Yale SCHOOL of MANAGEMENT

February 20, 2006

Epicor Software (NASDAQ: EPIC)

An Opportunity of Epic Proportions

Initiating Coverage

Rating:	**Overweight**
Market Price:	$12.52
Price Target:	$15.75

Market Data

52-Wk Range:	$10.07-$16.58
Enterprise Value:	$757MM
Insider Ownership:	10.4%
Institutional Ownership:	75.6%
Number of Diluted Shares:	56.6MM
Float:	48.7MM
Market Cap:	$685MM
Avg. Daily Volume:	485,827
P/E (Trailing):	13.08
P/E (Forward):	12.80
PEG Ratio (5 YR):	0.90
P/Revenue (LTM):	2.32
P/Book (MRQ):	3.84

Financial Data

Book Value per share:	$3.26
Net debt:	$71.7MM
Long-term debt:	$125MM
EV/Revenue:	2.57
EV/EBITDA:	13.02
Return on assets (MRQ):	7.6%
Return on equity (MRQ):	39.1%
Gross margin (MRQ):	55.6%
Operating margin (MRQ):	13.5%
Profit margin (MRQ):	12.9%
Current Ratio (MRQ):	1.08
Quick Ratio (MRQ):	0.98
10-Year Earnings Growth:	15.2%

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- **Investment Summary:**
  Investor overreaction to a recently announced internal accounting review and strong strategic positioning in the burgeoning mid-tier Enterprise Resource Planning (ERP) market provide significant upside potential for Epicor's stock. Based on a detailed discounted cash flow model and an analysis of ten relative valuation multiples, we are projecting a target stock price of $15.75 for EPIC.

- **Investor Overreaction to Accounting Review**
  In Epicor's Q4 2005 earnings call, CEO George Klaus announced that the firm and auditor Deloitte & Touche have initiated an internal inquiry into EPIC's revenue allocation policies, which caused the stock to plummet by more than 11%. However, the review was not a result of accounting improprieties and will have no impact on prior, current, or future cash flows.

- **Acquisitions Have Primed Epicor for Growth**
  With IT spending up across the board, sales growth in the mid-tier ERP space is expected to approach 9% annually over the next five years. Epicor completed a number of strategic acquisitions in 2004 and 2005 which will allow the company to gain market share and improve its organic top-line revenue growth. In addition, Epicor's Q4 earnings do not fully account for expected operating synergies from the acquisitions.

- **Vantage 8.0 Product Gaining Traction**
  Sales of Epicor's new Vantage ERP product for mid-tier manufacturing firms have been above the company's expectations. The new version of Vantage, built on the Microsoft .NET platform, combines six legacy applications into a single, streamlined product set. The release of Vantage 8 will allow Epicor to cut back on short-term R&D spending, helping the firm to grow its operating margin from 13.5% to 19% in 2006.

- **Strategic Positioning Creates Opportunity**
  Epicor is strategically positioned to gain market share in the next two years. Although SAP and Oracle are aggressively targeting the mid-tier ERP market, their products are too complex and burdensome for most mid-tier companies and do not pose a significant challenge to Epicor.

Please see the important disclaimer at the end of this report.

Executive Summary

We are initiating coverage of Epicor Software (NASDAQ: EPIC) with an Overweight recommendation. Epicor is a leading provider of Enterprise Resource Planning (ERP) software to middle-market customers with $50-$500 million in annual sales. Epicor took advantage of inexpensive valuations in 2004 and 2005 to complete a number of strategic acquisitions which significantly expanded the firm's international presence and provided new capabilities in key verticals such as the consumer retail and point-of-sale software markets. As the mid-tier ERP industry expands, these acquisitions will help to drive top-line growth while also providing margin improvements in the form of operational synergies and economies of scale. In addition, the firm's new Vantage 8 product for manufacturers represents a significant improvement over competitors' offerings and should allow Epicor to expand its market share over the next two years as the customer adoption process kicks into high gear.

Although the firm's current multiples are in line with fellow mid-tier ERP competitors such as Lawson (NASDAQ: LWSN), IFS (OMX: IFSB), and QAD Systems (NASDAQ: QADI), Epicor's projected 10-year earnings growth rate of 15.2% is significantly higher than the 3-6% earnings growth expected for companies such as Lawson and QAD. At roughly 12.8x forward earnings, Epicor's shares are also trading at a significant discount to larger competitors such as SAP (24x forward earnings) and the application software industry as a whole (20x forward earnings). Aided by the recent accounting catalyst, the firm's strong top-line growth and long-term profitability prospects should provide Epicor investors with healthy upside potential and an attractive investment opportunity.

Acquisition of CRS Retail Systems

On December 7, 2005, Epicor closed on the $121 million acquisition of CRS Retail Systems from private equity firm Accel-KKR. CRS Retail Systems is a leading provider of consumer retailing and point-of-purchase software. The acquisition, financed using 6.5% debt and Epicor's existing cash reserves, provides the firm with new capabilities in the consumer retail vertical and represents a logical horizontal extension of the firm's industry-specific ERP product set. Epicor plans to integrate the CRS product line over time into their existing Enterprise, iScala and Vantage product sets, while also continuing to sell the CRS product suite as a standalone solution. The firm plans to train their existing sales force on the CRS product suite, with the CRS sales team focusing exclusively on selling the standalone version.

Valuation Positives

- **Epicor is currently trading below the industry multiple and below its competitors' multiples.** Given the industry's strong growth prospects and Epicor's unrivaled market position, we see no reason for the firm to trade at a lower multiple than competitors such as Lawson and QAD. The firm's recent launch of Vantage 8.0 and current install base of more than 20,000 customers should lead to annualized cash flow growth of more than 15% over the next ten years. This growth is not priced into the stock; the market is expecting earnings growth of around 8% based on current multiples. A growth rate of 8% indicates that the market believes Epicor will grow at the same rate as the industry. However, Epicor's growth rate has outpaced the industry over the last three years, and with the rollout of Vantage 8.0 on the .NET platform, it should outpace the market in the near future.

- **Epicor's depressed stock price makes the company an attractive M&A target.** With the ERP market continuing to rapidly consolidate, it is a growing possibility that Microsoft or Oracle will look to acquire Epicor. Microsoft Dynamics (which includes the firm's ERP products; formerly known as Microsoft Business Services) is badly disjointed and in poor shape to compete in the middle market. Microsoft's Great Plains software is not powerful enough to beat Epicor head-to-head, and its Exapta product suite was not built with manufacturing clients in mind. As such, Epicor would represent a strong strategic fit for Microsoft, particularly since the Epicor product suite already relies exclusively on Microsoft's .NET operating platform. Although it is tougher to envision a strategic fit between Oracle and Epicor given the two platforms' significant technological differences, it seems clear that Oracle is attempting to capture market share at any price, as witnessed by its recent acquisitions of PeopleSoft and Siebel Systems. Epicor's recently acquired point-of-purchase retailing software would augment Siebel's strong customer relationship management (CRM) offerings, and Epicor's manufacturing product line is far superior to Oracle's patched-together Manufacturing Suite. The market does not appear to be factoring a potential takeover into Epicor's stock price.

- **Epicor's accounting review is not expected to result in changes to current or future cash flows.** Epicor is reviewing the methodologies its uses to determine vendor-specific objective evidence (VSOE) of fair value of elements related to its maintenance agreements. The net result is likely to be a small shift in prior period allocations between license and maintenance revenues, with an expected *increase* in revenue recognized during 2006 as maintenance revenues are adjusted to be amortized over the life of each contract rather than being booked immediately. This adjustment, if taken, will result in no changes to the firm's cash flows as described by the company[1]:
  "Any such restatement is not expected to impact the Company's current or prior years' liquidity or cash flow, nor is any possible restatement expected to impact total revenue, profits and cash flow associated with the contracts in question over the life of the contracts. There is no indication of any accounting improprieties."

  In order to ensure that Epicor's accounting disclosures are indeed immaterial, we reviewed the firm's customer growth during the period in question (2003 to 2005) and for FY2002 to look for any irregularities. Customer growth is relatively normal through the period, with the exception of 2003 (see chart below). However, Epicor's deal size growth in 2003 is not materially different from the growth rate experienced in 2003 by the entire ERP industry. We also reviewed Epicor management's growth estimates versus the company's actual earnings using data from I/B/E/S. Over a period covering 284 data points stretching back to 1996, Epicor, on average, exactly meets their predicted earnings. Furthermore, the recently announced accounting review is the only accounting-related inquiry to be launched against the firm during the last ten years.

	New customers	License Rev.	Per Deal	Growth
2002	450	$ 34,216	$ 76.04	N/A
2003	400	$ 38,700	$ 96.75	27.2%
2004	585	$ 61,869	$105.76	9.3%
2005	738	$ 81,465	$110.39	4.4%

- **The company should be able to improve its operating margin during 2006.** Sales commissions were unusually high during 2005, with more than 70% of Epicor's sales force reaching or exceeding their quotas. Although high payouts unfortunately reduced operating margins for 2005 by more than

[1] Company Press Release dated January 31, 2006

4%, the company is increasing its sales quotas by 7-10% for 2006, which should mitigate the risk of additional unexpected SG&A expenditures going forward. We are less pleased with the firm's insistence upon continuing to add professional services headcount during 2006 in support of the Vantage 8.0 rollout, but believe that projected Vantage migrations totaling $8 million during 2006 will more than offset the additional headcount costs. Operational synergies from the CRS merger should also offset the lower margins the company expects to receive on CRS hardware sales, which accounted for 16.6% of total CRS sales during December.

- **The industry is consolidating, and competition is increasing.** We see increased industry competition as a positive for Epicor, as the firm has already completed a number of strategic acquisitions which leave it in an excellent position to gain market share in the current competitive landscape. Epicor's international expansion in 2004 should allow the firm to take advantage of increased outsourcing and offshoring by mid-market manufacturers. With the December 2005 acquisition of CRS Systems, Epicor also added customer retailing and point-of-purchase ERP software to its arsenal of ERP and manufacturing solutions, providing the firm with revenue diversification and enhanced cross-selling opportunities. Lawson, IFS, and QAD are in the infancy of their efforts to expand their product set and geographical reach in order to catch up with Epicor. Although Oracle and SAP are now aggressively targeting the middle market, neither of these firms has a product which is well suited for mid-tier firms. Aside from being cost-prohibitive to implement, the Big Two's software platforms simply cannot be scaled down efficiently to meet the demands of smaller manufacturers. In addition, Epicor currently enjoys an industry-leading renewal rate of more than 95%, making it very difficult for other firms to gain traction within the current Vantage and iScala install base.

