EPICOR SOFTWARE CORP
Form 10-Q
August 08, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2008

OR

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

Commission File No. 000-20740

EPICOR SOFTWARE CORPORATION

(Exact name of registrant as specified in its charter)

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

18200 Von Karman Avenue

Suite 1000

Irvine, California 92612

(Address of principal executive offices, zip code)

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

As of August 1, 2008, there were 59,573,711 shares of common stock outstanding.

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PART I

FINANCIAL INFORMATION

Item 1 Financial Statements:

EPICOR SOFTWARE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 132,431	$ 75,158
Short-term investments		1,371
Accounts receivable, net of allowance for doubtful accounts	93,422	98,533
Deferred income taxes	8,347	7,060
Inventory, net	9,818	4,539
Prepaid expenses and other current assets	22,629	9,184
Total current assets	266,647	195,845
Property and equipment, net	28,845	14,762
Deferred income taxes	45,773	45,025
Intangible assets, net	132,699	46,524
Goodwill	369,551	169,267
Cash designated for acquisition		161,000
Other assets	16,976	12,958
Total assets	$ 860,491	$ 645,381
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 23,887	$ 14,640
Accrued compensation and benefits	24,298	27,555
Other accrued expenses	35,700	27,372
Current portion of long-term debt	7,416	145
Current portion of accrued restructuring costs	6,208	614
Current portion of deferred revenue	90,444	70,378
Total current liabilities	187,953	140,704
Long-term debt, less current portion	380,450	230,491
Accrued restructuring costs	5,962	356
Deferred revenue	552	823
Deferred income taxes and other income taxes	20,888	10,082
Other long-term liabilities	2,280	
Total long-term liabilities	410,132	241,752

Commitments and contingencies (Note 12)		
Stockholders equity:		
Common stock	61	60
Additional paid-in capital	374,526	366,737
Less: treasury stock at cost	(18,385)	(13,883)
Accumulated other comprehensive income	1,910	61
Accumulated deficit	(95,706)	(90,050)
Total stockholders equity	262,406	262,925
Total liabilities and stockholders equity	$ 860,491	$ 645,381

See accompanying notes to unaudited condensed consolidated financial statements.

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EPICOR SOFTWARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenues:				
License	$ 24,357	$ 25,103	$ 42,861	$ 47,135
Consulting	41,026	34,100	72,428	66,823
Maintenance	48,710	39,700	94,866	78,753
Hardware and other	13,852	6,803	20,014	14,324
Total revenues	127,945	105,706	230,169	207,035
Cost of revenues	64,296	47,877	117,840	95,055
Amortization of intangible assets	8,934	4,304	16,000	8,486
Total cost of revenues	73,230	52,181	133,840	103,541
Gross profit	54,715	53,525	96,329	103,494
Operating expenses:				
Sales and marketing	21,253	18,817	42,630	37,445
Software development	14,296	9,571	27,323	18,250
General and administrative	13,556	14,425	25,509	29,834
In-process research and development			200	
Restructuring charges	89		4,172	221
Total operating expenses	49,194	42,813	99,834	85,750
Income (loss) from operations	5,521	10,712	(3,505)	17,744
Interest expense	(4,353)	(2,725)	(7,251)	(4,852)
Gain on sale of non-strategic asset				1,579
Interest and other income, net	978	2,023	1,825	2,592
Income (loss) before income taxes	2,146	10,010	(8,931)	17,063
Provision (benefit) for income taxes	811	3,719	(3,275)	6,339
Net income (loss)	$ 1,335	$ 6,291	$ (5,656)	$ 10,724
Comprehensive income (loss):				
Net income (loss)	$ 1,335	$ 6,291	$ (5,656)	$ 10,724
Unrealized foreign currency translation gain	731	757	1,849	790
Comprehensive income (loss)	$ 2,066	$ 7,048	$ (3,807)	$ 11,514
Net income (loss) per share:				

Basic	$ 0.02	$ 0.11	$ (0.10)	$ 0.19
Diluted	$ 0.02	$ 0.11	$ (0.10)	$ 0.19
Weighted average common shares outstanding:				
Basic	58,449	57,039	58,174	56,854
Diluted	58,862	57,881	58,174	57,804

See accompanying notes to unaudited condensed consolidated financial statements.

