

EPIQ SYSTEMS INC

FORM 10-Q (Quarterly Report)

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Sector	Technology
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D. C. 20549

FORM 10-Q

**Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934**

For the Quarterly Period Ended June 30, 2009

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 Number 0-22081

EPIQ SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Missouri

(State or other jurisdiction of
incorporation or organization)

48-1056429

(IRS Employer Identification Number)

501 Kansas Avenue, Kansas City, Kansas 66105-1300

(Address of principal executive office)

913-621-9500

(Registrant's telephone number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

The number of shares outstanding of registrant's common stock at July 24, 2009:

Class

Common Stock, \$0.01 par value

Outstanding

36,156,629

EPIQ SYSTEMS, INC.
FORM 10-Q
QUARTER ENDED JUNE 30, 2009

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EPIQ SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
REVENUE:				
Case management services	\$ 35,812	\$ 35,928	\$ 70,346	\$ 64,724
Case management bundled products and services	3,476	4,463	6,803	9,754
Document management services	17,851	16,546	32,603	26,360
Operating revenue before reimbursed direct costs	57,139	56,937	109,752	100,838
Operating revenue from reimbursed direct costs	9,051	7,905	17,266	13,014
Total Revenue	<u>66,190</u>	<u>64,842</u>	<u>127,018</u>	<u>113,852</u>
OPERATING EXPENSE:				
Direct cost of services (exclusive of depreciation and amortization shown separately below)	19,723	24,438	39,393	43,264
Direct cost of bundled products and services (exclusive of depreciation and amortization shown separately below)	855	908	1,710	1,855
Reimbursed direct costs	9,035	7,880	17,082	13,002
General and administrative	23,844	18,221	42,151	33,300
Depreciation and software and leasehold amortization	4,552	3,853	9,066	7,563
Amortization of identifiable intangible assets	1,818	2,325	3,754	4,603
Other operating expense (income)	13	859	484	(1,512)
Total Operating Expense	<u>59,840</u>	<u>58,484</u>	<u>113,640</u>	<u>102,075</u>
INCOME FROM OPERATIONS	<u>6,350</u>	<u>6,358</u>	<u>13,378</u>	<u>11,777</u>
INTEREST EXPENSE (INCOME):				
Interest expense	365	441	738	932
Interest income	(16)	(36)	(51)	(180)
Net Interest Expense	<u>349</u>	<u>405</u>	<u>687</u>	<u>752</u>
INCOME BEFORE INCOME TAXES	6,001	5,953	12,691	11,025
PROVISION FOR INCOME TAXES	<u>3,115</u>	<u>2,799</u>	<u>6,527</u>	<u>5,214</u>
NET INCOME	<u>\$ 2,886</u>	<u>\$ 3,154</u>	<u>\$ 6,164</u>	<u>\$ 5,811</u>
NET INCOME PER SHARE INFORMATION:				
Basic	\$ 0.08	\$ 0.09	\$ 0.17	\$ 0.16
Diluted	\$ 0.08	\$ 0.08	\$ 0.16	\$ 0.15
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	35,776	35,424	35,731	35,357
Diluted	41,854	41,634	41,895	41,510

See accompanying Notes to Condensed Consolidated Financial Statements.

EPIQ SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands, except share data)

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 28,215	\$ 19,006
Trade accounts receivable, less allowance for doubtful accounts of \$2,540 and \$2,600, respectively	54,445	48,540
Prepaid expenses	6,188	6,015
Other current assets	2,259	2,552
Total Current Assets	<u>91,107</u>	<u>76,113</u>
LONG-TERM ASSETS:		
Property and equipment, net	39,419	39,951
Internally developed software costs, net	12,501	11,024
Goodwill	264,405	263,871
Other intangibles, net of accumulated amortization of \$45,578 and \$41,714, respectively	23,200	26,851
Other	968	1,136
Total Long-term Assets, net	<u>340,493</u>	<u>342,833</u>
Total Assets	<u>\$ 431,600</u>	<u>\$ 418,946</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 14,378	\$ 12,781
Accrued compensation	6,243	7,525
Deposits	2,811	2,150
Deferred revenue	2,001	2,363
Other accrued expenses	3,034	2,628
Current maturities of long-term obligations	56,626	5,912
Total Current Liabilities	<u>85,093</u>	<u>33,359</u>
LONG-TERM LIABILITIES:		
Deferred income taxes	21,427	20,988
Other long-term liabilities	10,371	8,794
Long-term obligations (excluding current maturities)	655	55,310
Total Long-term Liabilities	<u>32,453</u>	<u>85,092</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock - \$1 par value; 2,000,000 shares authorized; none issued and outstanding	—	—
Common stock - \$0.01 par value; 100,000,000 shares authorized; issued and outstanding — 36,147,978 and 35,657,823 shares	361	357
Additional paid-in capital	243,914	237,644
Accumulated other comprehensive loss	(1,562)	(2,683)
Retained earnings	71,341	65,177
Total Stockholders' Equity	<u>314,054</u>	<u>300,495</u>
Total Liabilities and Stockholders' Equity	<u>\$ 431,600</u>	<u>\$ 418,946</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

EPIQ SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (UNAUDITED)
(in thousands)

	Number of Outstanding Shares	Common Shares	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2008	35,658	\$ 357	\$ 237,644	\$ 65,177	\$ (2,683)	\$ 300,495
Comprehensive income:						
Net income	—	—	—	6,164	—	6,164
Foreign currency translation adjustment	—	—	—	—	1,121	1,121
Total comprehensive income	—	—	—	—	—	7,285
Share-based compensation plans	490	4	6,270	—	—	6,274
Balance at June 30, 2009	<u>36,148</u>	<u>\$ 361</u>	<u>\$ 243,914</u>	<u>\$ 71,341</u>	<u>\$ (1,562)</u>	<u>\$ 314,054</u>

	Number of Outstanding Shares	Common Shares	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2007	35,277	\$ 353	\$ 231,984	\$ 51,341	\$ 4	\$ 283,682
Comprehensive income:						
Net income	—	—	—	5,811	—	5,811
Foreign currency translation adjustment	—	—	—	—	35	35
Total comprehensive income	—	—	—	—	—	5,846
Share-based compensation plans	227	2	3,000	—	—	3,002
Balance at June 30, 2008	<u>35,504</u>	<u>\$ 355</u>	<u>\$ 234,984</u>	<u>\$ 57,152</u>	<u>\$ 39</u>	<u>\$ 292,530</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

EPIQ SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Six Months Ended June 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 6,164	\$ 5,811
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation expense	4,256	1,396
Expense for deferred income taxes	510	419
Depreciation and software amortization	9,066	7,563
Expense related to embedded option	(805)	(805)
Amortization of intangible assets	3,754	4,603
Other, net	1,033	467
Changes in operating assets and liabilities:		
Trade accounts receivable	(6,296)	(16,543)
Prepaid expenses and other assets	(186)	74
Accounts payable and other liabilities	3,867	10,811
Excess tax benefit related to share-based compensation	(304)	(27)
Other	(69)	1,364
Net cash provided by operating activities	<u>20,990</u>	<u>15,133</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(6,508)	(8,569)
Internally developed software costs	(3,842)	(2,882)
Cash paid for business acquisition, net of cash acquired	—	(4,712)
Other investing activities, net	57	10
Net cash used in investing activities	<u>(10,293)</u>	<u>(16,153)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolver	—	2,000
Payments on revolver	—	(2,000)
Payments under long-term obligations	(3,319)	(2,622)
Excess tax benefit related to share-based compensation	304	27
Proceeds from exercise of stock options	1,561	1,429
Net cash used in financing activities	<u>(1,454)</u>	<u>(1,166)</u>
Effect of exchange rate changes on cash	(34)	—
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,209	(2,186)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	19,006	13,415
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 28,215</u>	<u>\$ 11,229</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

EPIQ SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS

The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America, and with the rules and regulations for reporting on Form 10-Q for interim financial statements. Accordingly, the financial statements do not include certain disclosures required for comprehensive annual financial statements.

