

EPICOR SOFTWARE CORP  
Form 10-K  
March 12, 2007  
Table of Contents

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

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

For the Fiscal Year Ended December 31, 2006

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-20740

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**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)

18200 Von Karman Ave, Suite 1000

Irvine, California 92612

(Address of principal executive offices, zip code)

33-0277592  
(I.R.S. Employer  
Identification No.)

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

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**Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value \$.001 per share  
Preferred Share Purchase Rights**

**Securities registered pursuant to Section 12(g) of the Act: None.**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The aggregate market value of the registrant's voting Common Stock held by non-affiliates of the registrant was approximately \$397,670,715 computed using the closing sales price of \$10.53 per share of Common Stock on June 30, 2006 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 5, 2007 was 57,821,838.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for the 2007 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, 2006, are incorporated by reference in Part III of this Annual Report on Form 10-K.

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**Table of Contents**

**Item 1. BUSINESS**

**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, should, may, or will or statements concerning potential or opportunity or variability of 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 financial results, (ii) the impact of new accounting pronouncements, (iii) the Company's product development plans; (iv) the Company's capital spending, (v) the Company's future cash flow from operations, (vi) sufficient sources of financing to continue operations for next twelve months and to satisfy contractual obligations and commercial commitments, (vii) the effect of current legal proceedings, (viii) future cash tax payments and net operating loss carry forwards; (ix) the future use of forward or other hedging contracts; (x) the future impact of recent acquisitions on the Company; (xi) future investments in product development; (xii) schedule of amortization of intangible assets and (xiii) future impact of valuation allowance review. 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 21 to 28. 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. Investors 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.

**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 and emerging enterprises, which generally consist of companies with annual revenues under \$25 million. 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. The Company believes that 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, retail 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, automotive, hospitality and specialty retail. Epicor's solutions also focus on the need for increased supply chain visibility and transparency and offer 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's products are increasingly developed on and use a service-oriented architecture (SOA), which can help manufacturers, distributors, retailers and services organizations to more quickly and efficiently respond to changing business requirements and practices. SOA is a modular, standards-based approach to software development and its deployment is designed to provide a more agile and adaptable application foundation, which can help companies more effectively align their IT resources and enterprise software with their overall business objectives.

## **Table of Contents**

The Company offers solutions targeted to the following industries:

**Manufacturing** 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.

**Distribution** Epicor's distribution solutions are designed to meet the expanding requirement to support a demand-driven supply network (DDSN) by increasing focus on the customer and providing a more seamless order to shipment cycle, as well as inventory and warehouse management, sales and order processing (S&OP), financials, CRM, and planning and forecasting solutions. The Company's distribution solution automates customer acquisition and order management to warehouse fulfillment, accounting and customer service. The distribution suite offers an end-to-end solution set tailored for wholesale distributors including third party logistics providers.

**Services** 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.

**Retail and Hospitality** Epicor provides solutions tailored for the retail, hospitality, and entertainment industries. The Company's retail solutions can support both smaller, single PC-based point-of-sale (POS) retail outlet scenarios, as well as larger scale, distributed POS environments in specialty, general merchandise retailing 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, planning, selling and financial applications. The Company's hospitality solutions, designed for food service, hotel, sports and recreation, and other entertainment companies, can 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.

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 can 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 are designed to 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 is designed to enable 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.

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## **Table of Contents**

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 has given the Company a significantly expanded worldwide presence and synergistic product offerings.

## **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. In the past, midmarket companies were underserved by smaller best-of-breed applications or traditional financial and ERP systems that had originally been designed for larger corporations. These large enterprise systems, though highly functional, were also extremely complex and expensive to purchase, install, integrate and maintain.

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## **Table of Contents**

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 quest to boost productivity and profits as well as gain a competitive advantage, mid-sized companies have increasingly turned to integrated application software to automate and link their business processes. The Company believes that 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 generally 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 frequently 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, in Epicor's experience 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<sup>®</sup> (now the 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 technologies like Microsoft .NET and Web services is also driving increased investment by mid-sized companies in enterprise applications. Unlike monolithic, tightly-coupled systems of the past, SOA and Web services provide the ability to create highly functional applications through the assembly or collection of loosely-coupled, self-describing business services. This standards-based design approach provides a secure, scalable, unified design framework that allows both developers and information workers to more easily access, combine and reuse software application functionality. With an SOA, businesses have the ability to more easily and efficiently align their information systems and technology resources, allowing them the ability to respond more quickly to continually changing business requirements.