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EPICOR SOFTWARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Operating activities		
Net income (loss)	$ (5,656)	$ 10,724
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,914	11,591
Stock-based compensation expense	4,395	6,694
Provision for doubtful accounts	486	2,397
Provision for excess and obsolete inventory	288	
Restructuring charges	4,172	221
Excess tax benefits from share-based payment arrangements	(819)	(704)
In-process research and development charge	200	
Gain on sale of non-strategic asset		(1,579)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	23,936	(399)
Inventory	(4,371)	(1,614)
Prepaid expenses and other current assets	1,309	808
Other assets	1,414	999
Deferred income taxes	(6,590)	2,937
Accounts payable	2,091	(515)
Accrued expenses	(3,070)	(7,623)
Accrued restructuring costs	(4,466)	(839)
Deferred revenue	1,636	(2,254)
Other long-term liabilities	(30)	
Net cash provided by operating activities	34,839	20,844
Investing activities		
Purchases of property and equipment	(5,615)	(3,271)
Proceeds from sale of non-strategic asset		2,500
Cash paid for acquisitions, net of cash designated for acquisition of $161,000 and cash acquired	(124,205)	(16,349)
Sale of short term investment	1,371	
Purchase of short term investment		(1,973)
Net cash used in investing activities	(128,449)	(19,093)
Financing activities		
Proceeds from long-term debt	160,000	230,000
Principal payments on long-term debt	(2,769)	(99,323)
Debt issuance fees	(4,990)	(8,043)
Proceeds from exercise of stock options	1,569	1,618
Proceeds from employee stock purchase plan	326	399
Excess tax benefits from share-based payment arrangements	819	704
Purchase of treasury stock	(4,502)	(2,739)

Net cash provided by financing activities	150,453	122,616
Effect of exchange rate changes on cash	430	(23)
Net increase in cash and cash equivalents	57,273	124,344
Cash and cash equivalents at beginning of period	75,158	70,178
Cash and cash equivalents at end of period	$ 132,431	$ 194,522

See accompanying notes to unaudited condensed consolidated financial statements.

EPICOR SOFTWARE CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2008

Note 1. Basis of Presentation

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

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

The results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results of operations that may be reported for any other interim period or for the entire year ending December 31, 2008. The Condensed Consolidated Balance Sheet at December 31, 2007 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements, as permitted by SEC rules and regulations for interim reporting.

Inventory is comprised solely of finished goods. Accounts receivable is net of allowance at June 30, 2008 and December 31, 2007 of $7,444,000 and $8,008,000, respectively.

Note 2. Basic and Diluted Net Income (Loss) Per Share

Net income (loss) per share is calculated in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share. Under the provisions of SFAS No. 128, basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period, excluding shares of unvested restricted stock. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and potential common shares outstanding during the period if their effect is dilutive.

For the three months ended June 30, 2008 and 2007, options to purchase 1,176,000 and 450,000 shares of common stock, respectively, with weighted average prices of $12.24 and $14.69, respectively, were outstanding but not included in the computation because the effect would be anti-dilutive. For the six months ended June 30, 2008 and 2007, options to purchase 1,097,000 and 515,000 shares of common stock, respectively, with weighted average prices of $12.64 and $14.43, respectively, were outstanding but not included in the computation because the effect would be anti-dilutive.

On May 8, 2007, the Company closed an offering of $230 million aggregate principal amount of 2.375% convertible senior notes due in 2027 (Note 8). The notes are unsecured and convertible into cash or, at the Company s option, cash and shares of the Company s common stock, at an initial conversion rate of 55.2608 shares of common stock per $1,000 principal amount of notes, which is equivalent to an initial conversion price of approximately $18.10 per share. Pursuant to the terms of the notes, the principal amount of the notes is settleable in cash and only the amount of conversion value, as defined, in excess of the principal amount of the notes is settleable in cash or shares. Therefore, the notes are only dilutive when the common stock price exceeds the conversion price, and no shares have been included in the calculation of diluted net income per share as the conversion value did not exceed the principal amount of the notes.