Valuation Negatives

- **Epicor must use its free cash flow to pay down $119 million in debt.** The firm took on $124 million of 6.5% debt to finance the December acquisition of CRS Systems, and must pay down this debt before it can pursue additional growth opportunities. CEO Klaus mentioned in the Q4 earnings call that paying down this debt is a top priority, indicating that the firm has already paid down $5MM using existing cash reserves. However, given the firm's weak current cash position, timely repayment will be largely contingent on sufficient free cash flow as determined by top-line sales growth. Although we see free cash flow improving substantially during 2006, there is a possibility that the firm will be forced to use most of its free cash to pay down this debt if expected bottom-line growth fails to materialize. Although the firm plans to extinguish their existing debt as quickly as possible, Epicor is also seeking to extend its revolving line of credit from $125MM to $200MM in order to provide some breathing room, which may negatively impact future lending rates.

- **Despite management's insistence, the accounting review is still cause for concern.** In the Q4 earnings call, management acknowledged that a Deloitte partner is questioning Epicor's revenue recognition policies for certain service and maintenance contracts. Specifically, a 1997 Statement of Position by AICPA, the governing accounting body in the United States, states that bundled sales of software and services must be unbundled and treated separately for revenue recognition. Based on the matching principle, services to be performed after the sale of a product license must be deferred until such point as the implementation is substantially complete. In cases where it is difficult to unbundle a sale into separate components, a firm must use vendor-specific objective evidence (VSOE) to determine whether revenue should be deferred for each element of the bundled contract. A firm can only obtain VSOE in two forms: (1) the firm can use the actual price charged for the related element, or (2) the firm can use the price it expects to charge for a yet-to-be-released product based on past experience and historical evidence. In addition, fees related to maintenance in a one-time sale must be listed separately from license fees in the customer agreement in order for a firm to claim that VSOE of fair value has been reached, allowing the maintenance revenue to be immediately booked. If Epicor immediately booked revenue that should have been deferred, the likely result will be an increase in the firm's deferred revenue account, leading to higher reported sales during 2006. However, there is a chance that the results of the review will cause the firm to reduce its current deferred revenue balance, leading to lower reported sales in 2006. Either way, the firm's cash flows will not be affected by the results of the inquiry.

- **The firm must execute on its sales leads in order for expected top-line growth to materialize.** Half of Epicor's 2005 revenue originated from sales to roughly 800 new customers, with the remaining 50% coming from its existing install base. We would like to see the firm maintain this revenue mix over the coming years. Although Epicor expects at least 200 existing customers to migrate to the new Vantage 8.0 platform during 2006, the firm needs to substantially expand its customer base in 2006 and 2007 in order for it to reach its top-line growth projections, as an over-reliance on its existing install base will leave Epicor vulnerable to the Big Three as the industry continues to consolidate. On the positive side, Epicor added 20 new headcount during Q4 2005 in its Sales and Support group, which shows that management is committed to aggressively pursuing new sales leads. In addition, Epicor's deal sizes tend to be under $100K, which somewhat shields the firm from relying on a few large deals to drive its quarterly earnings.

- **Oracle, Microsoft, and SAP are moving into mid-tier ERP market.** With the overall ERP market in growth mode, the Big Three ERP vendors (Oracle, Microsoft, and SAP) are expanding their investments in the middle market. Although Epicor is in a strong strategic position to compete with the Big Three in mid-tier manufacturing and ERP mandates, the aggressive entry of these competitors nonetheless poses a challenge for the firm. Epicor frequently sells into single divisions or subsidiaries within large conglomerates, so the firm is particularly vulnerable to losing subsidiary and divisional deals if a Big Three solution is implemented firm-wide by the parent's home office. In addition, the firm is at a significant disadvantage from a product marketing standpoint. Despite Epicor's twenty-year track record of success in the middle market, the age-old mantra "nobody has ever been fired for choosing IBM" also applies to Oracle, Microsoft, and SAP, and may influence divisional purchasing decisions.

Company and Product Overview

Founded in 1984 as Platinum Holdings, Epicor Software is a leading provider of middle-market ERP products and services based in Irvine, California. The majority of Epicor's sales come from manufacturing firms with annual sales between $50-500 million, but the firm also offers solutions aimed at large service-oriented organizations and mid-tier firms in the consumer retail, pharmaceutical, automotive, and hospitality industries. The firm has 2,020 employees as of December 31, 2005, up 359 from the previous quarter due primarily to the acquisition of CRS Systems, which closed in December 2005. Epicor's R&D personnel are spread out across six locations in the United States, Russia, and Mexico, with the majority of software developers located outside of the United States. The firm has more than 20,000 customers globally, including a "core" install base of more than 4,500 manufacturing firms. See *Exhibit 1* for more information on Epicor's management team.

The firm condensed its product offerings from eight product lines in 2004 to four in 2005, which should help to improve the company's profile among potential customers and streamline sales efforts.

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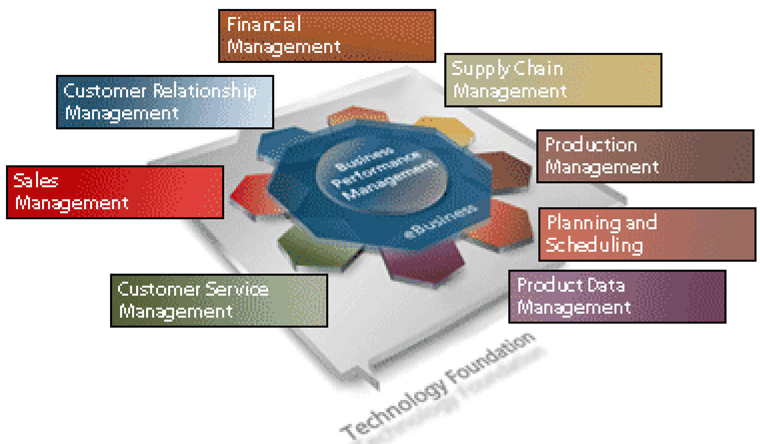
Vantage 8.0

Released in January 2005, Epicor's new Vantage 8.0 product combines six legacy manufacturing and distribution ERP applications into a single, robust solution built on the Microsoft .NET platform. Vantage combines customer relationship management (CRM), production management, product planning, materials management, and financial reporting modules into a single, easy-to-use interface (See *Exhibit 2*). Prior to the release of Vantage 8.0, Epicor was actively marketing six different niche products to mid-tier, made-to-order manufacturers: Avante (CRM), ManFact (product planning), DataFlo (production management), MANAGE2000 (sales and financial management), Vista (entry-level ERP solution), and Vantage (materials, production and product planning ERP solution). The new Vantage 8.0 platform, shown below, provides an integrated interface that combines front office tools such as sales management and CRM with back-office modules such as financial reporting and supply chain management.

Graphic: Vantage 8.0 Framework



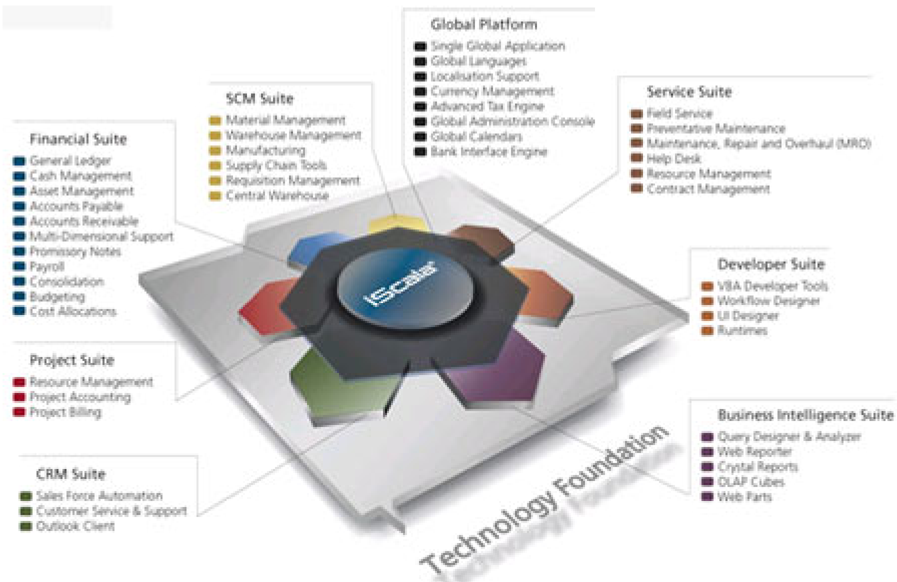
Source: Company Investor Presentation, December 2005

With its single operating platform and seamless client interface, we believe Vantage 8.0 represents a compelling upgrade opportunity for customers who are currently using multiple Epicor products. The firm has exceeded its own expectations thus far related to Vantage upgrades, and we expect strong upgrade sales to continue through 2006 and 2007. **Importantly, Epicor has no plans to sunset the six legacy applications which now comprise Vantage 8.0 – it is continuing to support and enhance these applications**. This will provide customers with plenty of time to switch to Vantage 8.0 and will prevent Epicor from alienating customers who do not wish to take advantage of the enhanced functionality in Vantage 8.0. Although maintaining R&D and customer support for these legacy applications will slightly increase Epicor's short-term operating costs, we believe this is a wise long-term strategic decision. Many software firms make the mistake of accelerating the support termination process for legacy applications, forcing customers to decide rapidly whether or not to purchase the upgrade. Given that corporate IT budgets do not typically include provisions for product upgrades, forced migrations can lead to substantial ill will between a software vendor and its customers. As such, Epicor's decision to maintain support for its legacy applications is likely to improve long-term sales and reduce customer defections.

iScala

Epicor's iScala offering is an integrated ERP product combining customer relationship management, manufacturing management, and supply chain management on a single web services platform. Obtained as part of Epicor's acquisition of Scala Business Solutions in 2004, and primarily targeted at the international marketplace, the iScala application suite supports multi-currency, multi-country CRM, manufacturing management, and supply chain management, and is currently Epicor's best-selling international offering, with key global implementations at Hyatt International, Hershey Foods International, and Four Seasons Hotels and Resorts. Given current globalization trends and the robust ERP growth prospects in Europe and Asia, we see this product as an increasingly important component of Epicor's enterprise stable of offerings.

Graphic: iScala Application Suite Framework



Source: Company Website (http://www.epicor.com), accessed February 16, 2006

Epicor Enterprise

Representing Epicor's flagship offering for large service-oriented organizations, Epicor Enterprise combines front-office functions such as CRM and business intelligence with back-office functions such as supply chain management, finance, accounting, human resources, and IT support. The product has gained a steady following of consumers in the hospitality, financial services, media, food service, and non-profit verticals, and is aggressively expanding into high tech, engineering, and distribution. Importantly, Epicor allows firms to purchase individual modules from within the Enterprise framework. Based on the company's reported success stories, it appears that most Enterprise customers choose to purchase two or three modules repackaged by Epicor into industry-specific solutions from within the available Enterprise framework.