Epicor's early adoption of Microsoft .NET and Web services technology allows its product offerings, development and services to leverage the benefits of a SOA and provide growing mid-sized businesses with increased flexibility, inter-operability and cross-platform capability. These capabilities are extremely important as the market for Enterprise Applications continues to grow worldwide.

According to a December 6, 2006 AMR Research report titled "The Enterprise Applications Global Forecast, 2005-2010," the market for traditional enterprise application software is seeing its healthiest growth in years. The steady 8% growth through 2010 will be driven by new customers, consolidation projects, add-on applications across a much wider set of vertical industries, company sizes, and geographic markets. AMR Research also released the "Enterprise Resource Planning Spending Report, 2006-2007" in October 2006, which found CIOs from the U.S. companies surveyed expect an average ERP budget increase of 12.3% in 2007.

## **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 breakout of the Company's sales by segment is provided in Note 14 of the Notes to

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## **Table of Contents**

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 14 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*, *CRS RetailStore*, *Epicor for Service Enterprises*, *iScala*, *Vantage*, and *Vista* product suites have been architected for Web services. The *Epicor Enterprise*, *iScala*, *Vantage* and *Vista* suites further leverage 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 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 the Microsoft SQL Server platform or Progress Software Corporation's Progress RDBMS. The Company's *Clientele* suite leverages both the Microsoft Access and Microsoft SQL Server databases. The Company's *Avanté*, *CRS Merchandising* 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 predominately TCP and HTTP. 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 including integration with Microsoft Active Directory; (iv) a wide range of options for configuring different users on the network; (v) remote access and data processing; and (vi) mobile computing.

## **Table of Contents**

### *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 many of the latest and most advanced GUI features such as process wizards, cue cards, advanced on-line help and on-line documentation. 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, networking architecture, and graphical user interface components. Through .NET, 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 .NET platform, and most recently Windows Vista, 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 industry sectors and vertical markets. Historically, large enterprise application vendors have created vertical industry applications and practices designed for the Global 1000, in industries such as automotive, retail, 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 specific 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 can 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 is 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 is designed to offer strategic value with a quick return on investment.



## Table of Contents

*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. For professional services organizations (PSOs), embedded service organizations (ESOs), or internal services organizations (ISOs), 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 Service Enterprises* offers packaged vertical options for the professional services industry in areas such as audit and accountancy; architecture, engineering, and construction; software and computer services; and marketing, advertising and communications.

## 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 mid-sized 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* 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 (running in either 32-bit or native 64-bit mode) 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.

*Epicor Enterprise* includes the following application suites: *CRM Suite*, *Financials Suite*, *Supply Chain Management Suite*, *Portal Suite*, *Business Intelligence Suite*, *Project Suite*, *Payroll/Human Resources*, and industry-specific solutions delivered for a variety of markets.

*CRM Suite (Sales Force Automation, Marketing Automation, Customer Service and Support, IT Service Management)* 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 empowering 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 level management, change management, incident and problem management scheduled maintenance and user profile tracking and management and supports the information technology information library (ITIL) standard.

## Table of Contents

*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)* comprises an integrated accounting solution that enables a company to automate the financial aspects of their business. Presently the following back office financial 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, and Customization Workbench.

*Supply Chain Management Suite (Distribution, Procurement, Sourcing, Storefront, Warehouse Management, Assembly)* is 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, logistics 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 distribution applications are generally available in version 7.3.6: Sales Order Processing, Inventory Management, Purchasing, Distribution, Assembly, Royalties, Promotions and Rebates.

*Supply Chain Execution (Warehouse Management System and Data Collection Suite)*, 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. *Data Collection Suite (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. *Warehouse Management System (WMS)* enables a company to streamline order fulfillment, closely track inventory, manage third party logistics (3PL) and prioritize resources on the shop floor.