The unaudited financial information reflects all adjustments, which are, in the opinion of management, necessary to present fairly our results of operations, financial position, and cash flows for the periods presented. The adjustments consist solely of normal recurring adjustments. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related Notes included in the Epiq Systems, Inc. (“Epiq,” “we,” “us,” or “our”) Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 4, 2009.

In preparing these financial statements, we have evaluated events and transactions for potential recognition or disclosure through July 30, 2009, the date the financial statements were issued.

The results of operations for any quarter or a partial fiscal year period are not necessarily indicative of the results to be expected for other periods or the entire year.

Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of Epiq and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations

We are a provider of integrated technology solutions for the legal profession. Our solutions streamline the administration of bankruptcy, litigation, financial transactions and regulatory compliance matters. We offer innovative technology solutions for electronic discovery, document review, legal notification, claims administration and controlled disbursement of funds. Our clients include law firms, corporate legal departments, bankruptcy trustees and other professional advisors who require innovative technology, responsive service and deep subject-matter expertise.

Revenue Recognition

We have agreements with clients pursuant to which we deliver various services each month.

Following is a description of significant sources of revenue.

- Fees contingent upon the month-to-month delivery of case management services defined by client contracts, such as claims processing, claims reconciliation, professional services, call center support, and conversion of data into an organized, searchable electronic database. The amount we earn varies based primarily on the size and complexity of the engagement.
- Hosting fees based on the amount of data stored.
- Deposit-based fees, earned primarily based on a percentage of Chapter 7 total liquidated assets placed on deposit with a designated financial institution by our trustee clients, to whom we provide, at no charge, software licenses, limited hardware and hardware maintenance, and postcontract customer support services. The fees we earn are based on total liquidated assets placed on deposit by our trustee clients and may vary based on fluctuations in short-term

interest rates. Interest rate fluctuations are somewhat mitigated by pricing arrangements with each financial institution that set ceilings and floors on the interest rates that we earn.

- Legal noticing services to parties of interest in bankruptcy and class action matters, including direct notification, media campaign, and advertising management in which we coordinate notification through various media outlets, such as print, radio and television, to potential parties of interest for a particular client engagement.
- Reimbursement for costs incurred, primarily related to postage on mailing services.

Non-Software Arrangements

Services related to electronic discovery and settlement administration are billed based on volume and are evaluated pursuant to Emerging Issues Task Force (“EITF”) 00-21, *Revenue Arrangements with Multiple Deliverables* (“EITF 00-21”). For these contractual arrangements, we have identified each deliverable service element. Based on our evaluation of each element, we have determined that each element delivered has standalone value to our customers because we or other vendors sell such services separately from any other services/deliverables. We have also obtained objective and reliable evidence of the fair value of each element based either on the price we charge when we sell an element on a standalone basis or based on third-party evidence of fair value of such similar services. Lastly, our arrangements do not include general rights of return. Accordingly, each of the service elements in our multiple element case and document management arrangements qualifies as a separate unit of accounting under EITF 00-21. We allocate revenue to the various units of accounting in our arrangements based on the fair value of each unit of accounting, which is generally consistent with the stated prices in our arrangements. As we have evidence of an arrangement, revenue for each separate unit of accounting is recognized each period in accordance with Staff Accounting Bulletin Topic 13, *Revenue Recognition* (“SAB Topic 13”). Revenue is recognized as the services are rendered, our fee becomes fixed and determinable, and collectability is reasonably assured. Payments received in advance of satisfaction of the related revenue recognition criteria are recognized as a customer deposit until all revenue recognition criteria have been satisfied.

Software Arrangements

For our Chapter 7 bankruptcy trustee arrangements, we provide our trustee clients with a software license, hardware lease, hardware maintenance, and postcontract customer support services, all at no charge to the trustee. The trustees place their liquidated estate deposits with a financial institution with which we have an arrangement. We earn contingent monthly fees from the financial institutions based on the dollar level of average monthly deposits held by the trustees with that financial institution related to the software license, hardware lease, hardware maintenance, and postcontract customer support services. We account for the software license and postcontract customer support elements in accordance with Statement of Position 97-2, *Software Revenue Recognition* (“SOP 97-2”). Since we have not established vendor specific objective evidence (“VSOE”) of the fair value of the software license, we do not recognize any revenue on delivery of the software. The software element is deferred and included with the remaining undelivered element, which are postcontract customer support services. This revenue, when recognized, is included as a component of “case management services revenue”. Revenue related to postcontract customer support is entirely contingent on the placement of liquidated estate deposits by the trustee with the financial institution. Accordingly, we recognize this contingent usage based revenue consistent with the guidance provided by the American Institute of Certified Public Accountants’ Technical Practice Aid 5100.76, *Fair Value in Multiple-Element Arrangements That Include Contingent Usage-Based Fees and Software Revenue Recognition* as the fee becomes fixed or determinable at the time actual usage occurs and collectability is probable. This occurs monthly as a result of the computation, billing and collection of monthly deposit fees contractually agreed to. At that time, we have also satisfied the other revenue recognition criteria contained in SOP 97-2 since we have persuasive evidence that an arrangement exists, services have been rendered, the price is fixed and determinable, and collectability is reasonably assured.

We also provide our trustee clients with certain hardware, such as desktop computers, monitors, and printers; and hardware maintenance. We retain ownership of all hardware provided and, based on guidance provided in EITF 01-8, *Determining Whether an Arrangement Contains a Lease*, we account for this hardware as a lease. As the hardware maintenance arrangement is an executory contract similar to an operating lease, we use guidance related to contingent rentals in operating lease arrangements for hardware maintenance as well as for the hardware lease. Since the payments under all of our arrangements are contingent upon the level of trustee deposits and the delivery of upgrades and other services, and there remain important uncertainties regarding the amount of unreimbursable costs yet to be incurred by us, we account for the hardware lease as an operating lease in accordance with Statement of Financial Accounting Standards (“SFAS”) 13,

Accounting for Leases . Therefore, all lease payments, based on the estimated fair value of hardware provided, were accounted for as contingent rentals under EITF Issue No. 98-9, *Accounting for Contingent Rent* and SAB Topic 13, which requires that we recognize rental income when the changes in the factor on which the contingent lease payment is based actually occur. This occurs at the end of each period as we achieve our target when deposits are held at the depository financial institution as, at that time, evidence of an arrangement exists, delivery has occurred, the amount has become fixed and determinable, and collection is reasonably assured. This revenue, which is less than ten percent of our total revenue, is included in the Condensed Consolidated Statements of Income as a component of “case management services” revenue.

