above factors, among others, the Company's revenues are difficult to forecast. The Company, however, bases its expense levels, including operating expenses and hiring plans, in significant part, on its expectations of future revenue. As a result, the Company expects its expense levels to be relatively fixed in the short term. The Company's failure to meet revenue expectations could adversely affect operating results. Further, an unanticipated decline in revenue for a particular quarter may disproportionately affect the Company's operating results in that quarter because the majority of the Company's expenses will be fixed in the short term.

18

As a result, the Company believes that period-to-period comparisons of the Company s results of operations are not and will not necessarily be meaningful, and you should not rely upon them as an indication of future performance. Due to the foregoing factors, it is likely that, as in past quarters, in some future quarters the Company s operating results will be below the expectations of public market analysts and investors. As in those past quarters, such an event would likely have an adverse effect upon the price of the Company s Common Stock.

If the emerging technologies and platforms of Microsoft and others upon which the Company builds its products do not gain or retain broad market acceptance, or if we fail to develop and introduce in a timely manner new products and services compatible with such emerging technologies, we may not be able to compete effectively and our ability to generate revenues will suffer.

The Company s software products are built and depend upon several underlying and evolving relational database management system platforms such as Microsoft SQL Server, Progress and IBM. To date, the standards and technologies that the Company has chosen to develop its products upon have proven to be popular and have gained broad industry acceptance. However, the market for the Company s software products is subject to ongoing rapid technological developments, quickly evolving industry standards and rapid changes in customer requirements, and there may be existing or future technologies and platforms that achieve industry standard status, which are not compatible with our products. Additionally, because the Company s products rely significantly upon popular existing user interfaces to third party business applications, the Company must forecast which user interfaces will be or remain popular in the future. For example, the Company believes the Internet is transforming the way businesses operate and the software requirements of customers. Specifically, the Company believes that customers desire business software applications that enable a customer to engage in commerce or service over the Internet. The Company has announced its determination to pursue development of several of its primary product lines upon the new Microsoft .NET technology. If the Company cannot develop such .NET compatible products in time to effectively bring them to market, or if .NET does not become or continue to be a widely accepted industry standard, the ability of the Company s products to interface with popular third party applications will be negatively impacted and the Company s competitive position and revenues could be adversely affected.

New software technologies could cause us to alter our business model resulting in adverse affects on our operating results.

Development of new technologies may also cause the Company to change how it licenses or prices its products, which may adversely impact the Company s revenues and operating results. Emerging licensing models include hosting as well as subscription-based licensing, in which the licensee essentially rents software for a defined period of time, as opposed to the current perpetual license model. The Company s future business, operating results and financial condition will depend on its ability to effectively train its sales force to sell an integrated comprehensive set of business software products and recognize and implement emerging industry standards and models, including new pricing and licensing models.

If the Company fails to respond to emerging industry standards, including licensing models, and end-user requirements, the Company s competitive position and revenues could be adversely affected.

Our increasingly complex software products may contain errors or defects which could result in the rejection of our products and damage to our reputation as well as cause lost revenue, delays in collecting accounts receivable, diverted development resources and increased service costs and warranty claims.

The Company s software products are made up of increasingly complex computer programs. Software products are complex and products offered by the Company often contain undetected errors or failures (commonly referred to as bugs) when first introduced to the market or as new updates or upgrades of such products are released to the market. Despite testing by the Company, and by current and potential customers, prior to general release to the market, the Company s products may still contain material errors after their initial commercial shipment. Such material errors may result in loss of or delay in market acceptance of the Company s products, damage to the Company s reputation, and increased service and warranty costs. Ultimately, such errors could lead to a decline in the Company s revenues. The Company has from time to time been notified by some of its customers of errors in its various software products. Although it has not occurred to date, the possibility of the Company being unable to correct such errors in a timely manner could have a material adverse effect on the Company s results of operations and its cash flows. In addition, if material technical problems with the current release of the various database and technology platforms on which the Company s products operate, including Progress, IBM, Microsoft SQL or Microsoft .NET, occur, such difficulties could also negatively impact sales of these products, which could in turn have a material adverse effect on the Company s results of operations.

19

A variety of specific business interruptions could adversely affect our business.

A number of particular types of business interruptions could greatly interfere with our ability to conduct business. For example, a substantial portion of our facilities, including our corporate headquarters and other critical business operations, are located near major earthquake faults. We do not carry earthquake insurance and do not fund for earthquake-related losses. In addition, our computer systems are susceptible to damage from fire, floods, earthquakes, power loss, telecommunications failures, and similar events. The Company continues to consider and implement its options and develop contingency plans to avoid and/or minimize potential disruptions to its telecommunication services.

We may pursue strategic acquisitions, investments, and relationships and may not be able to successfully manage our operations if we fail to successfully integrate such acquired businesses and technologies, which could adversely affect our operating results.

