

EPICOR SOFTWARE CORP
Form 10-Q
November 09, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2007

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File No. 0-20740

EPICOR SOFTWARE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

33-0277592
(IRS Employer
Identification No.)

18200 Von Karman Avenue

Suite 1000

Irvine, California 92612

(Address of principal executive offices, zip code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of November 1, 2007, there were 58,431,576 shares of common stock outstanding.

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

	September 30, 2007 <i>(Unaudited)</i>	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 215,700	\$ 70,178
Short-term investments	1,333	
Accounts receivable, net of allowance for doubtful accounts of \$7,702 and \$6,378 as of 2007 and 2006, respectively	84,438	83,965
Deferred income taxes	17,652	17,909
Inventory, net	5,690	4,885
Prepaid expenses and other current assets	7,749	7,587
Total current assets	332,562	184,524
Property and equipment, net	13,757	12,251
Deferred income taxes	21,797	19,836
Intangible assets, net	50,860	56,209
Goodwill	174,712	163,360
Other assets	12,518	5,710
Total assets	\$ 606,206	\$ 441,890
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 14,054	\$ 14,298
Accrued compensation and benefits	21,470	24,236
Other accrued expenses	28,192	26,683
Current portion of long-term debt	105	1,102
Current portion of accrued restructuring costs	1,166	795
Current portion of deferred revenue	63,946	63,726
Total current liabilities	128,933	130,840
Long-term debt, less current portion	230,354	98,273
Long-term portion of accrued restructuring costs	438	876
Long-term portion of deferred revenue	968	1,271
Long-term deferred income taxes and other income taxes	8,148	2,010
Total long-term liabilities	239,908	102,430

Commitments and contingencies (Note 11)

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Stockholders' equity:		
Common stock	60	59
Additional paid-in capital	363,049	350,605
Less: treasury stock at cost	(13,771)	(10,895)
Accumulated other comprehensive income (loss)	553	(954)
Accumulated deficit	(112,526)	(130,195)
Total stockholders' equity	237,365	208,620
Total liabilities and stockholders' equity	\$ 606,206	\$ 441,890

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Revenues:				
License fees	\$ 24,094	\$ 23,892	\$ 71,229	\$ 67,199
Consulting	32,752	26,028	99,575	78,255
Maintenance	40,149	37,985	118,902	111,687
Hardware and other	6,105	7,805	20,429	22,589
Total revenues	103,100	95,710	310,135	279,730
Cost of revenues	46,284	41,402	141,340	121,197
Amortization of intangible assets	4,474	4,250	12,959	12,744
Total cost of revenues	50,758	45,652	154,299	133,941
Gross profit	52,342	50,058	155,836	145,789
Operating expenses:				
Sales and marketing	18,300	17,332	55,745	48,755
Software development	9,129	8,615	27,379	25,791
General and administrative	12,800	13,750	42,634	39,072
Restructuring charges	985		1,207	
Total operating expenses	41,214	39,697	126,965	113,618
Income from operations	11,128	10,361	28,871	32,171
Interest expense	(1,808)	(2,187)	(6,660)	(6,398)
Gain on sale of a non-strategic asset			1,579	
Interest and other income, net	3,380	607	5,973	1,803
Income before income taxes	12,700	8,781	29,763	27,576
Provision for income taxes	4,623	3,357	10,962	10,505
Net income	\$ 8,077	\$ 5,424	\$ 18,801	\$ 17,071
Comprehensive income:				
Net income	\$ 8,077	\$ 5,424	\$ 18,801	\$ 17,071
Unrealized foreign currency translation gain (loss)	717	(35)	1,507	(279)
Comprehensive income	\$ 8,794	\$ 5,389	\$ 20,308	\$ 16,792
Net income per share:				
Basic	\$ 0.14	\$ 0.10	\$ 0.33	\$ 0.31
Diluted	\$ 0.14	\$ 0.10	\$ 0.32	\$ 0.30
Weighted average common shares outstanding:				

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Basic	57,310	56,030	57,008	55,800
Diluted	58,038	57,003	57,885	56,859

See accompanying notes to unaudited condensed consolidated financial statements.

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	Nine Months Ended	
	September 30,	
	2007	2006
Operating activities		
Net income	\$ 18,801	\$ 17,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,663	17,731
Stock-based compensation expense	8,219	5,835
Provision for doubtful accounts	3,238	1,624
Gain on sale of a non-strategic asset	(1,579)	
Restructuring charges	1,207	
Excess tax benefits from share-based payment arrangements	(1,265)	(1,518)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	(2,722)	(4,637)
Inventory	(804)	(2,094)
Prepaid expenses and other current assets	156	(356)
Other assets	1,367	639
Deferred income taxes	2,851	
Accounts payable	(340)	5,963
Accrued expenses	(1,085)	(5,547)
Accrued restructuring costs	(1,111)	(1,215)
Deferred revenue	(1,614)	276
Net cash provided by operating activities	42,982	33,772
Investing activities		
Purchases of property and equipment	(5,464)	(3,596)
Proceeds from sale of a non-strategic asset	2,500	
Purchase of short-term investments	(1,333)	
Proceeds from sale of short-term investments		3,271
Cash paid for acquisitions, net of cash acquired	(16,690)	(619)
Net cash (used in) provided by investing activities	(20,987)	(944)
Financing activities		