Reimbursements

We have revenue related to the reimbursement of certain costs, primarily postage. Consistent with guidance provided by EITF No. 01-14, *Income Statement Characterization of Reimbursements Received for “Out-of-Pocket” Expenses Incurred* , reimbursed postage and other reimbursable direct costs are recorded gross in the Condensed Consolidated Statements of Income as “Operating revenue from reimbursed direct costs” and as “Reimbursed direct costs”, respectively.

Recently Adopted Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141 (revised 2007), *Business Combinations* (“SFAS 141(R)”). SFAS 141(R) establishes guidelines for the recognition and measurement of assets, liabilities and equity in business combinations. The provisions of SFAS 141(R) were effective for us as of January 1, 2009. Due to the adoption of SFAS 141(R) we now expense, as incurred, acquisition-related costs for potential and completed acquisitions. Acquisition-related costs expensed in the first six months of 2009 were approximately \$0.5 million. These costs are included in “Other operating expense (income)” in our Condensed Consolidated Statements of Income. SFAS 141(R) also amends SFAS No. 109, *Accounting for Income Taxes* , and now requires the recognition of changes in an acquirer’s income tax valuation allowance on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS 141(R) to apply the provisions of SFAS 141(R). The provisions of SFAS 141(R) will primarily apply to all future acquisitions.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements* (“SFAS 160”). SFAS 160 changes the way in which noncontrolling interests in subsidiaries are measured and classified on the balance sheet. The provisions of SFAS 160 were effective for us as of January 1, 2009. The adoption of SFAS 160 had no impact on our consolidated financial position or results of operations.

In February 2008, the FASB issued FASB Staff Position (“FSP”) No. FAS 157-2, *Effective Date of FASB Statement No. 157* , (“FSP FAS 157-2”) which, as of February 12, 2008, indefinitely delayed the effective date of SFAS No. 157, *Fair Value Measurements*, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The provisions of FSP FAS 157-2 were effective for us as of January 1, 2009. The adoption of FSP FAS 157-2 did not have a material impact on our financial position, results of operations, or cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133* (“SFAS 161”). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. The provisions of SFAS 161 were effective for us as of January 1, 2009. The adoption of SFAS 161 had no impact on our consolidated financial position or results of operations. Disclosures required by this statement are included in Note 3.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (“FSP FAS 142-3”). FSP FAS 142-3 provides guidance on determining the useful life of a recognized intangible asset. The provisions of FSP FAS 142-3 were effective for us as of January 1, 2009. The provisions of FSP FAS 142-3 had no impact on our consolidated financial position or results of operations during the six months ended June 30, 2009 as we did not renew or extend the useful lives of any of our intangible assets.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (“FSP EITF 03-6-1”). FSP EITF 03-6-1 clarifies that share-based payment awards that entitle their holders to receive non-forfeitable dividends or dividend equivalents before vesting should be considered participating securities, and requires them to be included in the computation of earnings per share pursuant to the two-class

method described in SFAS No. 128, *Earnings per Share* (“SFAS 128”). The provisions of FSP EITF 03-6-1 were effective for us as of January 1, 2009, and require all prior period income per share data presented to be adjusted retroactively. We have determined that nonvested share awards that were granted in the first quarter of 2009 are participating securities as defined by FSP EITF 03-6-1 because they have equivalent common stock dividend rights. Accordingly, we have included these shares in our basic and diluted share calculations as appropriate. There is no prior period impact of this guidance as there were no participating securities outstanding prior to the first quarter of 2009. Details of the income per share calculation are described in Note 4.

In June 2008, the FASB ratified the consensus reached by the EITF on three issues discussed at its June 12, 2008 meeting pertaining to EITF Issue No. 07-5, *Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity’s Own Stock* (“EITF 07-5”). The issues include how an entity should evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument’s contingent exercise and settlement provisions; how the currency in which the strike price of an equity-linked financial instrument (or embedded feature) is denominated affects the determination of whether the instrument is indexed to an entity’s own stock; and how the issuer should account for market-based employee stock option valuation. The adoption of EITF 07-5 did not have an impact on our consolidated financial position.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (“FSP FAS 141(R)-1”). FSP FAS 141(R)-1 amends and clarifies FASB No. 141 (revised 2007), *Business Combinations*, to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP FAS 141(R)-1 is effective for us for business combinations completed on or after January 1, 2009.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (“FSP FAS 107-1 and APB 28-1”). FSP FAS 107-1 and APB 28-1, amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about the fair value of financial instruments in interim as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. These standards are effective for periods ending after June 15, 2009. The disclosures required by this guidance are included in Note 8.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (“SFAS 165”). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The provisions of SFAS 165 are effective for reporting periods ending after June 15, 2009. The disclosures required by SFAS 165 are included in Note 1.

Recently Issued Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162* (“SFAS 168”). SFAS 168 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS 168 is effective for periods ending after September 15, 2009. We do not expect the adoption of SFAS 168 in the third quarter of 2009 will have an impact on our condensed consolidated financial position, but the adoption will change the format of the references to accounting guidance within our regulatory filings.

NOTE 2: GOODWILL AND INTANGIBLE ASSETS

The change in the carrying amount of goodwill for the first six months of 2009 was as follows (in thousands):

	<u>Electronic Discovery</u>	<u>Bankruptcy</u>	<u>Settlement Administration</u>	<u>Total</u>
Balance as of December 31, 2008	\$ 79,586	\$ 151,438	\$ 32,847	\$ 263,871
Foreign currency translation and other	534	—	—	534
Balance as of June 30, 2009	<u>\$ 80,120</u>	<u>\$ 151,438</u>	<u>\$ 32,847</u>	<u>\$ 264,405</u>

Amortizing identifiable intangible assets as of June 30, 2009 and December 31, 2008 consisted of the following (in thousands):

	<u>June 30, 2009</u>		<u>December 31, 2008</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Customer relationships	\$ 40,089	\$ 24,002	\$ 39,986	\$ 22,039
Trade names	745	745	745	745
Non-compete agreements	27,944	20,831	27,834	18,930
	<u>\$ 68,778</u>	<u>\$ 45,578</u>	<u>\$ 68,565</u>	<u>\$ 41,714</u>

Customer relationships and non-compete agreements both carry a weighted average life of eight years. Aggregate amortization expense related to identifiable intangible assets was \$1.8 million and \$2.3 million for the three months ended June 30, 2009 and 2008, respectively, and was \$3.8 million and \$4.6 million for the six months ended June 30, 2009 and 2008, respectively. Amortization expense related to identifiable intangible assets for fiscal year 2009 and the following five years is estimated as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Estimated Amortization Expense</u>
2009	\$ 7,601
2010	6,692
2011	4,832
2012	4,652
2013	3,070
2014	192
	<u>\$ 27,039</u>

NOTE 3: LONG-TERM OBLIGATIONS

The following is a summary of long-term obligations outstanding (in thousands):

	June 30, 2009	December 31, 2008
Contingent convertible subordinated debt, including embedded option	\$ 51,543	\$ 52,348
Capital leases	2,863	4,682
Deferred acquisition price	2,875	4,192
Total long-term obligations, including current portion	57,281	61,222
Current maturities of long-term obligations	(56,626)	(5,912)
Long-term obligations	\$ 655	\$ 55,310

Credit Facilities

During July 2008, we amended and restated our credit facility. The amended credit facility, with KeyBank National Association as administrative agent, consists of a \$100.0 million senior revolving loan. The facility matures in July 2011. During the term of the credit facility, we have the right, subject to compliance with our covenants, to increase the senior revolving loan to \$175.0 million. The amended credit facility is secured by liens on our real property and a significant portion of our personal property. Interest on the amended credit facility is generally based on a spread, not to exceed 325 basis points, over the LIBOR rate. There were no amounts due under the senior revolving credit loan as of June 30, 2009 or December 31, 2008. To determine the amount that we may borrow, the \$100.0 million available under the revolving loan is reduced by \$1.8 million in outstanding letters of credit as of June 30, 2009.