As part of its business strategy, the Company may continue to expand its product offerings to include application software products and services that are complementary to its existing software applications, particularly in the areas of electronic commerce or commerce over the Internet, or may gain access to established customer bases into which the Company can sell its current products. The Company s acquisitions of Scala Business Solutions in 2004 and CRS in 2005 are typical of this ongoing strategy. However while this strategy has historically and may in the future involve acquisitions, investments in other businesses that offer complementary products, joint development agreements or technology licensing agreements, the specific risks we commonly encounter in these types of transactions include the following:

Difficulty in effectively integrating any acquired technologies or software products into our current products and technologies

Difficulty in predicting and responding to issues related to product transition such as development, distribution and customer support

The possible adverse impact of such acquisitions on existing relationships with third party partners and suppliers of technologies and services

The possibility that customers of the acquired company might not accept new ownership and may transition to different technologies or attempt to renegotiate contract terms or relationships, including maintenance or support agreements

The possibility that the due diligence process in any such acquisition may not completely identify material issues associated with product quality, product architecture, product development, intellectual property issues, key personnel issues or legal and financial contingencies

Difficulty in integrating acquired operations, including incorporating internal control structures, due to geographical distance, and language and cultural differences

Difficulty in retaining employees of the acquired company

A failure to successfully integrate acquired businesses or technology for any of these reasons could have a material adverse effect on the Company s results of operations.

Future acquisitions of technologies or companies, which are paid for partially, or entirely through the issuance of stock or stock rights could prove dilutive to existing shareholders.

Consistent with past experience, the Company expects that the consideration it might pay for any future acquisitions of companies or technologies could include stock, rights to purchase stock, cash or some combination of the foregoing. For example, the Company s acquisition of Scala Business Solutions in 2004 involved the issuance of approximately 4.25 million shares of the Company s Common Stock. If the Company issues stock or rights to purchase stock in connection with future acquisitions, earnings (loss) per share and then-existing holders of the Company s Common Stock may experience dilution.

We rely, in part, on third parties to sell our products. Disruptions to these channels would adversely affect our ability to generate revenues from the sale of our products.

The Company distributes products through a direct sales force as well as through an indirect distribution channel, which includes value-added resellers (VARs) and other distributors and authorized consultants, consisting primarily of professional firms. During the years ended December 31, 2005 and 2004, approximately 16% and 13%, respectively, of the Company s software license revenues were generated by VARs and distributors. If the

20

Company s VARs or authorized consultants cease distributing or recommending the Company s products or emphasize competing products, the Company s results of operations could be materially and adversely affected. Historically, the Company has sold its financial and customer relationship management (CRM) products through direct sales as well as through the indirect distribution channel. However, the Company is currently developing a distribution channel for certain of its manufacturing product lines not previously widely sold through VARs and other distributors. It is not yet certain that these products can be successfully sold through such a channel and the long term impact of this new distribution channel on the Company s performance is as of yet undetermined as is the Company s ability to generate additional license and services revenue from such a channel. The success of the Company s distributors depends in part upon their ability to attract and maintain qualified sales and consulting personnel. Additionally, the Company s distributors may generally terminate their agreements with the Company upon 30 days notice, while the Scala partners may generally terminate their agreements upon 30 days to several months notice. Almost all partners though may effectively terminate their agreements at any time by ceasing to promote or sell our products. If our VARs or other distributors are unable to maintain such qualified personnel or if several of the Company s VARs or other distributors terminate their agreements and the Company is unable to replace them in a timely fashion, such factors could negatively impact the Company s results of operations. Finally, there can be no assurance that having both a direct sales force and a distribution channel for the Company s products will not lead to conflicts between those two sales forces which could adversely impact the Company s ability to close sales transactions or could have a negative impact upon average selling prices, any of which may negatively impact the Company s operating revenues and results of operations.

A significant portion of our future revenue is dependent upon our existing installed base of customers continuing to license additional products as well as purchasing consulting services and renewing their annual maintenance and support contracts. If our existing customers fail to renew their maintenance and support agreements or fail to purchase new product enhancements or additional services from the Company at historical levels, the Company s revenues and results of operations could be materially impacted.

Historically, approximately 50% to 60% of the Company s license revenues, 90% of the Company s maintenance revenues and a substantial portion of the Company s consulting revenues are generated from the Company s installed base of customers. Maintenance and support agreements with these customers are traditionally renewed on an annual basis at the customer s discretion, and apart from historical MANAGE 2000 customers, there is normally no requirement that a customer so renew or that a customer pay new license fees or service fees to the Company following the initial purchase. As a result, if the Company s existing customers fail to renew their maintenance and support agreements or fail to purchase new product enhancements or additional services at historical levels, our revenues and results of operations could be materially impacted.