Epicor|CRS Retail Suite

Acquired by Epicor in December 2005, the CRS Retail Suite (now renamed Epicor|CRS) encompasses a broad spectrum of consumer retail management products, hardware, and services specifically targeted to point-of-purchase retailers. This acquisition represents the first major push into the consumer retailing vertical for Epicor, and the firm plans to integrate CRS Retail Suite with the rest of the Epicor product line, creating an end-to-end ERP solution for middle market retailers. CRS contributed roughly $3.5 million in revenue for Epicor during December 2005, and the company expects CRS to contribute $0.02-0.04 in earnings during 2006. The company's description of the seven solutions within the CRS Retail Suite is provided below:

CRS RetailStore is a feature-rich store system that empowers store personnel to provide a better customer experience. It includes all of the store system modules necessary to efficiently and easily manage the retail store.
CRS EnterpriseSelling combines a real-time inventory locator and configurable order manager to integrate inventory and transaction processing of multiple sales channels, allowing firms to sell merchandise and satisfy customer demand from anywhere in the enterprise.
CRS MobileStore allows firms to extend key store system functionality beyond the cash-wrap and manager's workstation. With a PocketPC-based wireless device running CRS MobileStore™ applications, store managers and sales associates are no longer tethered to the POS or PC for various functions.
CRS LossPrevention is a powerful browser-based application to help firms quickly identify and stop employee theft.
CRS LaborManagement is a workforce management suite of flexible and easy-to-use forecasting and store scheduling applications, providing store managers and corporate HR professionals with optimized labor management.
CRS RetailConnect is an enterprise application integration solution that allows firms to easily deploy and manage interfaces between CRS products and other 3rd party applications.
CRS SalesAudit ensures the integrity of sales data and streamlines the audit process with an integrated, intuitive application.

Source: Company Website (http://www.crsretail.com), accessed February 16, 2006

Top-Line Growth Drivers

We see three key trends emerging which should allow Epicor to grow its top line faster than its competitors:

- **Single platform integration.** The ultimate goal of any corporate IT executive is to reduce the complexity of the firm's internal systems by relying on a single, enterprise-wide operating platform. This is particularly crucial to middle market firms who cannot afford the personnel to support separate Microsoft and Java-based application stacks. With the new Vantage 8.0 product, Epicor is offering a seamless solution built and supported on Microsoft's .NET platform. The single operating platform should keep customers' total cost of ownership (TCO) to a minimum by significantly reducing implementation times and ongoing support costs. Given Microsoft's existing penetration in middle-market corporate IT departments, Epicor should be able to leverage its compatibility with .NET quite well in the competitive process, as most of its competitors currently rely on a Java-based application architecture. The move to a single platform should also help Epicor's financial position by allowing the firm to reduce professional services implementation times and minimize future R&D expenditures.

- **International growth.** 39% of Epicor's revenue is currently derived from international operations. This figure should increase over the next few years, driven by growth in Asia and continued production offshoring by U.S. and European manufacturers. Epicor's 2004 acquisitions of Scala Business Solutions and Strongline A/S significantly expanded the firm's footprint in Europe, and the firm still has a sizeable advantage over firms such as Lawson and QAD in the international marketplace (for comparison, less than 4% of Lawson's Q3 revenues came from international operations). However, Epicor's advantage in the international marketplace will likely evaporate over the next three to five years. We expect Lawson's recently announced acquisition of Intentia (a European ERP vendor) and Infor's acquisition of Datastream to kick off a two or three year trend of global consolidation within the space. Thus, it is imperative that Epicor execute on its current competitive advantages in order to drive sales growth in Europe and elsewhere, particularly since it is not currently in a financial position to pursue additional acquisitions. We were also very pleased with management's recent assessment of Vantage win rates in Asia (90%) and their belief that license revenue growth in China, Taiwan and Korea has the potential to drive top-line sales.
- **Competitive positioning: Right place, right time.** This is an excellent time to be in the mid-tier ERP market. A recent ERP spending report by AMR Research found that over one-third of small and medium-sized businesses currently plan to implement a new ERP system, and more than 70% of the firms surveyed plan to increase overall ERP spending in 2006[2]. In addition to the strong macroeconomic wind at its back, Epicor's perfectly aligned competitive positioning should allow the firm to increase its share of the mid-tier ERP market. The firm's historical strength in manufacturing solutions has been bolstered in recent years with the addition of an enterprise offering targeted at service organizations, and Epicor has aggressively expanded its product line horizontally to encompass customer retail, automotive, and hospitality solutions. In the ERP sector, Epicor faces competitive pressures from Oracle, SAP, and QAD in the high end of the middle market and SSA Global, Microsoft, and Infor in the lower end of the market, with Lawson its primary competitor in the center of the middle market (see accompanying chart). In addition, Epicor faces continuous pressure from industry-specific vendors such as Systems Union and Sage, who provide accounting, finance, and business management software.

Despite the stiff competition, Epicor currently enjoys key advantages in all aspects of the ERP market. Solutions from Oracle and SAP, developed specifically for Fortune 1000 enterprises, typically require significant customization and lengthy implementation times in addition to the extremely expensive licensing fees. In contrast, Epicor's solutions are rapidly deployable and easily supported, reducing TCO for middle market consumers. Small business solutions from Microsoft and Infor cannot be scaled up adequately to handle the information volume and organizational complexities which characterize medium-sized production and service firms, and their products cannot match the multi-currency, multi-country framework offered by Epicor's iScala application suite. Lawson is strong in healthcare and services, but cannot compete with Epicor in manufacturing, distribution, and other industry verticals. Although many niche providers such as Sage and Systems Union offer enhanced functionality relative to Epicor's product line for a specific piece of the ERP framework (accounting, finance, HR, supply-chain management, etc.), corporate IT managers tend to be reluctant to purchase a bevy of niche solutions, since these solutions typically require complex integration with other applications and support staff versed in multiple operating platforms. With Epicor's product suite, managers can purchase a single application spanning numerous value chain and back-office functions without worrying about multiple systems integrations or the need to support multiple platforms.

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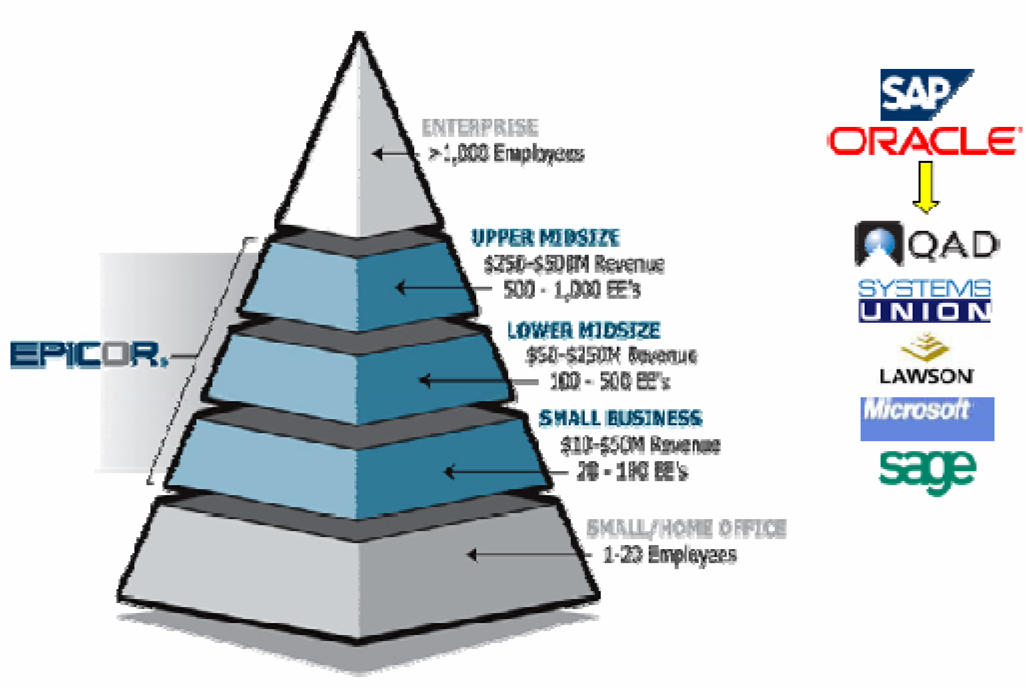
[2] Locke, Robert, Jim Shepherd and Wendy Davis; *The Enterprise Resource Planning Spending Report, 2005–2006*, AMR Research, 11/17/2005

Graphic: Epicor's Key Competitors



Source: Company Investor Presentation, December 2005

Valuation

Based on an average of three different valuation measures – discounted cash flow analysis, relative valuation based upon public comparables, and relative valuation based upon acquisition comparables, net of a historical merger premium – we calculated the target stock price for Epicor to be $15.75.

Methodology	**Valuation**
Public Comparables	$ 16.17
Acquisition Comparables, net of merger premium	$ 15.23
Discounted Cash Flow Analysis	$ 15.88
Target Stock Price:	**$ 15.75**

We will first discuss our rationale and assumptions behind the discounted cash flow analysis, and then turn to our assessment of Epicor's relative valuation based on market comparables.

DCF Inputs

A number of assumptions went into the calculation of the cost of capital for the industry. While the current industry capital structure is comprised of 99.95% equity and 0.05% debt, Epicor itself has $124.6 million of long-term debt on its preliminary year-end 2005 balance sheet, due to a series of acquisitions for which it has required external financing. In January of 2006, they paid off 5 million of this debt, according to the January 31, 2006 conference call. As discussed about, management intends to pay off this debt quickly, and we forecast that they will spend 50% of their operating income before depreciation and amortization to accomplish this goal, which we forecast to be achieved at year-end 2008.

Because we expect the debt-to-equity ratio to fall, we employ the Adjusted Present Value approach to value the equity of Epicor.

Our asset beta is not exact going forward however, because the absolute amount of debt will also likely fall over time. This results in slight underestimation of the cost of capital and thus an overestimation of the value of equity. The true asset Beta is between the equity beta of 1.91 and the APV-estimated asset Beta of 1.73.

The cost of capital for the firm was calculated using the Capital Asset Pricing Model. The risk-free rate was derived using the current yield on a 10-year US Treasury Bond, 4.54%, minus an assumed 1% premium demanded by purchasers of long-dated bonds. This results in a risk-free rate of 3.54%. We assume a market risk premium of 4% based on our future expectations of long-term stock market returns. The Equity Beta for Epicor was gathered by regressing 13 years of monthly data using the following formula below:
$r_p - r_f = \alpha + \beta(r_m - r_f) + \varepsilon$

We used a number of inputs for $(r_p - r_f)$, and $(r_m - r_f)$ in our calculations. For $(r_m - r_f)$, we used two sources: (1) the CRSP value-weighted returns of the AMEX, NYSE, and NASDAQ indices minus a self-constructed r_f derived from the monthly yield on the risk-free 10-year U.S. Constant Maturity Treasury Note, (2) the Fama-French r_m factor combined with that same r_f from the monthly yield on the risk-free 10-year U.S. Constant Maturity Treasury Note. We calculated $(r_p - r_f)$ using the monthly returns of Epic's equity minus our self-constructed risk-free rate.