Our amended credit facility contains financial covenants related to earnings before interest, provision for income taxes, depreciation, amortization and other adjustments as defined in the agreements and total debt. In addition, our credit facility also contains financial covenants related to senior debt, fixed charges, and working capital. As of June 30, 2009, we were in compliance with all financial covenants.

Contingent Convertible Subordinated Notes

During June 2004, we issued \$50.0 million of contingent convertible subordinated notes (“convertible notes”) with a fixed 4% per annum interest rate and an original maturity of June 15, 2007. The holders of the convertible notes had the right to extend the maturity date by up to three years. In April 2007, the holders exercised this right and the maturity date of the convertible notes was extended to June 15, 2010. If we change our capital structure (for example, through a stock dividend or stock split) while the convertible notes are outstanding, the conversion price would be adjusted on a consistent basis and, accordingly, the number of shares of common stock we would issue on conversion would be adjusted. The convertible notes are convertible into 4.3 million shares of our common stock at a price of approximately \$11.67 per share, and do not contain the right to any dividends. We have the right to require that the holders of the convertible notes convert to equity if our share price exceeds \$23.33 on a weighted average basis for 20 consecutive trading days.

Under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (“SFAS 133”), the right to extend the maturity of the convertible notes was accounted for as an embedded option subject to bifurcation. The embedded option was initially valued at \$1.2 million and the convertible notes balance was reduced by the same amount. During April 2007, the holders of the convertible notes exercised their right to extend and we performed a final valuation to estimate the fair value of the embedded option as of the approximate date of the extension. The estimated fair value of the embedded option at this date, included as a component of the convertible notes, was approximately \$4.8 million. The \$4.8 million estimated fair value of the embedded option is amortized as a credit to “Interest expense” on the Condensed Consolidated Statements of Income over the period to the extended maturity, which is June 15, 2010. The balance of this embedded option is included as a component of “Current maturities of long-term obligations” on the Condensed Consolidated Balance Sheet at June 30, 2009 and is a component of “Long-term obligations (excluding current maturities)” at December 31, 2008. If any convertible notes are converted into shares of our common stock prior to June 15, 2010, the unamortized embedded option value related to those shares will be recognized as a gain in the period the conversion occurs. The above changes related to the carrying value of the convertible notes, the estimated fair value of the embedded option, and the amortization of the fair value of the embedded option do not affect our cash flow.

Capital Leases

We lease certain property and software under capital leases that expire during various years through 2011.

Scheduled Principal Payments

Our long-term obligations, consisting of convertible notes (including the carrying value of the embedded option), deferred acquisition price, and capitalized leases, mature as follows for each twelve-month period ending June 30 (in thousands):

2010	\$	56,626
2011		605
2012		50
2013		—
2014		—
Total	\$	<u>57,281</u>

NOTE 4: NET INCOME PER SHARE

Basic net income per share is computed on the basis of weighted average outstanding common shares. Diluted net income per share is computed on the basis of basic weighted average outstanding common shares adjusted for the dilutive effect of stock options and convertible debt, if dilutive. The numerator of the diluted net income per share calculation is increased by the amount of interest expense, net of tax, related to outstanding convertible debt, and the allocation of net income to nonvested shares, if the net impact is dilutive.

As prescribed in FSP EITF 03-6-1, which we adopted in the first quarter of 2009, we have determined that the nonvested share awards (also referred to as restricted stock awards) that were issued during the quarter are participating securities because they have non-forfeitable rights to dividends. Accordingly, the basic net income per share calculation below is calculated under the two-class method calculation, which is discussed in SFAS 128. In determining the number of diluted shares outstanding, we are required to disclose the more dilutive earnings per share result between the treasury stock method calculation and the two-class method calculation. For the three and six months ended June 30, 2009, the two-class method calculation was more dilutive; therefore, the diluted net income per share information below is presented following the two-class method. While FSP EITF 03-6-1 requires retrospective application, there is no impact to our prior year calculation as we did not have any participating securities outstanding during the prior year.

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The computation of basic and diluted net income per share for the three and six months ended June 30, 2009 is as follows (in thousands, except per share data):

	Three months ended June 30, 2009			Six months ended June 30, 2009		
	Net Income (Numerator)	Weighted Average Common Shares Outstanding (Denominator)	Per Share Amount	Net Income (Numerator)	Weighted Average Common Shares Outstanding (Denominator)	Per Share Amount
Net income	\$ 2,886			\$ 6,164		
Less: net income allocated to nonvested shares ⁽¹⁾	(24)			(35)		
Basic net income available to common stockholders	2,862	35,776	\$ 0.08	6,129	35,731	\$ 0.17
Effect of dilutive securities:						
Stock options	—	1,792		—	1,878	
Convertible debt	301	4,286		599	4,286	
Add-back: net income allocated to nonvested shares ⁽¹⁾	24	—		35	—	
Less: net income re-allocated to nonvested shares	(23)	—		(33)	—	
Diluted net income available to common stockholders	\$ 3,164	41,854	\$ 0.08	\$ 6,730	41,895	\$ 0.16

⁽¹⁾ Net income allocated to holders of nonvested shares is calculated based upon a weighted average percentage of nonvested shares in relation to total shares outstanding.

The computation of basic and diluted net income per share for the three and six months ended June 30, 2008, is as follows (in thousands, except per share data):

	Three months ended June 30, 2008			Six months ended June 30, 2008		
	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount	Net Income	Weighted Average Common Shares Outstanding	Per Share Amount
Basic net income per common share	\$ 3,154	35,424	\$ 0.09	\$ 5,811	35,357	\$ 0.16
Effect of dilutive securities:						
Stock options	—	1,924		—	1,867	
Convertible debt	301	4,286		603	4,286	
Diluted net income per share	\$ 3,455	41,634	\$ 0.08	\$ 6,414	41,510	\$ 0.15

For the three month period ended June 30, 2009 and 2008, weighted-average outstanding stock options totaling approximately 1.9 million for both periods were antidilutive, and therefore not included in the computation of diluted net income per share. For the six month period ended June 30, 2009 and 2008, weighted-average outstanding stock options totaling approximately 1.8 million and 1.7 million shares of common stock, respectively, were antidilutive and therefore not included in the computation of diluted net income per share.