Our software products incorporate and rely upon third party software products for certain key functionality and our revenues, as well as our ability to develop and introduce new products, could be adversely affected by our inability to control or replace these third party products and operations.

The Company s products incorporate and rely upon software products developed by several other third party entities such as Microsoft, IBM and Progress. Specifically, the Company s software products are built and depend upon several underlying and evolving relational database management system platforms including Microsoft SQL Server, Progress OpenEdge and IBM U2 and also are integrated with several other third party provider products for the purpose of providing or enhancing necessary functionality. In the event that these third party products were to become unavailable to the Company or to our customers, either directly from the third party manufacturers or through other resellers of such products, the Company could not readily replace these products with substitute products. As a result, the Company cannot provide assurance that these third parties will:

Remain in business

Continue to support the Company s product lines

Maintain viable product lines

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

Not make their products available to the Company s competitors on more favorable terms

In the long term (i.e. a year or more), an interruption of supply from these vendors could potentially be overcome through migration to another third party supplier or development within the Company. However, any interruption in the short term could have a significant detrimental effect on the Company s ability to continue to market and sell those of its products relying on these specific third party products and could have a material adverse effect on the Company s business, results of operation, cash flows and financial condition.

21

The market for Web-based development tools, application products and consulting and education services continues to emerge, which could negatively affect our client/server-based products and if the Company fails to respond effectively to evolving requirements of this market, the Company s business, financial condition, results of operations and cash flows will be materially and adversely affected.

The Company s development tools, application products and consulting and education services generally help organizations build, customize or deploy solutions that operate in a client/server-computing environment. There can be no assurance that the market for client/server computing will continue to grow, or will not decrease, or that the Company will be able to respond effectively to the evolving requirements of these markets. The Company believes that the environment for application software is continuing to change from client/server to a Web-based environment to facilitate commerce on the Internet.

The market for our software products and services is highly competitive. If we are unable to compete effectively with existing or new competitors our business could be negatively impacted.

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

We may not be able to maintain and expand our product offerings or business if we are not able to retain, hire and integrate sufficiently qualified personnel.

The Company s success depends in large part on the continued service of key management personnel that are not subject to employment agreements, including, but not limited to several of the key personnel employed as a result of the Company s recent acquisition of Scala. In addition, the competition to attract, retain and motivate qualified technical, sales and software development personnel is intense. For example, the Company has at times, including during the rise of the Internet companies in the mid to late 1990 s, experienced significant attrition and difficulty in recruiting qualified personnel, particularly in software development and customer support. Additionally, the sudden unexpected loss of such technical personnel, such as developers can have a negative impact on the Company s ability to develop and introduce new products in a timely and effective manner. There is no assurance that the Company will retain its key personnel, including those who came to the Company as part of acquisitions, or attract other qualified key personnel in the future. The failure to retain or attract such persons could have a material adverse effect on the Company s business, operating results, cash flows and financial condition.

22

Our future results could be harmed by economic, political, geographic, regulatory and other specific risks associated with our international operations.

The Company believes that any future growth of the Company will be dependent, in part, upon the Company s ability to maintain and increase revenues in its existing and emerging international markets, including Asia and Latin America. During the years ended December 31, 2005 and 2004, 45.8% and 41.1%, respectively, of total Company revenues were generated by the Company s international operations. The Company expects its total revenues generated by international operations to be approximately 30% to 40%. However, there can be no assurance that the Company will maintain or expand its international sales. If the revenues that the Company generates from foreign activities are inadequate to offset the expense of maintaining foreign offices and activities, the Company s business, financial condition and results of operations could be materially and adversely affected. The increasingly international reach of the Company s businesses could also subject the Company and its results of operations to unexpected, uncontrollable and rapidly changing economic and political conditions. Specifically, our international sales and operations are subject to inherent risks, including:

Differing intellectual property and labor laws

Lack of experience in a particular geographic market

Different and changing regulatory requirements in various countries and regions

Tariffs and other barriers, including import and export requirements and taxes on subsidiary operations

Fluctuating exchange rates and currency controls

Difficulties in staffing and managing foreign sales and support operations

Longer accounts receivable payment cycles

Potentially adverse tax consequences, including repatriation of earnings

Development and support of localized and translated products

Lack of acceptance of localized products or the Company in foreign countries

Shortage of skilled personnel required for local operations

Perceived health risks (e.g. SARS and avian influenza), natural disasters or terrorist risks which impact a geographic region and business operations therein

Any one of these factors or a combination of them could materially and adversely affect the Company s future international sales and, consequently, the Company s business, operating results, cash flows and financial condition. A portion of the Company s revenues from sales to foreign entities, including foreign governments, has been in the form of foreign currencies. While the Company does enter into hedges and other similar foreign currency contracts, there can be no assurance that such activities will minimize the impact that fluctuations in the value of foreign currencies may have on the Company. As of December 31, 2005, the Company does not have any hedging or similar foreign currency contracts

outstanding. Fluctuations in the value of foreign currencies could adversely impact the profitability of the Company s foreign operations.