We also compiled the Betas reported by Bloomberg as well as the raw and adjusted Beta's calculated by Bloomberg using the S&P Total Return Index. And to contextualize our results, we found the Betas estimated by these methods of Epicor's competitors, which in theory should cluster around Epicor's Beta. Finally, we produced 5-year rolling Beta estimates of Epicor using the CRSP returns described above.

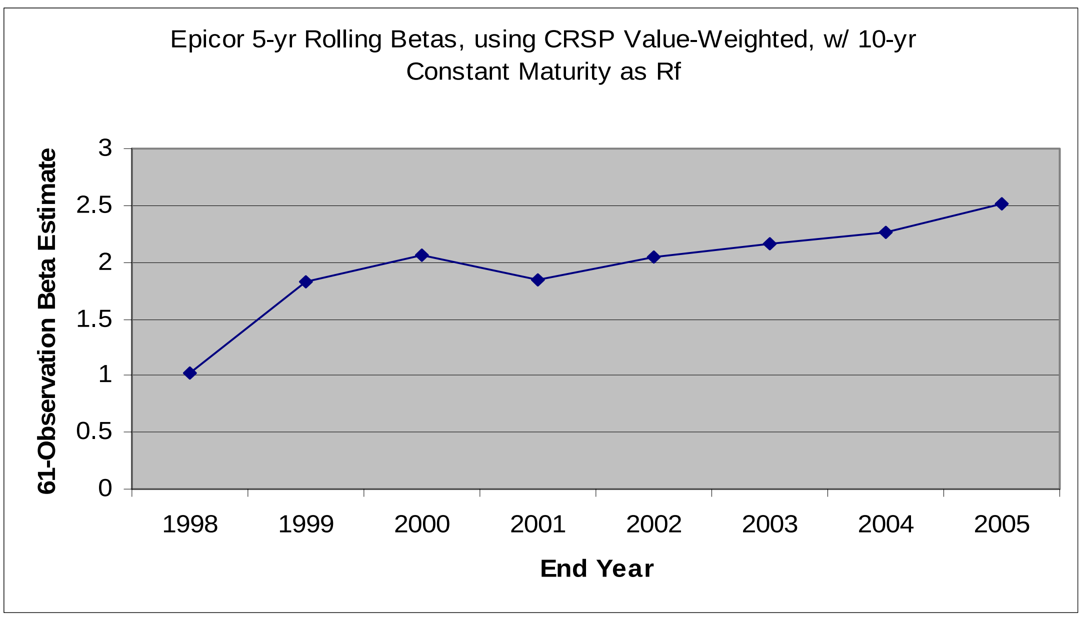
	CRSP Value-Weighted, w/ 10-yr Constant Maturity as Rf	Fama French, w/ 10-yr Constant Maturity as Rf
Lawson	1.95	1.81
IFS	2.06	2.02
Oracle	1.78	1.77
SAP AG	1.47	1.47
Epicor	2.06	2.11
SSAG***	N/A	N/A

***Only 5 data points available due to recent IPO

	Bloomberg Reported	Bloomberg, S&P Total Return, Raw	Bloomberg, S&P Total Return, Adjusted
Lawson	1.1	1.74	1.49
IFS	1.6	2	1.67
QADI	1.39	2.01	1.68
Oracle	1.17	1.59	1.39
SAP AG	1.12	1.4	1.27
Epicor	1.61	1.75	1.5
SSAG***	N/A	1.46	1.3

***Only 5 data points available due to recent IPO

Epicor average Beta, using CRSP data, Fama French data, and the first Bloomberg-Reported Beta.	
Mean	1.926666667
GeoMean	1.91275135



End Year	61 Observation Beta Estimate
1998	1.02
1999	1.82
2000	2.06
2001	1.84
2002	2.04
2003	2.16
2004	2.27
2005	2.52
Mean	1.96625
GeoMean	1.910329864

Given that the industry Beta we previously calculated was 1.86 and that the CRSP and Fama-French estimates of the Betas of comparable firms range from 1.47 to 2.06, we decided that using a Beta of 2.52 would likely overstate the cost of capital. Even though the Beta estimates for Epicor's equity have increased over time, we use 1.91, which is the average of the estimate using CRSP data, the estimate using Fama-French data, and the Bloomberg-Reported Beta. Note that we do not include in this average the Betas generated using S&P 500 Total Return data. Also note that the average of the eight rolling Beta estimates will, by construction, overweight the years in middle of the sample.

We unlever the Beta using the following formula:
$B_a = B_e[E/(E+D(1-T_c))]$

This assumes a debt Beta of zero, based upon the fact that Epicor borrowed its money from a revolving line of credit with a bank with which they have a long-standing relationship. We use $684.87 million as the market value of equity, which was the February 17 Market Capitalization reported by Yahoo! Finance, and $119.639 million as the market value of debt, which is the YE2005 Book Value of Debt minus the $5 million paid down during January 2006, according to the January 31 conference call. We assume an effective tax rate going forward of 39%, which is the value provided by management. Note that some of the future effective tax rates will be lower, due to the YE2005 $37.8 million deferred tax asset from the net operating losses of previous years, but we use 39% in the calculation of the asset beta, because that is the rate relevant to the calculation. These values yield an asset Beta of 1.726.

After calculating Beta, the last step was the calculation of Epicor's cost of capital. With inputs of r_f = 3.54%, β = 1.91, and $(r_m - r_f)$ = 4%, we obtained a cost of capital of 10.444% for Epicor.

Financial Statements and Forecast Assumptions

In this section, we will discuss the assumptions on which the forecasted income statement, balance sheet, and statement of cash flows are based.

Sales

In order to more accurately model sales growth, we broke down the components of sales into license fees, consulting fees, maintenance fees, and other operating revenues, which are mainly hardware sales. We then analyzed the historical relationships of these revenues and considered the evidence for and against the extrapolation of these relationships into the future.

Nearly all of Epicor's non-license revenues are driven by past and present license revenues, because Epicor provides maintenance services, consulting services, and hardware only to clients who have purchased Vantage, iScala, Epicor Enterprise, or CRS Retail Suite software. Using Bloomberg historical data on Epicor, we found a stable relationship between maintenance fees in a given year and the combined license fees of that year and the previous year.

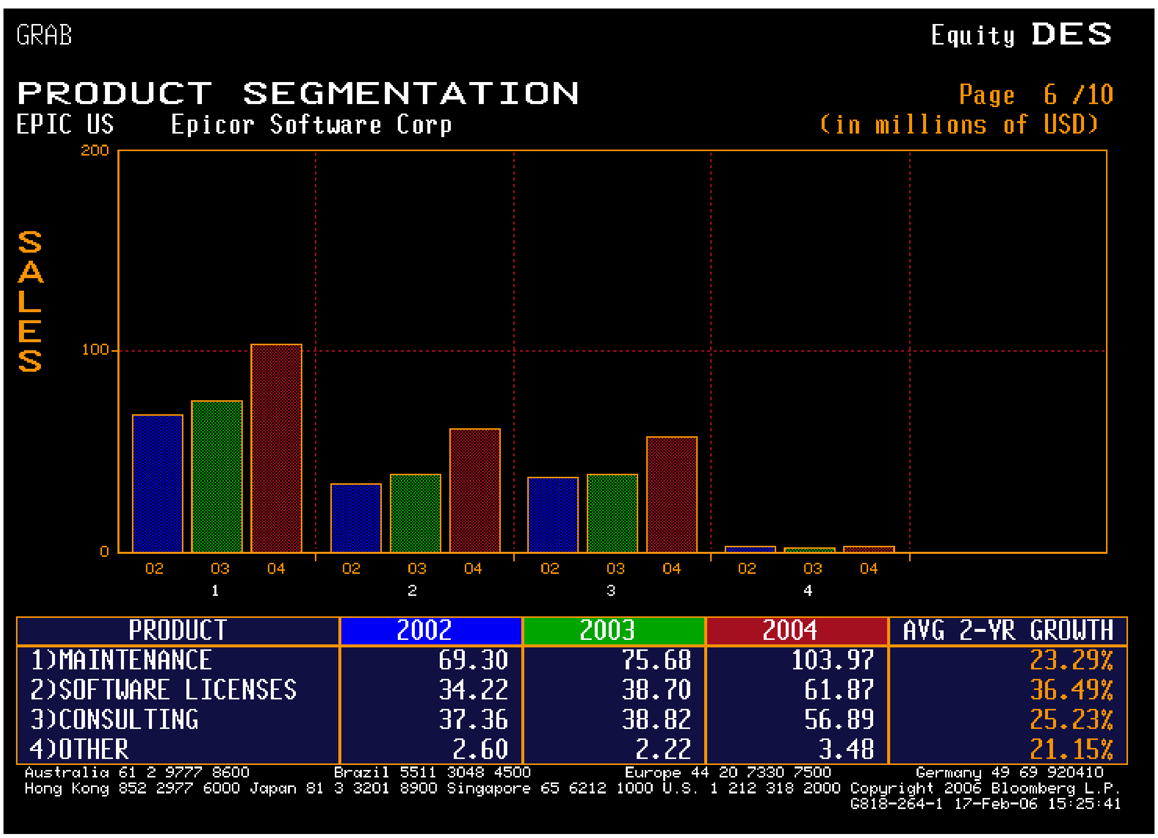
Year	2005	2004	2003
Maintenance fees/ Combined license fees of that year and the previous year	0.919691071	1.033788	1.03792

The three-year average ratio being 0.997, we project this relationship into the future. Note that the stability of this relationship going forward is consistent with our assumption that Epicor will maintain its low maintenance to license ratio, which is currently one of its competitive advantages.

Consulting service revenues in a given year sustain a similar relationship with the combined license fees of that year and the previous year.

Year	2005	2004	2003
Consulting fees/ Combined license fees of that year and the previous year	0.513953423	0.565691	0.532407

The three-year average ratio being 0.537, we project this relationship into the future. The following product segmentation bar graph visually represents these two stable relationships.



PRODUCT	2002	2003	2004	AVG 2-YR GROWTH
1)MAINTENANCE	69.30	75.68	103.97	23.29%
2)SOFTWARE LICENSES	34.22	38.70	61.87	36.49%
3)CONSULTING	37.36	38.82	56.89	25.23%
4)OTHER	2.60	2.22	3.48	21.15%

Source: Bloomberg LP

Since hardware revenues are mainly from the operations of Epicor resulting from Epicor's acquisition of CRS in 2005, projecting the historical relationship of "other revenues" to license revenues into the future would severely underestimate "other revenues" going forward. Instead, we accept the 2006 guidance for "other revenues" provided by management, and forecast future "other revenues" to be 12% of license revenues, as would be the case in 2006. We link other revenues to the license revenues of the current year only, because Epicor's clients purchase hardware from Epicor only to accommodate the newly licensed Epicor software, so the previous year's license revenues are not relevant to current year hardware sales.

The market for ERP products remains strong, with AMR Research finding that over one-third of small and medium-sized businesses currently plan to implement a new ERP system, and more than 70% of businesses surveyed plan to increase their ERP spending during 2006. In addition, market price-to-earnings growth ratios indicate that the market expects long-term earnings growth of 8-9% in the ERP business sector.