NOTE 5: SHARE-BASED COMPENSATION

The 2004 Equity Incentive Plan, as amended (the "2004 Plan"), limits the combined grant of options to acquire shares of common stock, stock appreciation rights, and nonvested share awards under the 2004 Plan to 7,500,000 shares. Any grant under the 2004 Plan that expires or terminates unexercised, becomes unexercisable, or is forfeited will generally be available

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for future grants. At June 30, 2009, there were approximately 1,341,000 shares of common stock available for future equity-related grants under the 2004 Plan.

During the six months ended June 30, 2009, we granted 285,000 nonvested share awards at a weighted-average grant date price of \$14.49 per share, which vest six months after the date of grant, 40,000 stock options with a weighted-average exercise price of \$14.49 per share, which vest 20% per year over five years, and 171,000 stock options with a weighted-average exercise price of \$16.02, which vest over a seven year period at 20% per year over the five year period beginning on the third anniversary of the grant.

The weighted-average grant date fair value of stock options granted during the six months ended June 30, 2009 and 2008 was \$8.00 per option and \$5.88 per option, respectively. The weighted-average assumptions used for the calculation of these values, utilizing the Black-Scholes methodology, were as follows:

	Six Months Ended	
	June 30, 2009	June 30, 2008
Expected volatility (%)	47.0	41.0
Dividend yield (%)	—	—
Risk-free interest rate (%)	2.7	2.6
Expected life of stock option (years)	6.2	5.0

During the three months ended June 30, 2009 and 2008, we recognized share-based compensation expense, which is a non-cash charge, for stock option and nonvested share awards of approximately \$2.8 million and \$0.9 million, respectively, of which \$0.1 million and \$0.2 million, respectively, is included under the caption “Direct cost of services” and \$2.7 million and \$0.7 million, respectively, is included under the caption “General and administrative” on the accompanying Condensed Consolidated Statements of Income.

During the three months ended June 30, 2009 and 2008, we recognized a net tax benefit of approximately \$0.6 million and \$0.3 million, respectively, related to aggregate share-based compensation expense recognized during the same period.

During the six months ended June 30, 2009 and 2008, we recognized share-based compensation expense, which is a non-cash charge, for stock option and nonvested share awards of approximately \$4.3 million and \$1.4 million, respectively, of which \$0.3 million and \$0.5 million, respectively, is included under the caption “Direct cost of services” and \$4.0 million and \$0.9 million, respectively, is included under the caption “General and administrative” on the accompanying Condensed Consolidated Statements of Income.

During the six months ended June 30, 2009 and 2008, we recognized a net tax benefit of approximately \$1.0 million and \$0.5 million, respectively, related to aggregate share-based compensation expense recognized during the same period. As of June 30, 2009, there was \$10.6 million of total unrecognized compensation cost related to nonvested share-based awards, which will be recognized over a weighted-average period of 2.9 years.

NOTE 6: SEGMENT REPORTING

We have three reporting segments: electronic discovery, bankruptcy, and settlement administration. Our electronic discovery business provides collections and forensics, processing, and search and review services to companies and the litigation departments of law firms. Produced documents are made available primarily through a hosted environment, and our DocuMatrix™ software allows for efficient attorney review and data requests. Our bankruptcy segment provides solutions that address the needs of trustees to administer bankruptcy proceedings and of debtor corporations that file a plan of reorganization. Our settlement administration segment provides managed services including legal notification, claims administration and controlled disbursement.

The segment performance measure is based on earnings before interest, taxes, depreciation and amortization, other operating expense (income), and share-based compensation expense. In management’s evaluation of performance, certain costs, such as compensation for administrative staff and executive management, are not allocated by segment and, accordingly, the following reporting segment results do not include such unallocated costs.

Assets reported within a segment are those assets that can be identified to a segment and primarily consist of trade receivables, property, equipment and leasehold improvements, software, identifiable intangible assets and goodwill. Cash,

tax-related assets, and certain prepaids and other assets are not allocated to our segments. Although we can and do identify long-lived assets such as property, equipment and leasehold improvements, software, and identifiable intangible assets to reporting segments, we do not allocate the related depreciation and amortization to the segment as management evaluates segment performance exclusive of these non-cash charges.

Following is a summary of segment information for the three months ended June 30, 2009. The intersegment revenues in the three months ended June 30, 2009 related primarily to call center services performed by the settlement administration segment for the bankruptcy segment.

	Three Months Ended June 30, 2009				
	Electronic Discovery	Bankruptcy	Settlement Administration (in thousands)	Eliminations	Total
Revenue:					
Operating revenue from external customers before reimbursed direct costs	\$ 14,335	\$ 24,078	\$ 18,726	\$ —	\$ 57,139
Intersegment revenue	—	1	607	(608)	—
Operating revenue before reimbursed direct costs	14,335	24,079	19,333	(608)	57,139
Operating revenue from reimbursed direct costs	37	3,196	5,818	—	9,051
Total revenue	14,372	27,275	25,151	(608)	66,190
Direct costs, general and administrative costs	9,981	14,774	19,953	(608)	44,100
Segment performance measure	<u>\$ 4,391</u>	<u>\$ 12,501</u>	<u>\$ 5,198</u>	<u>\$ —</u>	<u>\$ 22,090</u>

Following is a summary of segment information for the three months ended June 30, 2008. Intersegment revenues for this period were not considered material to the segment reporting information.

	Three Months Ended June 30, 2008			
	Electronic Discovery	Bankruptcy	Settlement Administration (in thousands)	Total
Revenue:				
Operating revenue from external customers before reimbursed direct costs	\$ 16,278	\$ 12,498	\$ 28,161	\$ 56,937
Operating revenue from reimbursed direct costs	19	869	7,017	7,905
Total revenue	16,297	13,367	35,178	64,842
Direct costs, general and administrative costs	8,233	7,226	29,128	44,587
Segment performance measure	<u>\$ 8,064</u>	<u>\$ 6,141</u>	<u>\$ 6,050</u>	<u>\$ 20,255</u>

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Following is a reconciliation of our segment performance measure to income before income taxes (in thousands):

	Three Months Ended June 30,	
	2009	2008
Segment performance measure	\$ 22,090	\$ 20,255
Corporate and unallocated expenses	(6,574)	(5,988)
Share-based compensation expense	(2,783)	(872)
Depreciation and software and leasehold amortization	(4,552)	(3,853)
Amortization of intangible assets	(1,818)	(2,325)
Other operating expense	(13)	(859)
Interest expense, net	(349)	(405)
Income before income taxes	<u>\$ 6,001</u>	<u>\$ 5,953</u>

Following is a summary of segment information for the six months ended June 30, 2009. The intersegment revenues in the six months ended June 30, 2009 related primarily to call center services performed by the settlement administration segment for the bankruptcy segment.

	Six Months Ended June 30, 2009				
	Electronic Discovery	Bankruptcy	Settlement Administration (in thousands)	Eliminations	Total
Revenue:					
Operating revenue from external customers before reimbursed direct costs	\$ 28,384	\$ 41,406	\$ 39,962	\$ —	\$ 109,752
Intersegment revenue	—	1	1,120	(1,121)	—
Operating revenue before reimbursed direct costs	28,384	41,407	41,082	(1,121)	109,752
Operating revenue from reimbursed direct costs	62	4,719	12,485	—	17,266
Total revenue	<u>28,446</u>	<u>46,126</u>	<u>53,567</u>	<u>(1,121)</u>	<u>127,018</u>
Direct costs, general and administrative costs	19,107	25,204	41,567	(1,121)	84,757
Segment performance measure	<u>\$ 9,339</u>	<u>\$ 20,922</u>	<u>\$ 12,000</u>	<u>\$ —</u>	<u>\$ 42,261</u>

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Following is a summary of segment information for the six months ended June 30, 2008. Intersegment revenues for this period were not considered material to the segment reporting information.