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The following table computes basic and diluted net income (loss) per share (*in thousands, except per share amounts*):

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Net income (loss) applicable to common stockholders	$ 1,335	$ 6,291	$ (5,656)	$ 10,724
Basic:				
Weighted average common shares outstanding	60,770	59,278	60,454	59,229
Weighted average common shares of unvested restricted stock	(2,321)	(2,239)	(2,280)	(2,375)
Shares used in the computation of basic net income (loss) per share	58,449	57,039	58,174	56,854
Net income (loss) per share applicable to common stockholders basic	$ 0.02	$ 0.11	$ (0.10)	$ 0.19
Diluted:				
Shares used in the computation of basic net income per share	58,449	57,039	58,174	56,854
Stock options and employee stock purchase plan (ESPP) shares	389	764		760
Unvested restricted stock	24	78		190
Shares used in the computation of diluted net income per share	58,862	57,881	58,174	57,804
Net income per share applicable to common stockholders diluted	$ 0.02	$ 0.11	$ (0.10)	$ 0.19

Note 3. Acquisitions and Disposition

Acquisitions are accounted for under the purchase method of accounting, in accordance with SFAS No. 141, Business Combinations. Management is responsible for determining the fair value of the assets acquired and liabilities assumed. The fair value of the assets acquired and liabilities assumed represent management s estimate of fair value. The Company conducts an active mergers and acquisitions program. Acquisition candidates are determined to be viable if they meet the Company s stringent criteria which includes, but is not limited to, product and technology fit, culture, geography, revenue synergies and financial contribution. Because the software industry is consolidating, the purchase environment is competitive. Valuations are determined through a combination of earnings per share accretion models which assume certain cost synergies, internal rate of return calculations, discounted cash flow models, outside valuations and appraisals and market conditions. The results of the acquisitions are included in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) from the respective acquisition dates forward.

Acquisitions

NSB Retail Systems PLC

On February 7, 2008, the Company completed its acquisition of NSB Retail Systems PLC (NSB). NSB designs, develops, markets and supports store and merchandising solutions to retailers of apparel, footwear and specialty merchandise. The acquisition of NSB provides an expanded portfolio of products and services for large and mid-sized specialty retailers and department stores, as well as a fully hosted, managed service offering designed for smaller retailers who are interested in rapid implementation via an on-demand versus on-premise offering.

Pursuant to the terms of the acquisition agreement, shareholders of NSB received £0.38 in cash for each NSB ordinary share. The value of the fully diluted share capital of NSB was approximately $311,845,000, not including transaction costs, based on the exchange rates in effect at the time the U.S. dollars were converted to pounds sterling for purposes of the transaction. The consideration payable under the agreement was funded by the Company with approximately $161,000,000 in existing cash balances, with the balance of the consideration being funded by drawing from funds available pursuant to the 2007 credit facility (Note 8). In addition, on February 11, 2008, the Company sold the NSB acquisition British pound sterling call options that were marked to market at December 31, 2007 at $1,802,000 back to the issuing institutions for $192,000, resulting in net foreign currency loss of $1,610,000. The loss resulted from depreciation of pounds sterling against the U.S. Dollar. The net loss is included

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in Interest and other income, net, in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the six months ended June 30, 2008.

The total preliminary purchase price for NSB is shown below (*in thousands*):

Cash	$ 311,845
Transaction costs	5,739
Total purchase price	$ 317,584

The acquisition of NSB is accounted for as a purchase business combination as defined in SFAS No. 141, Business Combinations. Under the purchase method of accounting, the purchase price was allocated to NSB s tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of February 7, 2008, with any excess being ascribed to goodwill. Management is primarily responsible for determining the fair values of these assets. The fair value of the assets acquired and liabilities assumed represent management s estimate of fair values. The purchase price allocation and transaction costs are preliminary and will be adjusted upon completion of the final valuation of acquired assets and liabilities assumed, including deferred income tax assets and liabilities. See Note 4 for a discussion of goodwill and intangibles acquired.

The following table summarizes the preliminary allocation of the purchase price (*in thousands*):

Fair value of tangible assets acquired:	
Cash and marketable securities	$ 33,181
Accounts receivable	18,274
Inventory	1,196
Property and equipment	11,933
Prepaid and other assets	4,587
Deferred tax asset	2,047
Total tangible assets acquired	71,218
Acquired technology	58,700
Acquired in-process research and development	200
Customer base	39,300
Trade name	3,500
Goodwill	198,073
Accounts payable and accrued expenses	(22,900)
Deferred revenue	(17,328)
Other long-term liabilities	(2,264)
Deferred tax liabilities	(10,915)
Net assets acquired	$ 317,584

In connection with the acquisition, the Company formulated a restructuring plan for the NSB operations. As a result, the Company recorded a liability of $4,149,000 for the costs related to involuntary employee terminations. This liability was included in the allocation of the purchase price in accordance with SFAS No. 141, Business Combinations and EITF Issue No. 95-3 Recognition of Liabilities in Connection with a Purchase Business Combination. Execution of the restructuring plan was completed as of June 30, 2008.