We forecast license revenues based on AMR's estimated growth of the market for ERP software, Epicor's historical license sales growth, the competitive positioning of Epicor, the product cycle of Vantage 8.0, management guidance, and the assumption that the industry growth rate for licensing revenues will decline as the market for ERP software is penetrated.

License revenue growth grew 31.7% YoY in 2005 and, according to Bloomberg, 36.49% on average over the two years previously. As Vantage 8.0 remains in the early stages of the product cycle, having been released in January 2005, the demand will likely remain strong. Given the low total cost of ownership offered by Epicor software, the fact that Vantage 8.0 is supported on Microsoft's .NET platform, and the other competitive advantages discussed above, we forecast the Epicor's license revenue growth will continue to outpace that of the industry. The potential for international license revenue growth, accelerated by Epicor's 2004 acquisitions of Scala Business Solutions and Strongline A/S, both of which contribute to Epicor's European market share, further supports this trend. The increase of the sales force at the end of 2005 – 20 new hires according to management – will help facilitate this continued increase in sales.

That said, we expect growth to decelerate due to due increasing market penetration and a gradual erosion of Epicor's competitive advantages. Due to historical software adoption cycles, market demand cycles, and competitive forces, we forecast the next cycle's peak to occur in 2009, after which we linearly decrease our growth rate assumptions until they reach the long term historic US GDP growth rate of 3%, which is our terminal growth rate.

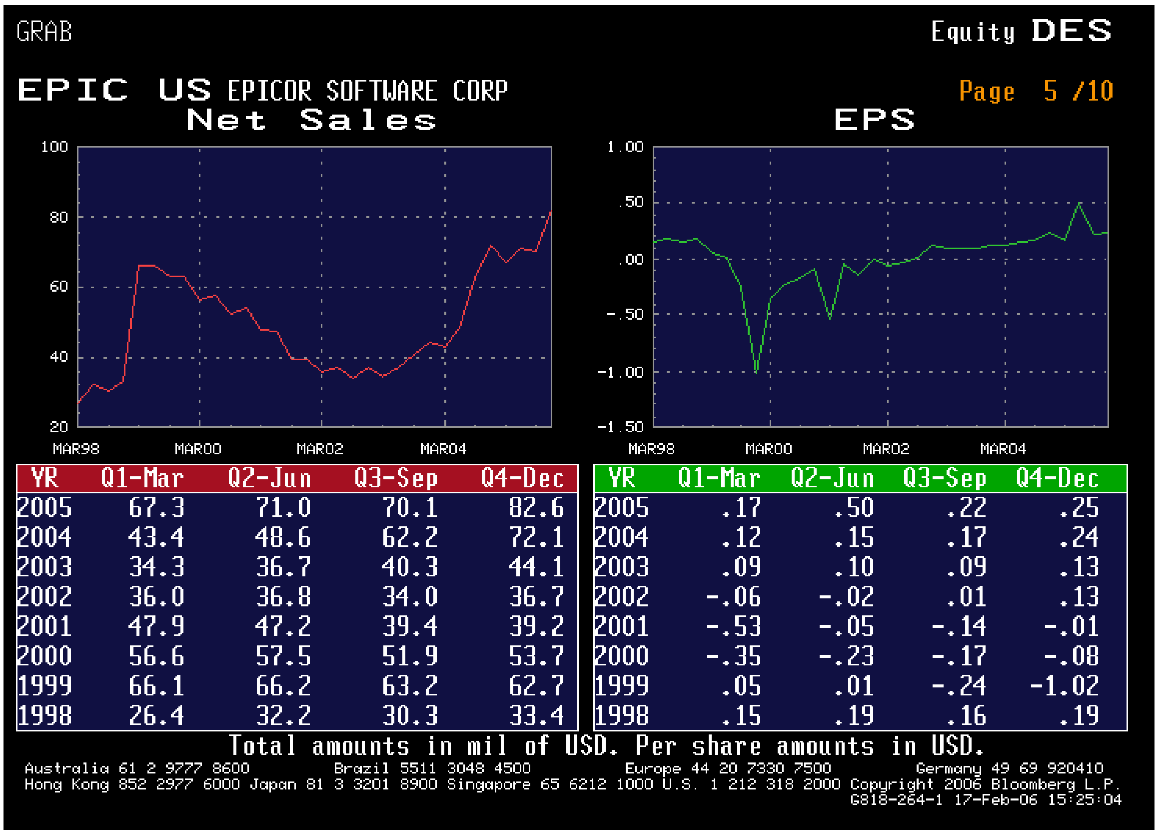
We forecast the following growth rates of license revenues:

2005 Actual	2006	2007	2008	2009	2010	2011	2012	2013	2014 and beyond
0.317	0.200	0.100	0.050	0.200	0.170	0.135	0.100	0.065	0.030

We chose 20% for 2006 because this number results in net sales of 384.824MM, which places it in-line with management's guidance of 380-385MM, and because this growth rate is reasonable based the above discussion. We halve the growth rate each year over the next two years as Vantage 8.0 and ERP spending rates progress through their respective adoption cycles.

As ERP software releases come every 3-5 years, Epicor's next wave of product offerings will most likely to hit the market in between 2008 and 2010, which should produce a spike in license rate growth. We forecast 20% license growth in 2009 instead of 30% or 35% because we expect the competitive advantages of Epicor's product offerings to somewhat weaken, especially internationally, as discussed above. We then linearly reduce this growth rate over the next five years to a terminal growth rate of 3%, our expected average growth rate of the economy going forward.

We represent the cyclicality of Epicor sales due to product cycle in the following graph of net sales. Note also the obvious correlation with the stock market as a whole.



YR	Q1-Mar	Q2-Jun	Q3-Sep	Q4-Dec
2005	67.3	71.0	70.1	82.6
2004	43.4	48.6	62.2	72.1
2003	34.3	36.7	40.3	44.1
2002	36.0	36.8	34.0	36.7
2001	47.9	47.2	39.4	39.2
2000	56.6	57.5	51.9	53.7
1999	66.1	66.2	63.2	62.7
1998	26.4	32.2	30.3	33.4

YR	Q1-Mar	Q2-Jun	Q3-Sep	Q4-Dec
2005	.17	.50	.22	.25
2004	.12	.15	.17	.24
2003	.09	.10	.09	.13
2002	-.06	-.02	.01	.13
2001	-.53	-.05	-.14	-.01
2000	-.35	-.23	-.17	-.08
1999	.05	.01	-.24	-1.02
1998	.15	.19	.16	.19

Source: Bloomberg LP

These sales growth assumption result in following net sales projections (in USD millions):

Date	**Net Sales**	**Date**	**Net Sales**
Dec-05Prelim	291.106	Dec-11E	721.722
Dec-06E	384.824	Dec-12E	802.422
Dec-07E	435.971	Dec-13E	864.259
Dec-08E	465.283	Dec-14E	900.834
Dec-09E	533.547	Dec-15E	927.859
Dec-10E	629.457		

Cost of Goods Sold

We forecast the cost of goods sold based on historical gross margins and, where applicable, the COGS realized by of comparable firms. For cost of licensing and cost of maintenance, we found the 3-year average of past Epicor cost of licensing to license revenues and cost of maintenance to maintenance revenues, all from Bloomberg data. These values are 0.18, and 0.24, respectively, and we project this relationship going forward. For cost of consulting, we assumed a gross margin on consulting of 22.5% going forward, which is the average of Oracle and Lawson's 2004 and 2005 gross margins on consulting. This produces a 0.775 ratio of cost of consulting to consulting fees, which is lower than Epicor's historical ratios of 0.827 to 0.885, as we expect gross margins on consulting to increase in this manner due to cost-cutting going forward. For cost of goods sold of other revenues, we used 0.585, which represents the gross margin on hardware sales for Sun Microsystems, a leading hardware provider. We were not able to discern the historical net margins for CRS Retail Systems, as it was a private company prior to being acquired by Epicor.

Sales, General, & Administrative

We forecast R&D costs to fall to 6% of sales in 2006. Historically, Epicor has lowered its R&D expense after the release of a major new product. We then forecast linear increases in R&D to sales until it reaches a high of 10.98% in 2009, which approximates the beginning of the next major product cycle. We then forecast this number to fall below its historic average, to 9.5% from 2011-2015, due to an increased offshoring of Epicor's R&D personnel to the firm's development centers in Russia and Mexico.

Synergies resulting from the merger with CRS should reduce Sales and Marketing expenses to 20% of sales, down from their value of 21% during 2005. We also forecast no restructuring costs going forward because we have no information regarding the timing or restructuring demands of future mergers and acquisitions activities.

We scale all other SG&A items with sales based on the stable relationships between the 2004 and 2005 line items and 2004 and 2005 net sales.

These assumptions result in YoY SG&A growth of 17.9% in 2006, decreasing more or less linearly to 3%, which again is the terminal growth rate.

Other Income Statement Items

We forecast depreciation using a plug that allows capital expenditures and PP&E to grow endogenously as a function of sales growth and parameters. We discuss those forecasts later on in the report. We forecast that Epicor will amortize $9 million per year of their 2005 intangible assets, which assumes straight-line amortization over the next 10 years.

We calculate long-term debt interest expense as the cost of debt, 6.5%, multiplied by outstanding long-term debt at the end of the previous year. Note that this assumes no gains or losses in the repayment of the debt.

Based on management's position as of January 31, 2006, we assume a 39% effective tax rate going forward. However, at YE 2005, Epicor held a $37.8MM deferred tax asset from net operating losses. Management plans to use this to reduce its effective tax rate to 10% next year, and we assume that they will continue this strategy until the net operating loss (NOL) carryforward runs out, which we project to occur in 2007.

Balance Sheet Assumptions

We forecast cash and cash equivalents by adding net cash flow to the previous year's cash balance. We reduce the deferred tax asset by the amount that we expected the firm to utilize that year. Goodwill stays constant; it is not amortized. We increase investments in equity by 20MM per year, because while we expect management to engage in future acquisitions, we cannot predict the timing or cash value of those purchases. As per accounting regulations, non-consolidated equity investments are not amortized.

We forecast intangibles assuming $9MM of amortization each year in addition to investments in new intangibles. We forecast long-term debt by subtracting the debt repayment from the previous year's debt outstanding. Again, we assume that Epicor will use half of its operating income before depreciation and amortization each year to pay down this debt.

We scale receivables, inventories, prepaid expenses, other current assets, other assets, accounts payable, accrued expenses, and other current liabilities with sales growth. Given the above assumptions, the Cash Flow Statement is easily constructed, and we generate all-equity cash flows that increase from $75.552 million in 2006 to $101.021 million in 2015. Note that we exclude cash in our working capital calculation because it simply accumulates on the balance sheet and, as such, is not 'working' for the firm. As such, we removed cash from the discounted free cash flow calculations and added the cash balance back to our valuation after the all-equity cash flow value had been determined.