	Six Months Ended June 30, 2008			
	Electronic Discovery	Bankruptcy	Settlement Administration	Total
	(in thousands)			
Revenue:				
Operating revenue from external customers before reimbursed direct costs	\$ 29,516	\$ 25,862	\$ 45,460	\$ 100,838
Operating revenue from reimbursed direct costs	121	1,701	11,192	13,014
Total revenue	29,637	27,563	56,652	113,852
Direct costs, general and administrative costs	15,178	14,124	49,893	79,195
Segment performance measure	<u>\$ 14,459</u>	<u>\$ 13,439</u>	<u>\$ 6,759</u>	<u>\$ 34,657</u>

Following is a reconciliation of our segment performance measure to income before income taxes (in thousands):

	Six Months Ended June 30,	
	2009	2008
Segment performance measure	\$ 42,261	\$ 34,657
Corporate and unallocated expenses	(11,323)	(10,830)
Share-based compensation expense	(4,256)	(1,396)
Depreciation and software and leasehold amortization	(9,066)	(7,563)
Amortization of intangible assets	(3,754)	(4,603)
Other operating (expense) income	(484)	1,512
Interest expense, net	(687)	(752)
Income before income taxes	<u>\$ 12,691</u>	<u>\$ 11,025</u>

Following are total assets by segment (in thousands):

Assets	June 30,	December 31,
	2009	2008
Electronic Discovery	\$ 141,214	\$ 139,216
Bankruptcy	188,105	184,906
Settlement Administration	58,736	60,146
Corporate and unallocated	43,545	34,678
Total consolidated assets	<u>\$ 431,600</u>	<u>\$ 418,946</u>

NOTE 7: DERIVATIVES***Interest Rate Floors***

A portion of our bankruptcy trustee revenue is subject to variability based on fluctuations in short-term interest rates. During 2007, in order to limit our economic exposure to market fluctuations in interest rates, we purchased one-month LIBOR based interest rate floor options with a total notional amount of \$800 million and initial contractual maturity of three years. We accounted for this transaction pursuant to the guidance contained in SFAS 133 which requires that all derivative instruments be recorded on the balance sheet at fair value. As the interest rate floor options were not designated as an accounting hedge, changes in the fair value of the derivatives were recorded each period in current earnings. In February 2008, we sold the interest rate floor options and realized a \$3.5 million gain. The \$2.4 million difference between the realized gain of \$3.5 million and the previously unrealized gain of \$1.1 million was included as a component of "Other operating expense (income)" for the six months ended June 30, 2008 on the accompanying Condensed Consolidated Statements of Income. As of June 30, 2009 we did not hold any interest rate floor options, other derivatives, or auction rate securities.

NOTE 8: FAIR VALUES OF ASSETS AND LIABILITIES

SFAS No. 157 establishes a three-level fair value hierarchy based upon the assumptions (inputs) used to price assets or liabilities. The hierarchy requires us to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are listed below.

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than those included in Level 1, such as quoted market prices for similar assets and liabilities in active markets or quoted prices for identical assets in inactive markets.

Level 3 — Unobservable inputs reflecting our own assumptions and best estimate of what inputs market participants would use in pricing and asset or liability.

Assets

The carrying value and estimated fair value of our cash equivalents, which consist of short-term money market funds, are classified as Level 1 and are presented in the following table at June 30, 2009 and December 31, 2008. As of June 30, 2009 and December 31, 2008, the carrying value of our trade accounts receivable approximated fair value.

Items Measured at Fair Value on a Recurring Basis	Carrying Value	Estimated Fair Value Measurements		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2009:				
<i>Financial Assets:</i>				
Money market funds	\$ 22,410	\$ 22,410	\$ —	\$ —
December 31, 2008:				
<i>Financial Assets:</i>				
Money market funds	\$ 19,340	\$ 19,340	\$ —	\$ —

Liabilities

As of June 30, 2009 and December 31, 2008, the carrying value of accounts payable, deferred acquisition price payments, capital leases, and the embedded option related to our convertible notes approximated fair value. As of both June 30, 2009 and December 31, 2008, the carrying value of convertible debt was approximately \$50.0 million. The fair value of our convertible debt was estimated at \$65.9 million and \$71.6 million as of June 30, 2009 and December 31, 2008, respectively. This amount was estimated by taking the \$50.0 million in outstanding debt, divided by the conversion price of \$11.67 per

share, to arrive at an estimated number of shares that would be issued assuming conversion of all of the notes. The estimated number of shares was then multiplied by the closing price of our common stock on the last day of the respective reporting period to arrive at an estimate of the fair value of our convertible debt.

NOTE 9: SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is as follows (in thousands):

	Six Months Ended	
	June 30,	
	2009	2008
Cash paid for:		
Interest	\$ 1,570	\$ 1,489
Income taxes paid, net	4,121	3,427
Non-cash investing and financing transactions:		
Property, equipment, and leasehold improvements accrued in accounts payable	1,047	2,188

NOTE 10: ACQUISITIONS

On April 4, 2008, our wholly-owned subsidiary, Epiq Systems Holding B.V., acquired all of the equity of Uberdevelopments Limited and its wholly-owned operating subsidiary, Pinpoint Global Limited (collectively, “Pinpoint”), an electronic discovery business with operations in the United Kingdom. The value of the transaction was \$7.1 million, consisting of \$4.9 million of cash, \$1.7 million of deferred payments and \$0.5 million of capitalized transaction costs. Certain revenue targets were satisfied as of September 30, 2008, which required an additional payment of \$0.6 million in the fourth quarter of 2008; and the accrual of an additional payment of approximately £545,000 (as of June 30, 2009 approximately \$0.9 million, including interest) due in 2010. These additional payments were recorded as purchase price adjustments. If certain other revenue targets are satisfied prior to the second and third anniversary dates of the agreement, we are required to make additional payments. We have determined that it is probable that these targets will be satisfied and have been accruing a liability for total payments of approximately £400,000 (as of June 30, 2009 approximately \$0.7 million). These amounts are recorded as compensation expense over the contingency period.

The allocation of the purchase price was as follows: \$0.3 million to net assets, \$1.1 million to customer contracts, \$1.1 million to non-compete agreements, \$0.7 million to establish a deferred tax liability related to the acquired intangible assets, and \$5.3 million to goodwill. The purchase price in excess of the value of the acquired identifiable net assets reflects the strategic value we placed on Pinpoint as this acquisition facilitated the expansion of our electronic discovery business in the United Kingdom.

The acquisition was accounted for using the purchase method of accounting with the operating results included in the accompanying Condensed Consolidated Financial Statements from the date of acquisition. The operating results of the acquired entities are included within our electronic discovery segment. The pro forma results of the acquired entities for the period January 1, 2008 through the date of acquisition were not material to our consolidated results of operations.