Included in the Company s operating results for the six months ended June 30, 2008 is a charge of $200,000 for the acquired in-process research and development expenses related to the NSB acquisition. The in-process research and development expenses arose from new products that were under development at the date of the acquisition and were expected to eventually lead to new products but had not yet established technological feasibility and for which no future alternative use was identified. The valuation of the in-process research and development projects was based upon the discounted expected future cash flows of the products over the products expected life, reflecting the estimated stage of completion of the projects and the estimate of the costs to complete the projects.

Goodwill is amortizable for tax purposes when determining foreign earnings subject to tax in the U.S. A portion of the goodwill is amortizable for tax in the foreign jurisdiction.

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Professional Advantage Pty Limited

On May 16, 2007, the Company acquired the assets of a division of Professional Advantage Pty Limited (PA), a privately held reseller located in Australia. The primary purpose of this acquisition was to increase the Company s presence and direct customer base in the territories covered by PA.

The purchase price was allocated to PA s tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of May 16, 2007. The Company is amortizing the acquired customer base asset over seven years and the acquired technology asset over five years. The following table summarizes the allocation of the purchase price (*in thousands*):

Cash	$ 16,000
Transaction costs	631
Total	$ 16,631
Fixed assets	$ 49
Customer base	5,728
Acquired technology	1,199
Goodwill	10,626
Accrued liabilities	(632)
Deferred revenue	(339)
Net assets acquired	$ 16,631

Goodwill is amortizable for tax purposes when determining foreign earnings subject to tax in the U.S. It is amortizable for tax in the foreign jurisdictions. The pro forma impact of this acquisition was not significant to the Company s historical results of operations.

Pro Forma Information

Actual results of operations of the companies acquired in 2008 and 2007 are included in the consolidated financial statements from their respective dates of acquisition forward. The unaudited pro forma statement of operations data of the Company set forth below gives effect to the acquisition by Epicor of NSB using the purchase method as if it occurred on January 1, 2007, and includes amortization of identified intangibles, interest expense on debt incurred to finance the acquisitions, elimination of amortization related to NSB intangibles not assumed in the acquisition, and the in-process research and development charge. This pro forma information is presented for illustrative purposes only and is not necessarily indicative of the combined financial results of operations for future periods or the financial results of operations that actually would have been realized had the acquisition occurred at that time (*in thousands, except per share data*).

	(Unaudited) **Three Months Ended June 30,**		*(Unaudited)* **Six Months Ended June 30,**	
	2008 Actual	**2007 Pro Forma**	**2008 Pro Forma**	**2007 Pro Forma**
Total revenues	$ 127,945	$ 127,936	$ 235,885	$ 247,539
Net income (loss)	$ 1,335	$ 6,690	$ (9,628)	$ 6,598
Net income (loss) per share:				
Basic	$ 0.02	$ 0.12	$ (0.17)	$ 0.12
Diluted	$ 0.02	$ 0.12	$ (0.17)	$ 0.11

Disposition

Sale of Non-Strategic Asset

During March 2007, the Company entered into an arrangement to sell the assets of its payroll bureau operations in Russia. In connection with this asset sale arrangement, the Company also entered into an arrangement with the same party to license the iScala payroll product for resale on an exclusive basis in certain Eastern European

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territories. This transaction was accounted for as a multiple-element arrangement under EITF Issue No. 00-21. Based on an estimated fair value of the payroll bureau, the Company allocated $2,500,000 of the total consideration to the sale of these assets. This consideration, less the carrying amounts of $786,000 of goodwill and $113,000 of net customer base intangible assets originally recorded in connection with the 2004 acquisition of Scala and $22,000 of net tangible assets, resulted in a net gain of $1,579,000 which is included in gain on sale of non-strategic asset in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for six months ended June 30, 2007. The remaining consideration related to the iScala payroll product license is included in license revenues in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the six months ended June 30, 2007.