*Supply Chain Management (SCM) Suite* also includes the *Supplier Relationship Management (SRM) Suite* which consists of *Sourcing, Procurement and Spend Analysis*. *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* is designed to streamline 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 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* 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 many requirements of a company. 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. 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 and portfolio 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

## Table of Contents

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 (EPM) 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 and 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 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 *Service Connect*, *DBAudit*, *Customization Workbench*, *Import Manager*, and *Epicor Integration Hub*. *Epicor Service Connect* enables collaboration between applications, suppliers and customers. *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 is designed to allow 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, such as *UltiPro Workforce Management*, 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*.

### *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.



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## **Table of Contents**

*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, *Epicor Service Connect* 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 localizations 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 across 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*'s implementation of *Epicor Service Connect* 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 is designed to maximize 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 built on a service-oriented architecture (SOA) that meets the dynamic requirements of discrete mixed-mode manufacturers who have lean or to-order manufacturing requirements and increasing distribution and fulfillment needs. *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 designed as an easy-to-use, yet comprehensive solution that enables manufacturers to leverage their resources through its 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.

## **Table of Contents**

*Vantage* is comprised of groups of modules or suites that can be differently configured to comprehensively support a manufacturer's or distributors unique business processes. *Vantage 8.0* includes the following application suites: *Customer Relationship Management, Sales Management, Customer Service Management, Product Data Management, Planning and Scheduling, Materials Management, Financial Management, eBusiness Suite and Business Performance Management.*

*Customer Relationship Management (Contact Management, Marketing, Sales)* is an integrated solution for controlling a company's interaction with its customers and prospective customers, from building, executing and tracking campaigns through lead generation and opportunity development, configuring quotations and managing pipelines and forecasts. Through use of the Internet and Microsoft Office integration, *Vantage CRM* affords customers increased visibility and participation in the entire value chain process.

*Sales Management (Estimate and Quote Management, Order Management, Rebates)* streamlines the sales process and assists in coordinating activities between sales, plant/warehouse operations, shipping and accounting. It facilitates more efficient management of inventory visibility, pricing, shipping, invoicing and commissions and provides tools to produce more accurate estimates, streamline the quote-to-cash cycle, and improve customer service.

*Customer Service Management (Support, Help Desk, Return Material Authorization, Field Service)* provides a collaborative framework for streamlining service operations. It helps create a 360-degree view of a company's customers to assist in the diagnosis and resolution of inquiries, cases, change requests and issues related to support or service contracts and service-level agreements.

*Product Data Management (Product Costing, Routings, Engineering Change and Revision Control, Product Configuration)* serves as a central knowledge repository for process and product history. Its modules help promote integration, data exchange, increased control and communication across all constituents of the value chain (internal and external) that interact with the products.

*Planning and Scheduling (Forecasting and Master Production Scheduling, Material Requirements Planning, Scheduling, Advanced Planning & Scheduling, Project Management, Global Multi-Site Management)* offers flexible planning and scheduling solutions to help global make-to-order, make-to-stock and mixed-mode manufacturers manage the complexity of their size and resources to improve response times and drive growth.

*Production Management (Job Management, Lean Manufacturing, Manufacturing Execution, Quality Assurance, Product Lifecycle Management, Advanced Quality Management, Data Collection and Hand-held, Advanced Bill of Materials, Document Management)* includes modules and sophisticated technologies to help model best practices and empower shop floor personnel to make the decisions that can help to optimize production processes.

*Materials Management (Advanced Material Management, Inventory Management, Shipping/Receiving, Supplier Relationship Management, Purchase Management, Pack Out Management, Auto Label/RFID Print Control)* helps increase supply chain visibility and remove non-value added processes. By synchronizing processes throughout its value chain, a company can improve its ability to meet customer demands, provide faster delivery and lower costs.

*Financial Management (Accounts Receivable, Accounts Payable, General Ledger, Currency Management, Payroll, Fixed Asset Management, Multi-National Management, FRx Financial Reporting, Active Planner Budgeting, Planning and Forecasting)* provides manufacturers with a complete suite of modules to support the collection, monitoring and reporting of their financial information; maximizing visibility, increasing performance and improving cash flow. The *FRx Financial Reporting and the Active Planner Budgeting, Planning and Forecasting* modules are common component applications which are also available with the Company's *Enterprise* and *iScala* products.

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*eBusiness Suite (Customer Connect, Supplier Connect, Sales Connect, Mobile Connect, EDI)* leverages the Internet with Web applications like Customer Storefront, to help keep global enterprises connected with their entire network of trading partners: anytime, anywhere.