NOTE 11: LEGAL PROCEEDINGS

On July 29, 2008, the Alaska Electrical Pension Fund filed a putative shareholder derivative action in the U.S. District Court for the District of Kansas (Civil Action No. 08-CV-2344 CM/JPO), alleging on behalf of Epiq Systems that each of our current directors and certain current and former executive officers and directors engaged in misconduct regarding stock option grants.

The plaintiff complaint asserts, among other things, that the company backdated certain stock options from July 1997 through January 2006, and that the individual defendants either participated in the backdating or permitted it to occur, violations of generally accepted accounting principles as a result of the alleged backdating of options, related claims of false and misleading proxy statements and annual reports filed by the company under the Securities Exchange Act of 1934, also as a result of the alleged backdating of options, and various violations of state law, breaches of fiduciary duty of loyalty and insider trading in company stock. The plaintiff is seeking among other things, unspecified money damages, an accounting for

profits obtained from the alleged backdating of options, specified changes in our corporate governance policies, punitive damages and rescission of the allegedly backdated options.

In October 2008, the company and the individual defendants filed a motion to dismiss the plaintiff's complaint on a variety of grounds. The Court entered a Memorandum and Order on June 3, 2009 with respect to the dismissal motion, which Order: (i) barred certain of plaintiff's federal securities law claims arising before July 29, 2005, leaving only the claim for the stock option grant dated June 3, 2006; (ii) held that the statute of limitations was tolled on those federal securities law claims; (iii) barred plaintiff's other federal securities law claims arising before December 9, 2003; (iv) declined to rule at that time on defendants' motions to dismiss plaintiff's state law claims based on any statute of repose or statute of limitations; (v) dismissed plaintiff's state law claim for constructive fraud; and (vi) held that plaintiff's complaint stated federal securities law and state law claims with sufficient particularity to avoid dismissal at this stage in the proceedings.

The individual defendants and the company have filed an answer denying the plaintiff's claims. Discovery in this action is just beginning and is expected to continue until summer 2010.

We believe the plaintiff's claims are without merit and will continue to defend against them vigorously. No amounts have been recorded in the accompanying Condensed Consolidated Financial Statements associated with this matter.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and the accompanying Notes to the Condensed Consolidated Financial Statements included in this Form 10-Q.

Overview

We are a provider of integrated technology solutions for the legal profession. Our solutions streamline the administration of bankruptcy, litigation, financial transactions and regulatory compliance matters. We offer innovative technology solutions for electronic discovery, document review, legal notification, claims administration and controlled disbursement of funds. Our clients include law firms, corporate legal departments, bankruptcy trustees and other professional advisors who require innovative technology, responsive service and deep subject-matter expertise.

We have three reporting segments: electronic discovery, bankruptcy, and settlement administration.

Electronic Discovery

Our electronic discovery business provides collections and forensics, processing, and search and review services to companies and the litigation departments of law firms. Our eDataMatrix™ software analyzes, filters, deduplicates and produces documents for review. Produced documents are made available primarily through a hosted environment, and our DocuMatrix™ software allows for efficient attorney review and data requests.

Our customers are typically large corporations that use our products and services cooperatively with their legal counsel to manage the electronic discovery process for complex litigation matters. The impacts of current economic conditions for the electronic discovery market have resulted in customers delaying new litigation or starting-up activities related to new signed projects due to budgetary constraints, as well as pricing pressures in the industry, as discussed in more detail below.

The substantial increase of electronic documents by businesses has changed the dynamics of how attorneys support discovery in complex litigation matters. Due to the complexity of cases, the volume of data that are maintained electronically, and the volume of documents that are produced in all types of litigation, we anticipate that law firms will become increasingly reliant on electronic evidence management systems to organize and manage the litigation discovery process.

Following is a description of the significant sources of revenue in our electronic discovery business.

- Fees related to the conversion of data into an organized, searchable electronic database. The amount we earn varies primarily on the size (number of documents) and complexity of the engagement.
- Hosting fees based on the amount of data stored.

In the first half of 2009, we opened new offices in Brussels and Hong Kong, established global reach for our data centers in the U.S., Europe and Asia and expanded our offerings to include data forensics and collections services and document review services. We expect industry pricing pressures, as well as a slower pace in the start-up of litigation matters, both of which can be attributed to the current economic climate, to continue for the remainder of 2009.

Bankruptcy

Our bankruptcy business provides solutions that address the needs of Chapter 7, Chapter 11, and Chapter 13 bankruptcy trustees to administer bankruptcy proceedings and of debtor corporations that file a plan of reorganization.

- Chapter 7 is a liquidation bankruptcy for individuals or businesses that, as measured by the number of new cases filed in the fiscal year ended September 30, 2008, accounted for approximately 65% of all bankruptcy filings. In a Chapter 7 case, the debtor's assets are liquidated and the resulting cash proceeds are used by the Chapter 7 bankruptcy trustee to pay creditors. Chapter 7 cases typically last several years.
- Chapter 11 is a reorganization model of bankruptcy for corporations that, as measured by the number of new cases filed in the fiscal year ended September 30, 2008, accounted for approximately 1% of all bankruptcy filings. Chapter 11

generally allows a company, often referred to as the debtor-in-possession, to continue operating under a plan of reorganization to restructure its business and to modify payment terms of both secured and unsecured obligations. Chapter 11 cases generally last several years.

- Chapter 13 is a reorganization model of bankruptcy for individuals that, as measured by the number of new cases filed in the fiscal year ended September 30, 2008, accounted for approximately 34% of all bankruptcy filings. In a Chapter 13 case, debtors make periodic cash payments into a reorganization plan and a Chapter 13 bankruptcy trustee uses these cash payments to make monthly distributions to creditors. Chapter 13 cases typically last between three and five years.

As reported by the Administrative Office of the U.S. Courts, bankruptcy filings for the 12 month period ended March 31, 2009 increased 33% versus the same period in 2008. During this period, Chapter 7 filings increased 46%, Chapter 11 filings increased 69%, and Chapter 13 filings increased 11%. The frequently long-term, multi-year nature of corporate restructuring bankruptcy engagements provides us visibility into potential revenues in future periods. For the Chapter 7 trustee services component of the bankruptcy segment, the increase in filings is expected to translate into growth in client deposit balances related to asset liquidations taking place in a higher number of cases and pricing is not expected to change for the remainder of 2009.

The end-user customers of our bankruptcy business are debtor corporations that file a plan of reorganization and professional bankruptcy trustees. The Executive Office for United States Trustees, a division of the U.S. Department of Justice, appoints all bankruptcy trustees. A United States Trustee is appointed in most federal court districts and generally has responsibility for overseeing the integrity of the bankruptcy system. The bankruptcy trustee's primary responsibilities include liquidating the debtor's assets or collecting funds from the debtor, distributing the collected funds to creditors pursuant to the orders of the bankruptcy court and preparing regular status reports for the Executive Office for United States Trustees and for the bankruptcy court. Trustees manage an entire caseload of bankruptcy cases simultaneously.

Following is a description of the significant sources of revenue in our bankruptcy business.