Margins, EVA, Ratios

Our model results in the following margins, ratios, EVA, and price multiples going forward:

	Dec-06E	Dec-07E	Dec-08E	Dec-09E	Dec-10E	Dec-11E	Dec-12E	Dec-13E	Dec-14E	Dec-15E
Gross Margin	0.631	0.629	0.628	0.631	0.630	0.630	0.629	0.629	0.628	0.628
Operating Margin, before Depreciation	0.216	0.198	0.180	0.166	0.172	0.180	0.179	0.179	0.178	0.178
Operating Margin, after Depreciation	0.188	0.168	0.150	0.141	0.150	0.159	0.159	0.158	0.156	0.156
Net Margin	0.148	0.142	0.088	0.086	0.092	0.097	0.097	0.096	0.095	0.095
Return on Equity	0.323	0.262	0.138	0.136	0.150	0.159	0.152	0.141	0.128	0.117
Return on Assets	0.132	0.126	0.077	0.084	0.092	0.096	0.093	0.087	0.081	0.076
Asset Turnover	0.890	0.889	0.874	0.974	1.007	0.993	0.957	0.906	0.846	0.794
Net Income Growth	0.130	0.085	-0.336	0.120	0.258	0.214	0.109	0.071	0.033	0.029
Economic Value Added										
Return on Beginning Book Value (ROE)	0.323	0.262	0.138	0.136	0.150	0.159	0.152	0.141	0.128	0.117
Cost of Capital	0.104	0.104	0.104	0.104	0.104	0.104	0.104	0.104	0.104	0.104
EVA (subtracted)	38.463	37.126	9.950	10.596	17.640	23.943	24.257	21.625	15.666	9.183
EVA, % of Equity	0.219	0.158	0.034	0.031	0.046	0.054	0.047	0.037	0.023	0.012
Market Value	929.490	926.939	968.660	1004.677	1029.966	1047.183	1060.172	1071.434	1084.222	1096.320
P/E, forward	15.066	22.628	21.109	17.405	14.702	13.480	12.747	12.474	12.267	
P/BV, using YE Book Value	3.951	3.122	2.867	2.618	2.333	2.047	1.799	1.593	1.430	1.295
P/S, forward	2.132	1.992	1.816	1.596	1.427	1.305	1.227	1.189	1.169	

Our model predicts Epicor to produce economic profit at the terminal date, albeit low relative to equity levels. We foresee Price to Book Value to approach, but not reach one, as they do. Return on Equity gradually falls from 49.8% to 11.7%, just above the cost of capital of 10.44%.

Model Results & Valuation Summary

Using the Adjusted Present Value methodology discussed above, the formula [PV(All Equity Cash Flows) + PV (Debt Tax Shield) - Debt Outstanding + Cash] resulted in an equity value of $920.11 million, or $15.88 per share. This represents a 27% premium over the market price of $12.52 per share. Note that we calculate the debt tax shield as a function of our expectations of debt levels, because we do not forecast a constant level of debt in the future, so we cannot use a modified annuity formula. We feel comfortable adding cash to the calculation, because we do not include cash in our working capital definition, so we have therefore avoided double-counting cash.

Exhibit 3 contains our full discounted cash flow analysis.

Relative Valuation

Epicor's relative valuation was calculated using a range of public comparable and acquisition comparable metrics. Public comparable metrics were calculated for Lawson, SAP, Oracle, QAD Systems, SSA Global, and the Application Software industry using data from Morningstar and Yahoo! Finance (which itself uses data from Capital IQ and Thomson Financial Data). Price-to-forward earnings, price-to-book value, price-to-revenue, price-to-five year earnings growth, enterprise value-to-EBITDA, and enterprise value-to-revenue were calculated for each comparable company and for the industry as a whole. The results were then averaged to determine a single multiple for each metric which was applied to the relevant measure for Epicor to arrive at a market valuation. A summary of the comparable metrics and resulting valuations are listed below.

Public Comparables	**Multiple**	**Valuation**
Price / Forward Earnings	20.34	$ 19.90
Price / Book Value	4.99	$ 15.13
Price / Revenue	2.31	$ 15.33
EV / EBITDA	21.19	$ 15.68
EV / Revenue	2.24	$ 14.83
Average:		**$ 16.17**
Premium/Discount:		29.50%

In addition to public comparable metrics, we also calculated Epicor's relative value based upon acquisition comparables from four marquee transactions within the ERP space (Lawson/Intentia, PeopleSoft/JD Edwards, Oracle/PeopleSoft, and Microsoft/Great Plains) and a recent acquisition involving a similar-sized company within the application software industry (IBM/Micromuse). Based on deal analytics from Bloomberg, we calculated price-to-forward earnings, price-to-book value, price-to-revenue, price-to-assets, and enterprise value-to-EBITDA multiples for each of the five transactions, then averaged the results to arrive at a single multiple for each valuation metric. Each average multiple was then applied to the relevant measure for Epicor to arrive at a likely merger price. From the likely merger price, we removed the historical industry merger premium of 38.43% from the valuation to arrive at an adjusted price.

Acquisition Comparables	Multiple	Valuation
Price / Forward Earnings	36.75	$ 35.95
Price / Book Value	3.62	$ 10.99
Price / Revenue	3.22	$ 21.38
Price / Total Assets	2.15	$ 16.04
EV / EBITDA	28.44	$ 21.05
Average:		**$ 21.08**
Premium/Discount:		68.36%
Average Merger Premium:		38.43%
Valuation w/o Premium:		**$ 15.23**
Premium/Discount:		21.63%

Exhibit 4 details the full relative valuation model used to derive the tables above.

Exhibit 1: **Epicor Management Team** *(source: Company)*

L. George Klaus
Chairman of the Board, CEO and President

George Klaus is Chairman, President and CEO of Epicor Software Corporation, a leading provider of integrated enterprise software solutions for midmarket companies. Since joining Epicor in 1996, Klaus has grown the Company's revenue base by more than 5 times. Under Klaus' leadership, Epicor returned to profitable growth yielding a ten fold increase in market capitalization. With over 25 years of experience in high tech, Klaus achieved industry prominence when he restored Frame Technology to consistent profitability through 1995. Prior to Frame, Klaus was president of VALID Logic, COO of Cadence Design Systems, and President and CEO of Sytek/Hughes LAN Systems. Other previous executive roles included three years with Amdahl Corporation and thirteen years with Control Data Corporation. Klaus holds a Bachelor of Science degree in mathematics from California State University, Northridge and did graduate work in math and business at UCLA. He currently serves on the Board of Directors for FileNET Corporation (NASDAQ: FILE) and the University California, Irvine – Information & Computer Science CEO Advisory Board.

Mark Duffell
President and Chief Operating Officer

Mr. Duffell has been with Epicor since 1996, most recently in the position of executive vice president, worldwide operations where he has been responsible for worldwide sales, marketing and product development. Previously, Duffell was executive vice president and general manager responsible for the Epicor's Enterprise and International operating divisions. In his current role, Duffell will have broader responsibilities across all corporate operations in the company, including sales, marketing, development, services and support worldwide. Duffell reports to George Klaus, chairman and CEO.

Michael Piraino
Executive Vice President and Chief Financial Officer

Mr. Piraino joined Epicor in 2003 as senior vice president and chief financial officer. Piraino has over 30 years experience in senior executive and financial roles predominately in the technology sector. Prior to joining Epicor, Piraino held senior finance positions at a number of public companies including Data Processing Resources Corporation, Total Pharmaceutical Care, and Syncor International. He also held the dual titles of CFO and CEO at Emergent Information Technologies. Piraino began his career in public accounting having spent more than nine years at Deloitte & Touche LLP. Piraino is responsible for the company's financial and administrative functions worldwide and reports to George Klaus, chairman and CEO.

John Hiraoka
Senior Vice President and Chief Marketing Officer

Mr. Hiraoka has been with Epicor since 1984, most recently as senior vice president, worldwide marketing and business development. Prior to heading Epicor's marketing organization and corporate and product strategy functions, Hiraoka served as Epicor's senior vice president of strategy and business development with responsibility for overall corporate strategy, strategic partnerships, alliances, mergers and acquisitions. As chief marketing officer, Hiraoka is responsible for all corporate communications, marketing, corporate and product strategy and business development worldwide. He reports to Mark Duffell, president and chief operating officer.

Exhibit 2: Vantage 8.0 Product Suite: Key Components *(source: Company)*

Customer Relationship Management (CRM)
- Vantage CRM
- Vantage mobileConnect (remote CRM connection software)
- eMail Connect

Sales Management
- Quote Management
- Order Management
- Product Configuration

Planning
- Vantage Product Lifecycle Management
- MRP (Material Requirements Planning)
- Vantage Scheduling
- Advanced Planning and Scheduling
- Multi-Site Management

Production
- Job Management
- Advanced Bill of Materials
- Data Collection
- Quality Assurance
- Advanced Quality Management
- Field Service
- Document Management

Materials Management
- Inventory Management
- Shipping/Receiving
- Advanced Shipping Management
- Supplier Relationship Management
- Purchasing Management
- Advanced Materials Management

Financial Management
- Accounts Receivable
- Accounts Payable
- General Ledger
- Currency Management
- Payroll
- FRx (Financial Reporting software)
- Open Active Planner

Epicor Business Intelligence
- ShopVision Executive Query (Query and Reporting engine)
- Vantage Business Intelligence

eBusiness Suite
- Customer Connect
- Supplier Connect
- Sales Connect
- EDI (Provides connectivity interface with other manufacturing service providers)

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Exhibit 3: Discounted Cash Flow Valuation

Terminal Growth=	3%
Cost of Capital=	10.444%
Cost of Debt=	6.50%
Effective Tax Rate=	39%
Equity Premium=	4%

Market Value of Equity=	684.87	million
Market Value of Debt=	119.639	million
Shares Outstanding=	58	million
TARGET PRICE:	**15.88805**	per share

Equity Beta=	1.91	
Asset Beta=	1.7260699	Ba=Be[E/(E+D(1-Tc))], assuming Debt Beta=0
Rf=	0.0354	
Ra=Rf+Ba(.04)=	0.1044428	

APV=PV(All Equity Cash Flows) + PV (Debt Tax Shield) - Debt Outstanding + Cash

APV Value of Equity= 921.50668 million

		FCFt	Gross Discount Rate
PV(FCF2006)=	69.396965	75.698947	1.09081063
PV(FCF2007)=	82.696544	99.627412	1.204734892
PV(FCF2008)=	41.402766	55.088756	1.330557404
PV(FCF2009)=	44.333718	65.149321	1.469520819
PV(FCF2010)=	49.069431	79.639568	1.622997574
PV(FCF2011)=	50.405835	90.352632	1.79250344
PV(FCF2012)=	48.683304	96.378945	1.979712499
PV(FCF2013)=	45.489933	99.462541	2.186473673
PV(FCF2014)=	41.043127	99.112133	2.414828983
Terminal Value=	509.42404	101.13799	2.667033722