## Table of Contents

*Business Performance Management (Business Intelligence, Portal, Information Worker, Service Connect, and Dashboard)* provides reporting and analysis, real-time business activity monitoring (BAM) and workflow based on defined events, rules and/or established tolerances that can generate actions and alerts for transactions, metrics or processes. *Vantage BPM* enables increased collaboration, flow of information and better decision support between users, applications, suppliers and customers.

The *Vantage Business Performance Suite* includes the following common component applications which are also available with the Company's *Enterprise* and *iScala* products:

*Information Worker (IW)* increases productivity by enabling users to work more efficiently by incorporating line-of-business information within Microsoft Office. Using service-oriented principles and Microsoft .NET-based technologies, IW utilizes the Microsoft Office system to enhance the user experience and interaction with Epicor applications through familiar Office desktop productivity tools. With IW, users are able to synchronize Microsoft Office Outlook® contacts, appointments and tasks with Epicor applications and data, such as customer information, sales history, inventory levels and production schedules both online and offline.

*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).

*Service Connect* is a business integration platform which functions as a central point for secure workflow orchestrations within Epicor *Vantage* as well as external connectivity to Epicor and non-Epicor applications. Business components, represented as Web services outside of the application, can be orchestrated within *Service Connect* to eliminate non-value added steps, increase efficiencies and speed up processes. *Service Connect* provides collaboration and integration between subsidiaries and their corporate headquarters, as well as to customers and suppliers, to support integrated supply chain trading.

*Vantage* is optimized for the rapid deployment, minimal support and price/performance requirements of midmarket manufacturers.

*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* 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, providing timely information whether the user is at headquarters, a remote site or on the road.

*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 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.





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## Table of Contents

*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.

*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.

*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).

### *Retail Epicor\CRS Retail Suite*

The *Epicor\CRS Retail Suite* integrates retail management software, along with hardware and services, to provide a comprehensive solution for specialty and general merchandise retailers. Designed for integration and scalability, the *Epicor\CRS Retail Suite* can support a wide variety of retail enterprise requirements from the rapidly expanding regional retailer requiring point-of-sale (POS), store operations and merchandising, to the large, global retailer requiring central management, visibility and control over hundreds or thousands of stores and outlets. The *Epicor\CRS Retail Suite* can assist retailers in integrating their sales channels, order management, pricing, inventory, and resources to more effectively manage a real-time, multi-channel enterprise.

The *Epicor\CRS Retail Suite* is comprised of groups of modules that can be configured to support the retailer's complete business process, providing an integrated post-to-host experience from point-of-sale, through the retail supply chain to the back office. The following applications are presently generally available in *Epicor\CRS Retail Suite: RetailStore, RetailStore Office, RetailStore Central, MobileStore, ReturnsManagement, EnterpriseSelling, RetailCRM, LaborManagement, LossPrevention, SalesAudit, Merchandising, Learning Solutions and RetailConnect*.

*RetailStore* is a Microsoft .NET-based point-of-sale (POS) store system designed to assist store personnel to provide a better customer experience, and more effectively manage store operations. With a Web services-based Service-Oriented Architecture (SOA) as its foundation, *CRS RetailStore* supports a wide variety of hardware platforms, as well as providing increased integration and connectivity between stores, corporate systems and other sales channels to enable key transactional information to be shared as it occurs. *RetailStore* offers a flexible, easy-to-configure user interface to meet the unique requirements of a store, provide more timely information to the store associate, while ensuring transaction integrity, performance and security.

*MobileStore* is designed to extend access to key store functionality and information beyond the cash register and manager workstation. Through wireless devices running the *MobileStore* application, store managers and sales associates can perform inventory control, item lookup, manager authorization, along with other key store functions, remotely. A complete store system includes store management, operations and reporting applications, in addition to point-of-sale. Store Operations are managed through *RetailStore Office* which provides the store manager the flexibility to work on inventory, employee maintenance, or other tasks while still monitoring the sales floor. *RetailStore Office* provides store management with secure control of tasks including employee maintenance, time and attendance, store opening/closing, preferred customer management, layaway management, inventory, POS administration, cash management, electronic journaling and reporting.