If third parties infringe upon our intellectual property, we may expend significant resources enforcing our rights or suffer competitive injury, which could adversely affect our operating results. In addition, we may be subject to claims that we infringe upon the intellectual property of others.

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

Moreover, the Company from time to time receives claims from third parties that the Company s software products infringe upon the intellectual property rights of others. The Company expects that as the number of software products in the United States and worldwide increases and the functionality of these products further overlaps, the number of these types of claims will increase. This risk is potentially heightened by the Company s recent acquisition of Scala Business solutions, which historically has done business in such diverse international markets as Eastern Europe, Asia and the Middle East. Although it has not yet occurred to date, any such claim, with or without merit, could result in costly litigation and require the Company to enter into royalty or licensing arrangements. The terms of such royalty or license arrangements, if required, may not be favorable to the Company. In addition, in certain cases, the Company provides the source code for some of its application

23

software under licenses to its customers and distributors to enable them to customize the software to meet their particular requirements or translate or localize the products for resale in foreign countries, as the case may be. Although the source code licenses contain confidentiality and nondisclosure provisions, the Company cannot be certain that such customers or distributors will take adequate precautions to protect the Company s source code or other confidential information. Moreover, regardless of contractual arrangements, the laws of some countries in which the Company does business or distributes its products do not offer the same level of protection to intellectual property, as do the laws of the United States.

If open source software expands into enterprise software applications, our software license revenues may decline.

Open source software includes a broad range of software applications and operating environments produced by companies, development organizations and individual software developers and typically licensed for use, distribution and modification at a nominal cost or often, free of charge. A notable example of open source software is the Linux operating system, which continues to gain in popularity. To the extent that the open source software models expand and non-commercial companies and software developers create and contribute competitive enterprise software applications to the open source community, we may have to adjust our pricing, maintenance and distribution strategies and models, which could adversely affect our revenue and operating margins.

Our operating cash flows are subject to fluctuation, primarily related to our ability to timely collect accounts receivable and to achieve anticipated revenues and expenses. Negative fluctuations in operating cash flows may require us to seek additional cash sources to fund our working capital requirements. If additional cash sources are not available to the Company, our operations could be adversely affected.

From January 1, 2001 through December 31, 2005, the Company s quarterly operating cash flows have ranged from negative $7.6 million to positive $13.2 million. The Company s cash and cash equivalents have increased from $26.8 million at December 31, 2000 to $49.8 million at December 31, 2005. However, the Company has at times experienced decreasing revenues and, prior to the first quarter of 2003, continued operating losses. If in the future, the Company is not successful in achieving its anticipated revenues and expenses or maintaining a positive cash flow, the Company may be required to take actions to reduce its operating expenses, such as reductions in work force, and/or seek additional sources of funding. Since December 31, 1999, the Company has also experienced fluctuations in the proportion of accounts receivable over 90 days old. These fluctuations have been due to various issues, including product and service quality, deteriorating financial condition of customers during the recent recession, and lack of effectiveness of the Company s collection processes. If the Company cannot successfully collect a significant portion of its net accounts receivable, the Company may be required to seek alternative financing sources. As of December 31, 2005, the Company has borrowed $125 million under its revolving credit facility.

The market for our stock is volatile and fluctuations in operating results, changes in the Company s guidance on revenues and earnings estimates and other factors could negatively impact our stock s price.

During the three year period ended December 31, 2005, the price of the Company s common stock ranged from a low of $1.23 to a high of $17.50. For year ended December 31, 2005, the stock price ranged from a low of $10.59 to a high of $15.75. As of March 10, 2006, the Company had 54,743,094 shares of Common Stock outstanding. The market prices for securities of technology companies, including the Company s, have historically been quite volatile. Quarter to quarter variations in operating results, changes in the Company s guidance on revenues and earnings estimates, announcements of technological innovations or new products by the Company or its competitors, announcements of major contract awards, announcements of industry acquisitions by us or our competitors, changes in accounting standards or regulatory requirements as promulgated by the FASB, SEC, NASDAQ or other regulatory entities, changes in management, and other events or factors may have a significant impact on the market price of the Company s Common Stock. In addition, the securities of many technology companies have experienced extreme price and volume fluctuations, which have often been related more to changes in recommendations or financial estimates by securities analysts than to the companies actual operating performance. Any of these conditions may adversely affect the market price of the Company s Common Stock.

24

When the recently adopted accounting standard for share-based compensation takes effect, the Company s business practices may be materially altered.