PV(All Equity Cash Flows)= 981.94566

PV(Tax Shield at Time T)= 0.39*(0.065*Debt Outstanding YE T-1)/Debt Cost of Capital

		Int Expense	Discount Rate
PV(Tax Shield2006)	4.9419364	8.101535	1.0000000
PV(Tax Shield2007)	3.0927037	5.3995564	1.0650000
PV(Tax Shield2008)	1.3973745	2.5982575	1.1342250
PV(Tax Shield2009)	6.31E-06	1.25E-05	1.2079496

PV(Debt Tax Shield)= 9.4320208

Cash= 49.768

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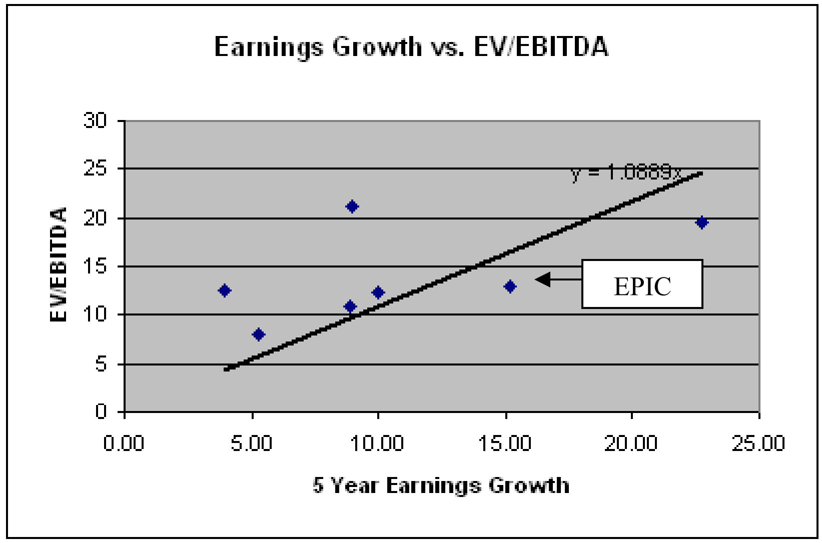
Exhibit 4: Epicor Relative Valuation Metrics

Assumptions:

Epicor price (2/17/06)	$	12.52
2006E EPS:	$	0.98
2006E EPS fully taxed:	$	0.68
2006E EBIT	$	1.25
2006E Sales:	$	385
2006E Shares:		58
2005 EBIT:	$	42.92
2005 Book Value:	$	176.01
2005 Assets:	$	432.20

** 2005 data from company Q4 earnings release*



Public Comparables:

Ticker	Name	P/E (forward)	EV/EBITDA	EV/Sales	P/B	P/S	PEG	EPS Growth:
EPIC	Epicor Software	12.80	13.02	2.57	4.03	2.32	0.82	15.20
LWSN	Lawson Software	20.13	12.524	1.6	2.56	2.34	1.99	3.94
ORCL	Oracle Corp.	13.46	12.345	4.8	5.29	4.98	1.24	10.01
QADI	QAD Inc.	15.08	7.958	1	4.62	1.16	1.50	5.27
SAP	SAP AG	23.74	19.471	5.8	9.13	6.2	2.24	22.69
SSAG	SSA Global, Inc.	13.75	10.947	1.82	4.28	1.65	2.00	8.89
Industry		20.34	21.192	2.24	4.99	2.31	1.57	9.00

** EPIC data from analyst projections; all other data from Yahoo! Finance*

Estimates:	$ 19.90	$ 15.68	$ 14.83	$ 15.13	$ 15.33
Valuation:	**$ 16.17**				
Premium/Discount:	**29.50%**				

Acquisition Comparables:

Deal	Completion Date	P/E (forward)	EV/EBITDA	P/EBIT	P/B	P/S	P/Assets	Premium
Oracle/PeopleSoft	1/10/2005	47.6	23.51	33.44	4.13	4.36	2.91	69.60%
Peoplesoft/JD Edwards	8/29/2003	25.9	14.63	44.9	2.88	1.55	1.63	20.38%
Microsoft/Great Plains	4/5/2001	NM	30.73	NM	4.19	4.87	2.92	27.37%
Lawson/Intentia	4/30/2006	NM	NM	NM	3.6	1.03	1.22	42.71%
IBM/Micromuse	2/15/2006	NM	44.88	110.14	3.3	4.3	2.08	32.07%

** All acquisitions data from Bloomberg*

Averages:	36.75	28.44	62.83	3.62	3.22	2.15	38.43%
Estimates:	$ 35.95	$ 21.05	NM	$ 10.99	$ 21.38	$ 6.04	
Valuation:	**$ 21.08**						
Premium/Discount:	**68.36%**						

Valuation without merger premium:	**$ 15.23**
Premium/Discount:	**21.63%**

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Appendix 1 – Discounted Cash Flow Model

Income Statement

	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05P	Dec-06E	Dec-07E	Dec-08E	Dec-09E	Dec-10E	Dec-11E	Dec-12E	Dec-13E	Dec-14E	Dec-15E
Sales (Net)	**219.77**	**171.01**	**143.47**	**155.42**	**226.21**	**291.11**	**384.82**	**435.97**	**465.28**	**533.55**	**629.46**	**721.72**	**802.42**	**864.26**	**900.83**	**927.86**
License fees					61.87	81.47	97.76	107.53	112.91	135.49	158.53	179.93	197.92	210.78	217.11	223.62
Consulting					56.89	73.67	96.24	110.24	118.38	133.39	157.89	181.75	202.90	219.47	229.78	236.67
Maintenance					103.97	131.82	179.22	205.29	220.44	248.40	294.02	338.45	377.85	408.71	427.89	440.73
Other					3.48	4.15	11.60	12.90	13.55	16.26	19.02	21.59	23.75	25.29	26.05	26.83
Total Sales Growth	-0.15	-0.22	-0.16	0.08	0.46	0.29	0.32	0.13	0.07	0.15	0.18	0.15	0.11	0.08	0.04	0.03
License fees Sales Growth						0.32	0.20	0.10	0.05	0.20	0.17	0.14	0.10	0.07	0.03	0.03
Consulting Sales Growth						0.29	0.31	0.15	0.07	0.13	0.18	0.15	0.12	0.08	0.05	0.03
Maintenance Sales Growth						0.27	0.36	0.15	0.07	0.13	0.18	0.15	0.12	0.08	0.05	0.03
Other Sales Growth						0.19	1.79	0.11	0.05	0.20	0.17	0.14	0.10	0.06	0.03	0.03
Cost of Goods Sold	89.70	68.05	55.67	56.39	76.98	104.45	141.98	161.61	172.90	196.90	232.59	267.10	297.45	320.92	335.09	345.15
Cost of Licensing							17.60	19.36	20.32	24.39	28.53	32.39	35.63	37.94	39.08	40.25
Cost of Consulting							74.59	85.44	91.74	103.38	122.36	140.86	157.25	170.09	178.08	183.42
Cost of Maintenance							43.01	49.27	52.91	59.62	70.56	81.23	90.68	98.09	102.69	105.78
Cost of Other							6.79	7.55	7.93	9.51	11.13	12.63	13.89	14.80	15.24	15.70
Gross Profit	130.07	102.96	87.80	99.03	149.23	186.66	242.84	274.36	292.38	336.65	396.87	454.62	504.97	543.34	565.74	582.71
Selling, General, & Admin Expenses	155.66	122.13	80.35	80.23	111.78	135.43	159.70	188.17	208.59	247.99	288.61	324.77	361.09	388.92	405.38	417.54
Sales and Marketing					47.98	61.03	76.96	87.19	93.06	106.71	125.89	144.34	160.48	172.85	180.17	185.57
Software Development (R&D)					24.74	28.45	23.09	33.40	43.41	58.58	65.15	68.56	76.23	82.10	85.58	88.15
G&A					35.04	41.41	53.88	61.04	65.14	74.70	88.12	101.04	112.34	121.00	126.12	129.90
Stock-Based Compensation					2.62	2.63	3.85	4.36	4.65	5.34	6.29	7.22	8.02	8.64	9.01	9.28
Provision for Doubtful Accounts					1.49	1.54	1.92	2.18	2.33	2.67	3.15	3.61	4.01	4.32	4.50	4.64
Restructuring charges and other					2.38	0.36	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Settlement of claim and other 2004 SGA					-0.28	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SG&A Growth, YoY						0.21	0.18	0.18	0.11	0.19	0.16	0.13	0.11	0.08	0.04	0.03
Sales and Marketing, Growth						0.27	0.26	0.13	0.07	0.15	0.18	0.15	0.11	0.08	0.04	0.03
Software Development (R&D), Growth						0.15	-0.19	0.45	0.30	0.35	0.11	0.05	0.11	0.08	0.04	0.03
G&A, Growth						0.18	0.30	0.13	0.07	0.15	0.18	0.15	0.11	0.08	0.04	0.03
Stock-Based Compensation, Growth						0.00	0.47	0.13	0.07	0.15	0.18	0.15	0.11	0.08	0.04	0.03

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Operating Income Before Depreciation & Amortization	**-25.59**	**-19.17**	**7.45**	**18.80**	**37.45**	**51.23**	**83.14**	**86.19**	**83.80**	**88.66**	**108.26**	**129.84**	**143.88**	**154.42**	**160.37**	**165.18**
Depreciation & Amortiz	14.49	11.47	8.89	8.44	10.45	16.06	10.70	12.80	14.04	13.43	13.63	15.00	16.52	18.08	19.55	20.29
Depreciation						3.85	1.46	3.80	5.04	4.43	4.63	6.00	7.52	9.08	10.55	11.29
Amortization of Intangibles						12.20	9.24	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Operating Income After Depreciation (EBIT)	**-40.09**	**-30.65**	**-1.44**	**10.36**	**27.01**	**35.18**	**72.44**	**73.39**	**69.75**	**75.23**	**94.63**	**114.85**	**127.35**	**136.34**	**140.81**	**144.89**
Interest Expense	0.63	1.10	0.42	0.07	0.60	1.17	8.10	5.40	2.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-Operating Income/Expense	1.28	1.29	0.58	0.34	2.52	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Special Items	-1.30	1.72	-7.18	-0.94	-2.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Pretax Income	-40.74	-28.73	-8.46	9.69	26.82	34.01	64.34	67.99	67.15	75.23	94.63	114.85	127.35	136.34	140.81	144.89
Income Taxes - Total	0.00	0.00	-1.20	0.40	1.34	3.13	25.09	26.52	26.19	29.34	36.91	44.79	49.67	53.17	54.92	56.51
Minority Interest	0.00	0.00	0.00	0.00	0.17	-0.09	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-Cash Income Tax Benefit						19.51	17.60	20.22	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Income (Loss)	**-40.74**	**-28.73**	**-7.26**	**9.29**	**25.31**	**50.30**	**56.85**	**61.70**	**40.96**	**45.89**	**57.72**	**70.06**	**77.69**	**83.17**	**85.89**	**88.38**