*RetailStore Central* provides comprehensive systems management solutions to chain store retailers who need centralized control of store software and configuration profiles. Based on the Microsoft .NET



## **Table of Contents**

Framework, *RetailStore Central* uses secure publish/subscriber-based technology to allow retail chains with hundreds to thousands of locations to monitor and manage their store system configurations and business rules more easily and with greater control. *RetailStore Central* provides control, monitoring and tracking of all unique changes, including those related to policies, procedures, payroll, security, marketing, taxes and inventory. Changes to *RetailStore* POS and back office configuration profiles can be managed remotely on a store-by-store basis or through user-defined store groupings without requiring IT resources or customizations.

*RetailCRM* is a complete customer relations management (CRM) solution based on Microsoft .NET. By gathering and analyzing customer information from multiple channels, *RetailCRM* can deliver a more accurate and comprehensive view of the customer to assist sales associates and marketing teams with better information to serve customers. Utilizing the data integration, analysis and reporting capabilities of Microsoft SQL Server 2005 and SQL Server Reporting Services, *RetailCRM* aggregates information on customer purchase history and shopping behavior across sales channels, enabling retailers to deliver a higher level of one-to-one marketing and personalized customer service at all points of customer interaction.

*ReturnsManagement* is a multi-channel, returns management application enabling retailers to reduce refund fraud and ensure accurate refunds, while improving customer service and employee compliance. *EnterpriseSelling* combines real-time inventory and location management with a configurable order manager to integrate inventory transaction processing of multiple sales channels allowing retailers to sell merchandise and satisfy customer demand from anywhere in the enterprise. The *LossPrevention* module can be used at the corporate office or in the field to quickly identify patterns of suspicious actions, evaluate exceptions, track potentially fraudulent activities, and investigate individual employee behavior, to assist investigators in dismissing innocent mistakes or building cases for prosecution.

*Merchandising Suite* is a set of applications that includes tools to manage items, inventory, purchase orders and pricing. Applications in the *Merchandising Suite* include Allocation, Orders and Fulfillment, TransfersPlus and EComm. The *Merchandising Suite* includes the tools for your distribution center to ensure accurate receiving, replenishment, merchandising reporting, and efficient distribution to the stores. Through detailed transaction logging, the *SalesAudit* module provides an unbroken, audit trail of everything that happened in each store across each type of transaction for sales audit and loss prevention purposes.

Detailed Customer Sales Analysis provides the information to build and broaden sales through your customer base. The *Merchandising Suite* also includes key applications for replenishment, reporting, and interfaces for Accounting. *Retail Integration* provides an integrated offering across the *Epicor Enterprise Financials Suite* and *Epicor|CRS Merchandising Suite*. Through *Epicor Service Connect*, a Web services-based business integration platform, a secure, auditable two-way integration is supported across the solutions. *Service Connect* functions as the central integration point for implementing secure workflow orchestrations within Epicor applications and with third-party applications to enhance collaboration and automate business processes. The *Epicor|CRS Retail Integration* provides the integration for feeding store-level information from merchandising to the financial application.

### *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, managed services, outsourcing and hosting services to support 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 also provides fixed fee arrangements and occasional arrangements in which customer payments are tied to the



## **Table of Contents**

achievement of specific milestones. Fixed fee or milestone-based contracts are based on developing mutually agreed upon project plans, which clearly define the activities that will be performed and the specific deliverables that will be produced, in accordance with predefined acceptance criteria. 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 many of its competitors 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 VAR 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 customers' 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 manufacturers, distributors, retailers, sports and leisure and service organizations, as well as companies in technology/software, healthcare, government entities, educational institutions and other sectors. 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 *CRS*, *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, Hungary, Romania, Sweden, Australia, New Zealand, Canada, Mexico, Hong Kong, Singapore, Taiwan, Malaysia and South Africa 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.

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## **Table of Contents**

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 Savvis and 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.

### **Customer and Backlog**

No single customer accounted for more than 10% of revenue for the years ended December 31, 2006, 2005 and 2004. 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 license backlog. Because of the generally short cycle between order and shipment, the Company believes that its backlog as of any particular date is not significant or 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 also believes that it has 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 believes that it has maintained a leadership position with respect to Web services and .NET. The Company was among the first early adopters invited by Microsoft to work with Visual Studio .NET and the .NET Framework 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.

**Table of Contents**

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 \$34.1 million, \$28.5 mi