Note 4. Goodwill and Intangible Assets

In acquisitions accounted for using the purchase method, goodwill is recorded for the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and identified intangible assets acquired. SFAS No. 142, Goodwill and Other Intangible Assets, requires an annual review of goodwill and indefinite-lived intangibles for possible impairment. In accordance with SFAS No. 142, the Company performed an impairment review of its recorded goodwill in 2007 and determined that no impairment of goodwill existed because the estimated fair value of each reporting unit exceeded its carrying amount. The following table represents the balance and changes in goodwill by reporting unit as of and for the six months ended June 30, 2008 (*in thousands*):

	License	Consulting	Maintenance	Total
Balance as of December 31, 2007	$ 51,670	$ 39,471	$ 78,126	$ 169,267
NSB acquisition	88,388	31,072	78,613	198,073
Additional Scala acquisition	207	143	452	802
Foreign currency translation	311	738	360	1,409
Balance as of June 30, 2008	$ 140,576	$ 71,424	$ 157,551	$ 369,551

The following is the average amortization period for intangible assets:

	Average Amortization Periods
Acquired technology	5 years
Customer base	7 years
Trademark	5 years
Covenants not to compete	1-2 years

The following represents the change in intangible assets recorded during 2008, including intangible assets recorded as a result of the NSB acquisition and additional change due to foreign currency translation (*in thousands*):

	NSB	Foreign Currency Translation	Total Change
Acquired technology	$ 58,700	$ 57	$ 58,757
Customer base	39,300	1,163	40,463
Trademark	3,500	8	3,508
Covenant not to compete		56	56

Intangibles assets are amortized over the estimated economic life of the assets. As of June 30, 2008, the Company has not identified any indicators of impairment associated with identified intangible assets.

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The following table summarizes the components of intangible assets *(in thousands):*

	As of June 30, 2008			As of December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Acquired technology	$ 137,480	$ 64,999	$ 72,481	$ 78,723	$ 54,459	$ 24,264
Customer base	77,818	23,383	54,435	37,355	18,684	18,671
Trademark	13,808	8,025	5,783	10,300	6,711	3,589
Covenant not to compete	2,246	2,246		2,190	2,190	
Total	$ 231,352	$ 98,653	$ 132,699	$ 128,568	$ 82,044	$ 46,524

Amortization expense of the Company s intangible assets included in cost of revenues for the three months ended June 30, 2008 and 2007 was $8,934,000 and $4,304,000, respectively. Amortization expense of the Company s intangible assets included in general and administrative expense for the three months ended June 30, 2008 and 2007 was $0 and $63,000, respectively. Amortization expense of the Company s intangible assets included in cost of revenues for the six months ended June 30, 2008 and 2007 was $16,000,000 and $8,486,000, respectively. Amortization expense of the Company s intangible assets included in general and administrative expense for the six months ended June 30, 2008 and 2007 was $0 and $109,000, respectively. Estimated amortization expense for the remainder of 2008, 2009, 2010, 2011, 2012 and thereafter is approximately $17,177,000, $31,217,000, $28,047,000, $21,703,000, $20,177,000 and $14,378,000, respectively.

Note 5. Restructuring Charges

During 2008, the Company recorded restructuring charges of $4,172,000. This charge represents severance costs related to management severance and cost reductions from the elimination of redundancies in the Company s retail business resulting from the NSB acquisition. In connection with these restructuring costs, the Company terminated 35 employees or approximately 1% of the Company s workforce at that time from all functional areas. As of June 30, 2008, all of these terminations had been completed.

In connection with the Company s acquisition of NSB, the Company formulated a restructuring plan for the NSB operations. In connection with this plan, the Company recorded a liability in purchase accounting of $4,149,000 for the separation costs associated with the NSB reduction in workforce. The Company terminated 79 NSB employees, or 10% of the NSB workforce. At June 30, 2008, all of these terminations have been completed.

During the six months ended June 30, 2008, the Company made $5,287,000 in cash payments, or otherwise settled, against reserves associated with its restructuring activities.

Note 6. Stock-Based Compensation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Cost of consulting revenues	$ 107,000	$ 355,000	$ 358,000	$ 725,000
Cost of maintenance revenues	100,000	138,000	211,000	292,000
Sales and marketing	725,000	1,148,000	1,601,000	2,247,000
Software development	171,000	216,000	372,000	479,000
General and administrative	804,000	1,443,000	1,853,000	2,951,000
Total stock-based compensation expense	$ 1,907,000	$ 3,300,000	$ 4,395,000	$ 6,694,000