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Balance Sheet

STATEMENT OF FINANCIAL POSITION	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05P	Dec-06E	Dec-07E	Dec-08E	Dec-09E	Dec-10E	Dec-11E	Dec-12E	Dec-13E	Dec-14E	Dec-15E
ASSETS																
Cash & Equivalents	26.83	24.44	31.31	39.38	53.71	49.77	68.38	94.28	83.18	115.51	158.65	214.25	277.92	347.78	421.30	497.67
Receivables - Total (Net)	60.42	31.38	22.47	27.13	55.30	67.73	89.53	101.43	108.25	124.13	146.45	167.91	186.69	201.08	209.59	215.87
Inventories - Total	0.00	0.00	0.00	0.00	0.00	4.57	6.04	6.85	7.31	8.38	9.89	11.34	12.60	13.57	14.15	14.57
Prepaid Expenses (and other Current Assets)	C	C	C	C	0.25	6.75	8.92	10.11	10.79	12.37	14.59	16.73	18.60	20.04	20.88	21.51
Current Assets - Other	5.83	5.32	3.98	5.27	6.47	3.27	4.32	4.90	5.23	6.00	7.07	8.11	9.02	9.71	10.12	10.43
Deferred income taxes					0.00	7.80	20.22	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current Assets - Total	**93.08**	**61.14**	**57.76**	**71.78**	**115.73**	**139.89**	**197.42**	**217.57**	**214.75**	**266.39**	**336.65**	**418.34**	**504.83**	**592.17**	**676.04**	**760.06**
Plant, Property & Equip (Gross)	45.77	46.07	26.33	29.86	37.03	45.19	50.31	56.11	62.29	69.39	77.76	87.36	98.03	109.53	121.51	133.85
Accumulated Depreciation	33.68	39.81	23.36	26.82	29.98	33.83	35.29	39.10	44.14	48.58	53.21	59.20	66.73	75.81	86.37	97.65
Depreciation Expense						3.85	1.46	3.80	5.04	4.43	4.63	6.00	7.52	9.08	10.55	11.29
Plant, Property & Equip (Net)	12.09	6.26	2.97	3.04	7.05	11.36	15.01	17.01	18.15	20.82	24.56	28.16	31.31	33.72	35.14	36.20
Deferred income taxes						30.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Goodwill						155.26	155.26	155.26	155.26	155.26	155.26	155.26	155.26	155.26	155.26	155.26
Investments at Equity	0.00	0.00	0.00	0.00	0.00	0.00	20.00	40.00	60.00	80.00	100.00	120.00	140.00	160.00	180.00	200.00
Investments and Advances - Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Intangibles	19.12	12.56	8.48	23.69	128.57	91.33	96.73	96.26	92.57	94.62	100.74	106.32	110.20	111.31	108.69	104.67
Deferred Charges	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assets - Other	10.50	6.81	4.06	3.71	4.41	4.34	5.74	6.50	6.94	7.96	9.39	10.76	11.97	12.89	13.43	13.84
TOTAL ASSETS	**134.79**	**86.77**	**73.27**	**102.22**	**255.75**	**432.20**	**490.15**	**532.59**	**547.67**	**625.04**	**726.59**	**838.84**	**953.56**	**1065.34**	**1168.57**	**1270.02**
LIABILITIES																
Accounts Payable	11.18	6.54	3.39	5.96	10.44	12.20	16.13	18.27	19.50	22.36	26.38	30.25	33.63	36.22	37.76	38.89
Notes Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00
Accrued Expenses	33.88	29.26	28.05	28.16	51.06	60.57	80.07	90.71	96.81	111.01	130.97	150.16	166.95	179.82	187.43	193.05
Taxes Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt (Long-Term) Due In One Year	4.67	3.66	2.23	0.00	0.35	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Current Liabilities	45.37	37.92	35.82	37.35	60.21	57.22	75.64	85.69	91.45	104.87	123.72	141.85	157.71	169.87	177.06	182.37

Total Current Liabilities	**95.10**	**77.37**	**69.48**	**71.46**	**122.06**	**130.09**	**171.83**	**195.67**	**209.76**	**241.24**	**285.07**	**327.26**	**364.30**	**392.91**	**410.24**	**423.31**
Long Term Debt	5.62	2.23	0.00	0.00	30.26	124.64	83.07	39.97	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Taxes (Balance Sheet)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investment Tax Credit	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Minority Interest	0.00	0.00	0.00	0.00	C	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Liabilities - Other	0.00	0.00	0.00	1.36	2.46	1.46	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL LIABILITIES	**100.72**	**79.60**	**69.48**	**72.81**	**154.79**	**256.18**	**254.90**	**235.64**	**209.76**	**241.24**	**285.07**	**327.26**	**364.30**	**392.91**	**410.24**	**423.31**
Total Shareholder's Equity	**34.07**	**7.17**	**3.79**	**29.41**	**100.96**	**176.01**	**235.25**	**296.95**	**337.91**	**383.80**	**441.52**	**511.58**	**589.26**	**672.43**	**758.33**	**846.71**
SHAREHOLDERS' EQUITY																
Preferred Stock, Par Value	7.50	7.50	4.86	10.42	3.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Common Stock, Par Value	0.04	0.04	0.04	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Capital Surplus	230.86	232.77	238.42	247.09	305.89	338.54	338.54	338.54	338.54	338.54	338.54	338.54	338.54	338.54	338.54	338.54
Retained Earnings (Net Other)	-204.33	-233.14	-239.45	-227.82	-203.59	-149.51	-92.66	-30.97	10.00	55.89	113.61	183.67	261.35	344.52	430.41	518.80
Less: Treasury Stock	0.00	0.00	0.09	0.32	4.43	10.68	10.68	10.68	10.68	10.68	10.68	10.68	10.68	10.68	10.68	10.68
Less: Unamortized stock compensation expense						2.40	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL SHAREHOLDERS' EQUITY	**34.07**	**7.17**	**3.79**	**29.41**	**100.96**	**176.01**	**235.25**	**296.95**	**337.91**	**383.80**	**441.52**	**511.58**	**589.26**	**672.43**	**758.33**	**846.71**
TOTAL LIABILITIES & EQUITY	134.79	86.77	73.27	102.22	255.75	432.20	490.15	532.59	547.67	625.04	726.59	838.84	953.56	1065.34	1168.57	1270.02

Yale SCHOOL of MANAGEMENT

Statement of Cash Flows

STATEMENT OF CASH FLOWS	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05Prelim	Dec-06E	Dec-07E	Dec-08E	Dec-09E	Dec-10E	Dec-11E	Dec-12E	Dec-13E	Dec-14E	Dec-15E
Free Cash Flow to Debt and Equity							**75.70**	**99.63**	**55.09**	**65.15**	**79.64**	**90.35**	**96.38**	**99.46**	**99.11**	**101.14**
After-tax EBIT							44.19	44.77	42.55	45.89	57.72	70.06	77.69	83.17	85.89	88.38
-CapEx							-5.12	-5.80	-6.19	-7.10	-8.37	-9.60	-10.67	-11.49	-11.98	-12.34
-Changes in Working Capital							2.83	29.60	5.80	12.18	16.70	16.11	14.21	11.12	6.99	5.43
-Net Increase in Deferred Tax Asset							17.60	20.22	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
+Depreciation and Amortization							16.06	10.70	12.80	14.04	13.43	13.63	15.00	16.52	18.08	19.55
Total Net Cash Flow						**174.77**	**18.61**	**25.91**	**-11.11**	**32.33**	**43.14**	**55.60**	**63.67**	**69.85**	**73.53**	**76.37**
INDIRECT OPERATING ACTIVITIES																
Net Income	-40.74	-28.73	-7.26	9.29	25.31	50.30	56.85	61.70	40.96	45.89	57.72	70.06	77.69	83.17	85.89	88.38
Depreciation and Amortizations	17.04	14.11	10.66	9.23	10.45	16.06	10.70	12.80	14.04	13.43	13.63	15.00	16.52	18.08	19.55	20.29
Extraordinary Items and Disc. Operations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Taxes	0.00	0.00	0.00	0.00	0.00	19.51	17.60	20.22	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Equity in Net Loss (Earnings)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sale of PPEq and Investments - Loss (Gain)	0.00	-11.88	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Funds from Operations - Other	25.12	22.10	9.20	3.21	6.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables - Decrease(Increase)	-3.17	17.37	10.27	1.11	-18.73	-12.43	-21.80	-11.90	-6.82	-15.88	-22.31	-21.47	-18.78	-14.39	-8.51	-6.29
Inventory - Decrease (Increase)	0.00	0.00	0.00	0.00	0.00	-4.57	-1.47	-0.80	-0.46	-1.07	-1.51	-1.45	-1.27	-0.97	-0.57	-0.42
Accounts/P and Accrued Liabs - Inc(Dec)	-11.41	-18.61	-10.96	-2.50	-5.32	11.27	23.43	12.79	7.33	17.06	23.97	23.06	20.17	15.46	9.14	6.76
Income Taxes - Accrued - Increase(Decrease)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Assets and Liabilities - Net Change	9.47	-3.33	-1.40	-3.43	9.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Actiities - Net Cash Flow	**-3.69**	**-8.97**	**10.49**	**16.92**	**27.71**	**80.14**	**85.30**	**94.80**	**55.06**	**59.43**	**71.51**	**85.20**	**94.34**	**101.35**	**105.51**	**108.71**
INVESTING ACTIVITIES																
Investments - Increase	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sale of Investments	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Short term Investments - Change	12.15	0.00	0.00	-0.50	0.50		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Expenditures	5.14	1.60	0.80	1.35	4.45		5.12	5.80	6.19	7.10	8.37	9.60	10.67	11.49	11.98	12.34
Sale of Property Plant and Equipment	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Acquisitions	0.00	0.00	1.00	19.03	36.91		20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Investing Activities - Other	-6.80	11.41	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investing Activites - Net Cash Flow	**0.22**	**9.81**	**-1.80**	**-20.88**	**-40.86**	**0.00**	**-25.12**	**-25.80**	**-26.19**	**-27.10**	**-28.37**	**-29.60**	**-30.67**	**-31.49**	**-31.98**	**-32.34**
FINANCING ACTIVITIES																

Sale of Common and Preferred Stock	2.24	0.88	0.89	7.01	3.48	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Purchase of Common and Preferred Stock	0.00	C	0.45	0.24	4.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash Dividends	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Debt - Issuance	10.00	0.00	0.00	0.00	30.00	94.64	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Debt - Reduction	1.58	4.40	3.68	0.00	0.00	0.00	41.57	43.10	39.97	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current Debt - Changes	C	C	C	-2.23	C	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financing Activities - Other	2.34	0.13	0.06	3.58	-0.68	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financing Activities - Net Cash Flow	**13.01**	**-3.39**	**-3.17**	**8.13**	**28.69**	**94.64**	**-41.57**	**-43.10**	**-39.97**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

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