The Company historically compensated and incentivized its employees, including many of its key personnel and new hires, through the issuance of options to acquire Company Common Stock. The Company currently accounts for the issuance of stock options to employees using the intrinsic value method according to APB Opinion No. 25, Accounting for Stock Issued to Employees. As a result of recently enacted accounting standards, which require expense recognition for the fair value of stock options, effective January 1, 2006, the Company changed its previous practice by reducing the number of stock options granted to employees and granting restricted stock as an alternative. The effects of such change, if any, could impact the Company s ability to retain existing employees or to attract qualified new candidates. As a result, the Company might have to increase cash compensation to these individuals. Such changes could have a negative impact upon the Company s earnings and cash flows.

If we are not able to successfully integrate CRS Retail Technology Group, Inc. and its operations with Epicor, our ability to achieve anticipated revenues and related profits, as well as our results for the CRS products may be adversely impacted and the business of Epicor may be disrupted and negatively impacted.

The success of our recent acquisition of CRS will depend in large part upon our ability to successfully integrate the CRS business into Epicor. As with most acquisitions, integration issues are complex, time-consuming and expensive and, without proper planning and implementation, could significantly disrupt the business of CRS and thus, Epicor. The challenges involved in integrating CRS with Epicor include:

Coordinating sales and marketing efforts to effectively communicate the combined company s capabilities;

Introducing and effectively selling and cross selling the CRS products into international (non-US) markets where they have not traditionally been offered;

Combining product offerings and technology;

Coordinating and combining domestic operations, relationships and facilities;

Coordinating and rationalizing research and development activities to enhance introduction of new products and technologies with reduced cost;

Coordinating CRS research and development efforts here in the United States with Epicor s R&D facilities both in the U.S. as well as in Moscow, Russia and Monterrey, Mexico;

Continuing to demonstrate to the existing CRS customers that the acquisition will not result in adverse changes in client service standards or business focus and helping customers conduct business easily with the Company;

Preserving distribution, marketing or other important relationships of both Epicor and CRS and resolving potential conflicts that may arise;

Successfully integrating the business cultures of Epicor and CRS, maintaining employee morale and retaining key employees; and

Consolidating and rationalizing corporate information technology and administrative infrastructures.

The integration of the CRS business into Epicor s business may not realize all of the anticipated benefits of the acquisition to the extent, or in the time frame, anticipated. The failure to fully integrate the CRS business successfully into Epicor or to realize all of the anticipated benefits of the acquisitions could seriously hinder our plans for product development and business and market expansion.

Improvements to CRS s internal controls may be required and if these improvements are not completed in a timely manner it could have an adverse effect on the Company s ability to comply with the Sarbanes-Oxley Act of 2002 which could in turn have a material adverse impact on our business and financial condition.

Although management has completed its assessment of the Company s internal controls, as required by Section 404 of the Sarbanes-Oxley Act of 2002 as of December 31, 2005 and has concluded that the Company s controls over financial reporting are not effective, in making this assessment, management has excluded the operations of CRS. In excluding CRS from its assessment, the Company has considered the
  Frequently Asked Questions   as set forth by the office of the Chief Accountant of the Division of Corporate Finance on June 24, 2004, as revised on October 6, 2004, which acknowledges that it may not be possible to conduct an assessment of an acquired business s internal control over financial reporting in the period between the consummation date and the date of management s assessment and contemplates that such business would be excluded from management s assessment in the year of acquisition.

25

While we are currently evaluating CRS s internal controls in order to allow management to include CRS s internal controls in management s assessment of internal controls over financial reporting, as required by Section 404 as of December 31, 2006, it is possible that we may encounter significant delays in implementing these requirements as they relate to CRS. Therefore, we cannot be certain about the timing of the completion of this evaluation, testing and remediation or the impact that these activities will have on the Company s operations. If we are unable to comply with these requirements as they relate to CRS by December 31, 2006, it could have an adverse effect on the Company s ability to comply with the Sarbanes-Oxley Act of 2002 and/or could subject the Company to sanctions or investigation by regulatory authorities. Any such actions could adversely affect our business and financial condition.

We have recorded a large amount of goodwill and other acquired intangible assets which we will be required to write down and record an expense if they become impaired.

In connection with our recent acquisitions, we currently have goodwill of $164.5 million and $73.5 million of amortizing acquired intangible assets on our balance sheet. Although the goodwill is not amortized, we are required to test the goodwill for impairment at least yearly and any time there is an indication an impairment may have occurred. If we determine that the carrying value of the goodwill or other acquired intangible assets is in excess of its fair value we will be required to write down a portion or all of the goodwill or other acquired intangible assets, which would adversely impact our results of operations.

Foreign currency fluctuations may negatively impact the financial results of the Company.

