

EPICOR SOFTWARE CORP
Form 10-Q
May 09, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2008

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. 000-20740

EPICOR SOFTWARE CORPORATION

(Exact name of registrant as specified in its charter)

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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

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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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 May 1, 2008, there were 59,316,743 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)*

	March 31, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 103,463	\$ 75,158
Short-term investments	1,428	1,371
Accounts receivable, net of allowance for doubtful accounts of \$8,647 and \$6,464 as of 2008 and 2007, respectively	102,166	98,533
Deferred income taxes	7,403	7,060
Inventory, net	8,344	4,539
Prepaid expenses and other current assets	18,312	9,184
Total current assets	241,116	195,845
Property and equipment, net	26,460	14,762
Deferred income taxes	49,776	45,025
Intangible assets, net	141,431	46,524
Goodwill	354,228	169,267
Cash designated for acquisition		161,000
Other assets	17,398	12,958
Total assets	\$ 830,409	\$ 645,381
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 21,153	\$ 14,640
Accrued compensation and benefits	19,197	27,555
Other accrued expenses	24,492	27,372
Current portion of long-term debt	6,289	145
Current portion of accrued restructuring costs	8,860	614
Current portion of deferred revenue	90,139	70,378
Total current liabilities	170,130	140,704
Long-term debt, less current portion	382,807	230,491
Accrued restructuring costs	5,611	356
Deferred revenue	696	823
Deferred income taxes and other income taxes	10,083	10,082
Other long-term liabilities	2,260	
Total long-term liabilities	401,457	241,752

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Commitments and contingencies (Note 11)

Stockholders' equity:		
Common stock	61	60
Additional paid-in capital	371,651	366,737
Less: treasury stock at cost	(17,028)	(13,883)
Accumulated other comprehensive income	1,179	61
Accumulated deficit	(97,041)	(90,050)
Total stockholders' equity	258,822	262,925
Total liabilities and stockholders' equity	\$ 830,409	\$ 645,381

See accompanying notes to unaudited condensed consolidated financial statements.

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EPICOR SOFTWARE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2008	2007
Revenues:		
License	\$ 18,504	\$ 22,032
Consulting	31,402	32,723
Maintenance	46,156	39,053
Hardware and other	6,162	7,521
Total revenues	102,224	101,329
Cost of revenues	53,545	47,179
Amortization of intangible assets	7,066	4,181
Total cost of revenues	60,611	51,360
Gross profit	41,613	49,969
Operating expenses:		
Sales and marketing	21,378	18,629
Software development	13,026	8,680
General and administrative	11,952	15,408
In-process research and development	200	
Restructuring charges	4,083	221
Total operating expenses	50,639	42,938
Income (loss) from operations	(9,026)	7,031
Interest expense	(2,898)	(2,127)
Gain on sale of non-strategic asset		1,579
Interest and other income, net	847	570
Income (loss) before income taxes	(11,077)	7,053
Provision (benefit) for income taxes	(4,086)	2,620
Net income (loss)	\$ (6,991)	\$ 4,433
Comprehensive income (loss):		
Net income (loss)	\$ (6,991)	\$ 4,433
Unrealized foreign currency translation gain	1,118	33
Comprehensive income (loss)	\$ (5,873)	\$ 4,466

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Net income (loss) per share:		
Basic	\$ (0.12)	\$ 0.08
Diluted	\$ (0.12)	\$ 0.08
Weighted average common shares outstanding:		
Basic	57,898	56,642
Diluted	57,898	57,703

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2008	2007
Operating activities		
Net income (loss)	\$ (6,991)	\$ 4,433
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,939	5,742
Stock-based compensation expense	2,488	3,393
Provision for doubtful accounts	(357)	828
Provision for excess and obsolete inventory	122	
Restructuring charges	4,083	221
Excess tax benefits from share-based payment arrangements	(617)	(468)
In-process research and development charge	200	
Gain on sale of non-strategic asset		(1,579)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	15,153	6,131
Inventory	(2,730)	(2,450)
Prepaid expenses and other current assets	2,245	(600)
Other assets	1,222	108
Deferred income taxes	(7,096)	2,937
Accounts payable	(556)	2,757
Accrued expenses	(15,119)	(13,184)
Accrued restructuring costs	(2,601)	(789)
Deferred revenue	1,750	(1,456)
Other long-term liabilities	(50)	
Net cash provided by operating activities	85	6,024
Investing activities		
Purchases of property and equipment	(1,419)	(1,162)
Proceeds from sale of non-strategic asset		2,500
Cash paid for acquisitions, net of cash designated for acquisition of \$161,000 and cash acquired	(123,128)	(41)
Net cash (used in) provided by investing activities	(124,547)	1,297
Financing activities		
Proceeds from long-term debt	160,000	
Principal payments on long-term debt	(1,538)	(285)
Debt issuance fees	(4,949)	(690)
Proceeds from exercise of stock options	1,009	478
Proceeds from employee stock purchase plan	326	399
Excess tax benefits from share-based payment arrangements	617	468
Purchase of treasury stock	(3,144)	(2,462)
Net cash provided by (used in) financing activities	152,321	(2,092)

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Effect of exchange rate changes on cash	446	95
Net increase in cash and cash equivalents	28,305	5,324
Cash and cash equivalents at beginning of period	75,158	70,178
Cash and cash equivalents at end of period	\$ 103,463	\$ 75,502

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**EPICOR SOFTWARE CORPORATION****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****MARCH 31, 2008****Note 1. Basis of Presentation**

The accompanying Unaudited Condensed Consolidated Financial Statements included herein have been prepared by Epicor Software Corporation (the Company) in conformity with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for interim financial information for reporting on Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

In the opinion of management, the Unaudited Condensed Consolidated Financial Statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Company's financial position, results of operations and cash flows.

The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results of operations that may be reported for any other interim period or for the entire year ending December 31, 2008. The Condensed Consolidated Balance Sheet at December 31, 2007 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements, as permitted by SEC rules and regulations for interim reporting.

Inventory is comprised solely of finished goods.

Note 2. Stock-Based Compensation

The following table sets forth the total stock-based compensation expense resulting from stock options, restricted stock awards and the employee stock purchase plan included in the Company's Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (*in thousands*):

	Three Months Ended	
	March 31,	
	2008	2007
Cost of consulting revenues	\$ 251	\$ 370
Cost of maintenance revenues	111	155
Sales and marketing		