The results of operations or financial condition of the Company may be negatively impacted by foreign currency fluctuations. The Company operates throughout the world through international sales subsidiaries, network of exclusive third party distributors, and non-exclusive dealers. As a result, certain sales and related expenses are denominated in currencies other than the U.S. dollar. The Company s results of operations may fluctuate due to exchange rate fluctuation between the U.S. dollar and other currencies because our financial results are reported on a consolidated basis in U.S. dollars. In an effort to minimize operation fluctuations due to currency movements, we may attempt to limit foreign exchange exposure through operational strategies (e.g. natural hedges, netting, leading and lagging of accounts payables and account receivables) to offset the effects of exchange rate changes on inter-company trade balances. In addition, the Company may enter into forward currency contracts and purchased options contracts to mitigate unfavorable impacts to the other income section of the income statement. The Company will be required to estimate the volume of sales transactions in various currencies. Our estimates of transaction volumes in these various currencies could be overstated or understated. If these estimates are overstated or understated during periods of currency volatility, the Company may experience material currency gains or losses.

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

Item 1B. UNRESOLVED STAFF COMMENTS
None.

26

Item 2.   PROPERTIES

The below table outlines the Company s primary property leases:

Location	Square Footage	Lease Expiration
Irvine, California	74,000	July 2011
San Diego, California	173,000	August 2009
Minneapolis, Minnesota	49,000	March 2007
Newburgh, New York	27,000	December 2010
Newburgh, New York	30,000	December 2006
Newburgh, New York	53,000	December 2009
Bracknell, UK	23,000	March 2019
Nacka, Sweden	19,000	March 2007
Monterrey, Mexico	8,000	December 2006
Moscow, Russia	24,000	June 2006

The principal activities in Irvine, California are corporate headquarters, sales, marketing, development and customer support. Approximately 152,000 square feet of the San Diego facility is currently sublet to two third parties and approximately 7,000 sq. ft. is unoccupied. The principal activities in San Diego, Minneapolis and Newburgh are sales, development, consulting and customer support. Internationally, Bracknell, UK and Nacka, Sweden are used for international sales, marketing, consulting, customer support and administration. Of the total Bracknell, UK space, approximately 7,400 square feet is currently being sublet to a third party. The Company also leases property in Monterrey, Mexico and Moscow, Russia for product development.

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

Item 3.   LEGAL PROCEEDINGS

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

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

No matters were submitted to a vote of the security holders during the fourth quarter of the year ended December 31, 2005.

27

PART II

Item 5.   MARKET VALUE OF COMMON STOCK

The Company s Common Stock is traded on The Nasdaq National Market under the symbol EPIC. The following table sets forth the range of high and low sales prices for the Company s Common Stock for the periods indicated.

Year ended December 31, 2004:

	High	Low
1st Quarter	$ 17.50	$ 11.58
2nd Quarter	$ 15.30	$ 12.07
3rd Quarter	$ 13.50	$ 9.90
4th Quarter	$ 16.00	$ 12.72

Year ended December 31, 2005:

	High	Low
1st Quarter	$ 15.55	$ 12.25
2nd Quarter	$ 14.15	$ 10.59
3rd Quarter	$ 15.75	$ 12.10
4th Quarter	$ 14.34	$ 11.55

There were approximately 1,291 registered security holders of record as of March 10, 2006. The Company believes there are a substantially greater number of beneficial holders. The Company has not paid dividends to date and intends to retain any earnings for use in the business for the foreseeable future.

Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Dates	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may Yet Be Purchased Under the Plans or Programs
October 1, 2005 to October 31, 2005			N/A	N/A
November 1, 2005 to November 30, 2005			N/A	N/A
December 1, 2005 to December 31, 2005	114,367	$ 14.13	N/A	N/A
Total	**114,367**	**$ 14.13(1)**		

(1)   Represents the weighted average price per share purchased during the fourth quarter.

All shares of the Company s common stock purchased under (a) were purchased through a plan or program not publicly announced and are shares repurchased under the Company s restricted stock programs as consideration for the payment of the required withholding taxes.

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected financial data for the years ended December 31, 2004 and 2003 has been restated to reflect adjustments that are further discussed in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Restatement of Financial Statements and Note 16, Restatement of Financial Statements, of Notes to Consolidated Financial Statements of this Form 10-K. The selected financial data for the years ended December 31, 2002 and 2001 has not been restated as the Company has determined that any applicable adjustments related to the restatement would not be material to those periods.

The following selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes thereto appearing elsewhere in this Annual Report. The following selected consolidated statement of operations data for the years ended December 31, 2005, 2004 and 2003, and the consolidated balance sheet data at December 31, 2005 and 2004, have been derived from audited consolidated financial statements included elsewhere in this Annual Report. The consolidated statement of operations data presented below for the years ended December 31, 2002 and 2001 and the consolidated balance sheet data at December 31, 2003, 2002 and 2001, are derived from audited consolidated financial statements that are not included in this Annual Report.

		As of and for the year ended			
in thousands, except per share amounts					
	December 31, 2005 (5)	December 31, 2004 (4) (6)	December 31, 2003 (3) (6)	December 31, 2002 (2)	December 31, 2001 (1)
Total revenues	$ 289,413	$ 224,866	$ 154,332	$ 143,467	$ 174,492
Net income (loss) applicable to common stockholders	$ 52,035	$ 23,969	$ 7,963	$ (7,264)	$ (28,730)
Basic net income (loss) per share	$ 0.95	$ 0.47	$ 0.17	$ (0.17)	$ (0.69)
Diluted net income (loss) per share	$ 0.92	$ 0.45	$ 0.16	$ (0.17)	$ (0.69)
Total assets	$ 428,951	$ 255,749	$ 102,223	$ 73,268	$ 86,771
Long-term debt (less current portion) and redeemable preferred stock	$ 124,639	$ 30,264	$	$	$ 2,229
Net stockholders equity	$ 170,450	$ 97,657	$ 27,461	$ 3,786	$ 7,171

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

(2) For the year ended December 31, 2002, net loss included restructuring charges of $3,891,000, a $4,288,000 settlement charge, a $600,000 charge included in cost of revenues to write-down certain prepaid software royalties, a $1,000,000 reduction in general and administrative expenses related to the favorable settlement of international payroll tax issues and a $1,200,000 income tax benefit related to adjustments for certain other international tax issues.

(3) For the year ended December 31, 2003, net income included restructuring charges of $937,000, a $1,100,000 reduction in general and administrative expenses related to a decrease in the allowance for doubtful accounts and a $241,000 fee paid to the holders of the preferred stock accounted for as a beneficial conversion option on the preferred stock. See Notes 5 and 11 of Notes to Consolidated Financial Statements.

(4) For the year ended December 31, 2004, net income included restructuring charges of $2,382,000 and includes the results of operations related to the Scala acquisition from June 18, 2004 (date of acquisition) through December 31, 2004. See Notes 3 and 5 of the Notes to the Consolidated Financial Statements.

(5) For the year ended December 31, 2005, net income included restructuring charges of $359,000, a non cash income tax benefit of $18,189,000 and included the results of operations related to the CRS acquisition from December 6, 2005 (date of acquisition) through December 31, 2005. See Notes 3, 5 and 8 to the Consolidated Financial Statements.

(6)   Restated, see Note 16,   Restatement of Financial Statements,   of Notes to Consolidated Financial Statements.

Item 7.   MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Restatement of Financial Statements

The Company has restated its consolidated financial statements for the years ended December, 31 2004 and 2003, as well as its quarterly financial data for the year ended December 31, 2004 and through September 30, 2005, which we refer to as the Restatement. The decision to restate these consolidated financial statements for the years ended December 31, 2004 and 2003 and selected quarterly financial data was made by the Company s Audit Committee on March 16, 2006, following management s recommendation and based on management s determination that the Company 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 determined that it had improperly applied the residual method under SOP 98-9 and as a result had incorrectly allocated revenue between license fees and maintenance in multiple element arrangements. The Company believes such restatement is required as under relevant Securities and Exchange Commission accounting interpretations a misstatement concerning a segment of the Company s business that plays a significant role in the Company s operations may require restatement despite the size of the misstatement. As the Company s misstatement resulted in a reallocation of revenues between the Company s license fees and maintenance, and impacted the timing of the recognition of these revenues, the Company believed such misstatement to be material.

The information included in this Form 10-K sets forth the effects of the Restatement on the previously reported financial statements for the years ended December 31, 2004 and 2003 and the quarterly financial data for the year ended December 31, 2004 and through September 30, 2005 as discussed in Note 16 and Note 17 to the Consolidated Financial Statements. The Restatement has no effect on operating cash flows for those periods.

30

For the years ended December 31, 2004 and 2003, including the quarterly periods for the year ended December 31, 2004 and through September 30, 2005, the change in net income is a result of the reallocation of revenues between the Company s license fees and maintenance related to multiple element arrangements and the timing of the recognition of such revenues. The following tables set forth the effects of the Restatement on the Company s previously reported results of operations for the years ended December 31, 2004 and 2003 and the quarterly periods for the year ended December 31, 2004 (*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 share 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

31

| | 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			(0.01)	(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

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.

For the affected quarters of the year ended December 31, 2005, the change in previously reported net income is a result of the previously discussed revenue restatement and an increase in the Company s tax benefit reported in the second quarter of the year ended December 31, 2005 arising from the impact of this restatement on the Company s deferred tax assets. The following tables set forth the effects of the Restatement on the Company s previously reported results of operations for the affected quarters of the year ended December 31, 2005 (*in thousands, except per share amounts*):

		2005	
	First Quarter	Second Quarter	Third 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	$ 15,673	$ 18,369	$ 17,354
Maintenance revenues - as previously reported	$ 32,735	$ 32,815	$ 32,849
Impact of restatement	511	673	730
Maintenance revenues - as restated	$ 33,246	$ 33,488	$ 33,579
Total revenues - as previously reported	$ 67,338	$ 71,009	$ 70,135
Impact of restatement	(554)	14	(187)
Total revenues - as restated	$ 66,784	$ 71,023	$ 69,948
Provision (benefit) for income taxes - as previously reported	$ 439	$ (17,649)	$ 736
Impact of restatement		(1,305)	
Provision (benefit) for income taxes - as restated	$ 439	$ (18,954)	$ 736
Net income - as previously reported	$ 6,291	$ 28,235	$ 8,987
Impact of restatement	(554)	1,319	(187)
Net income - as restated	$ 5,737	$ 29,554	$ 8,800
Net income per share - basic - as previously reported	$ 0.12	$ 0.52	$ 0.16
Impact of restatement	(0.01)	0.02	
Net income - basic - as restated	$ 0.11	$ 0.54	$ 0.16
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	$ 0.10	$ 0.52	$ 0.16

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.

The following discussion gives effect to the restatement discussed in Note 16 of Notes to Consolidated Financial Statements and should be read in conjunction with the consolidated financial statements and notes thereto.

Overview

The Company designs, develops, markets and supports computer software applications, which assist mid-sized companies as well as the divisions and subsidiaries of larger corporations in the planning, management and operation of their businesses. The Company is focused on the mid-market, which generally includes companies or divisions with annual revenues between $10 million and $1 billion. The Company s software

products and related consulting and support services are designed to help these companies automate key aspects of their business operations, processes, and procedures   from customer relations, ordering, purchasing and planning, to production, distribution, accounting and financial reporting. By automating these processes, companies may gain faster access to more accurate information, which can improve operating efficiency, reduce cost and allow companies to be more responsive to their customers, ultimately leading to increased revenues. The Company also offers support, consulting and education services in support of its customers   use of its software products. The Company s products and services are sold worldwide by its direct sales force and an authorized network of Value Added Resellers (VARs), distributors and authorized consultants.

Critical Accounting Policies

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. As such, management is required to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the

33

reported amounts of revenues and expenses during the reporting period. The critical accounting policies which aid in fully understanding and evaluating reported financial results include the following:

Revenue Recognition

The Company enters into contractual arrangements with end users that may include licensing of the Company s software products, product support and maintenance services, consulting services, resale of third-party hardware or various combinations thereof, including the sale of such products or services separately. The Company s accounting policies regarding the recognition of revenue for these contractual arrangements is fully described in Note 1 of Notes to Consolidated Financial Statements.

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

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

Availability of products to be delivered

Time period over which services are to be performed

Creditworthiness of the customer

The complexity of customizations and integrations to the Company s software required by service contracts

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

Discounts given for each element of a contract

Any commitments made as to installation or implementation go live dates

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

Allowance for Doubtful Accounts

The Company sells its products directly to end users generally requiring a significant up-front payment and remaining terms appropriate for the creditworthiness of the customer. The Company also sells its products to VARs and other software distributors 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 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.

Intangible Assets

The Company's intangible assets were recorded primarily as a result of the DataWorks Corporation (DataWorks) acquisition in December 1998, the Clarus asset purchase in December 2002, the ROI acquisition in July 2003, the TDC/T7 asset purchase in July 2003, the Platsoft acquisition in February 2004, the Scala acquisition in June 2004, the Strongline acquisition in December 2004, the Scala Romania acquisition in March of 2005, the Scala Italy acquisition in April 2005 and the CRS acquisition in December 2005 and 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 intangibles assets and could have a material adverse impact on the Company's operating results for the periods in which such write-downs occur.

Goodwill

The Company's goodwill was recorded primarily 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 Strongline acquisition in December 2004, the Scala Italy acquisition in April 2005 and the CRS acquisition in December 2005. In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, issued by the Financials Accounting Standards Board 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.

Stock-Based Compensation

The Company currently accounts for the issuance of stock options to employees using the intrinsic value method according to Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). The Company grants stock options with an exercise price equal to the fair market value on the date of grant and, accordingly, no compensation expense is recorded for stock options. When the recently issued SFAS No. 123-R Share-Based Payment pertaining to accounting treatment for employee stock options takes effect, the Company will be required to treat the fair value of the stock options granted to employees as compensation expense, which could have a materially adverse impact on the Company's operating results. 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, based on unvested options as of December 31, 2005.

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.

35

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
Total purchase price	$ 123,246

Epicor used working capital and funds available under a Credit Agreement 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.

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 exiting 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.

36

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

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

37

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 adjustmen