- Data hosting fees and volume-based fees.
- Case management professional service fees and other support service fees related to the administration of cases, including data conversion, claims processing, claims reconciliation, professional consulting services, and settlement administration.
- Deposit-based fees, earned primarily on a percentage of Chapter 7 total liquidated assets placed on deposit with a designated financial institution by our trustee clients, to whom we provide, at no charge, software licenses, limited hardware and hardware maintenance, and postcontract customer support services. The fees we earn based on total liquidated assets placed on deposit by our trustee clients may vary based on fluctuations in short-term interest rates. Interest rate fluctuations are somewhat mitigated by pricing arrangements with each financial institution that set ceilings and floors on the fees that those financial institutions pay us.
- Legal noticing services to parties of interest in bankruptcy matters, including direct notification and media campaign and advertising management in which we coordinate notification, primarily through print media outlets, to potential parties of interest for a particular client engagement.
- Reimbursement for costs incurred, primarily related to postage on mailing services.

Settlement Administration

Our settlement administration segment provides managed services, including legal notification, claims administration, project administration and controlled disbursement.

Class action and mass tort refer to litigation in which class representatives bring a lawsuit against a defendant company or other persons on behalf of a large group of similarly affected persons. Mass tort refers to class action cases that are particularly large or prominent. The class action and mass tort marketplace is significant, with estimated annual tort claim costs of approximately \$250 billion in 2007, according to a study issued in 2008 by Towers Perrin. Administrative costs, which include costs, other than defense costs, incurred by either the insurance company or self-insured entity in the administration of claims, comprise approximately 24% of this total.

Key participants in this marketplace include law firms that specialize in representing class action and mass tort plaintiffs and other law firms that specialize in representing defendants. Class action and mass tort litigation is often complex and the cases, including administration of any settlement, may last several years.

The customers of our settlement administration segment are companies that are administering the settlement or resolution of class action cases or are administering projects. We sell our services directly to those customers and other interested parties, including legal counsel, which often provide access to these customers.

A large Settlement Administration contract with IBM in support of the federal government's analog to digital television conversion program, which was launched in the fourth quarter of 2007 and contributed 22% of our consolidated revenue during the year ended December 31, 2008, was substantially completed in the second quarter of 2009 and will conclude in the third quarter of 2009.

Following is a description of significant sources of revenue in our settlement administration business.

- Fees contingent upon the month-to-month delivery of case management services such as claims processing, claims reconciliation, project management, professional services, call center support, and controlled disbursements. The amount we earn varies primarily on the size and complexity of the engagement.
- Legal noticing services to parties of interest in class action matters, including media campaign and advertising management, in which we coordinate notification through various media outlets, such as print, radio and television, to potential parties of interest for a particular client engagement.
- Reimbursement for costs incurred related to postage on mailing services.

Results of Operations for the Three Months Ended June 30, 2009 Compared with the Three Months Ended June 30, 2008

Consolidated Results

Revenue

Total revenue was \$66.2 million for the three months ended June 30, 2009, an increase of \$1.3 million, or 2%, as compared to the prior year. A portion of our total revenue consists of reimbursement for direct costs we incur, such as postage related to document management services. We reflect the operating revenue from these reimbursed direct costs as a separate line item on our accompanying Condensed Consolidated Statements of Income. Operating revenue from reimbursed direct costs was \$9.1 million, an increase of \$1.2 million, or 14%, from \$7.9 million in the period year. Although operating revenue from reimbursed direct costs may fluctuate significantly from quarter to quarter, these fluctuations have a minimal effect on our income from operations as we realize little or no margin from this revenue.

Operating revenue before reimbursed direct costs, was \$57.1 million in the three months ended June 30, 2009, an increase of \$0.2 million, as compared to the prior year. The increase consists of an \$11.5 million increase in the bankruptcy segment, largely offset by a \$1.9 million decrease in the electronic discovery segment and a \$9.4 million decrease in the settlement administration segment. Changes by segment are discussed below.

Operating Expense

The direct cost of services, exclusive of depreciation and amortization, was \$19.7 million for the three months ended June 30, 2009, a decrease of \$4.7 million, or 19%, as compared to \$24.4 million in the prior year. Contributing to this decrease was a \$3.9 million decrease in the cost of outside services, primarily related to temporary help and mailing; a \$2.0 million decrease in legal noticing costs; and a \$0.5 million decrease in production supplies. These decreases were partially offset by a \$1.0 million increase in compensation related expense; a \$0.3 million increase in software maintenance costs related to client service capabilities; a \$0.2 million increase in equipment expense; and a \$0.2 million increase in insurance expense. Changes by segment are discussed below.

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The direct cost of bundled products and services, exclusive of depreciation and amortization, remained flat at \$0.9 million for the three months ended June 30, 2009 and 2008. Changes by segment are discussed below.

Reimbursed direct costs increased \$1.1 million, or 15%, to \$9.0 million for the three months ended June 30, 2009, compared with \$7.9 million during the prior year. This increase directly corresponds to the increase in operating revenue from reimbursed direct costs. Changes by segment are discussed below.

General and administrative costs increased \$5.6 million, or 31%, to \$23.8 million for the three months ended June 30, 2009. Contributing to this increase was a \$3.3 million increase in compensation, commission and benefits expense, a \$2.1 million increase in share-based compensation expense for nonvested share awards granted in February 2009, and a \$0.5 million increase in outside services. Changes by segment are discussed below.

Depreciation and software and leasehold amortization costs for the three months ended June 30, 2009 were \$4.6 million, an increase of \$0.7 million, or 18%, compared to the prior year. This increase was primarily the result of increased software amortization expense and increased hardware depreciation related to investments in our business segments.

Amortization of identifiable intangible assets for the three months ended June 30, 2009 was \$1.8 million, a decrease of \$0.5 million, or 22%, compared to the prior year. This decrease was the result of certain non-compete and customer contract intangible assets that were fully amortized in the first quarter of 2009.

Other operating expense for the three months ended June 30, 2009 decreased by approximately \$0.9 million. For the three months ended June 30, 2008, we had other operating expense of \$0.9 million which consisted of acquisition-related expenses.

Interest Expense

We recognized interest expense of approximately \$0.4 million for the three months ended June 30, 2009 and for the three months ended June 30, 2008.

Effective Tax Rate

Our effective tax rate for the three months ended June 30, 2009 was 51.9% compared with an effective rate of 47.0% for the prior year. The increase compared to the prior year is primarily related to non-deductible equity compensation expense in 2009 for which a comparable expense did not exist in the prior year. State taxes and non-deductible equity compensation are the primary reasons our tax rate is higher than the statutory federal rate of 35%. We have significant operations located in New York City that are subject to state and local tax rates that are higher than the tax rates assessed by other jurisdictions where we operate.

It is reasonably possible that we will recognize approximately \$1.0 million of previously unrecognized tax benefits as a result of anticipated lapses in the statute of limitations during 2009 within twelve months of our reporting date. If recognized, the \$1.0 million of tax benefits would affect the effective tax rate in 2009.

Net Income

Our net income was \$2.9 million for the three months ended June 30, 2009 compared to \$3.2 million for the prior year, a decrease of \$0.3 million, or 8%. The growth in our bankruptcy segment, which was the result of an increase in corporate restructuring retentions; was offset by a decline in our settlement administration segment, due primarily to the wind-down of the digital conversion contract; and our electronic discovery segment, driven by lower revenues related to the current economic climate and increased expenses related to expansion of service offerings and geographic expansion in this segment; an increase in share based compensation expense; and an increase in our 2009 effective tax rate, resulting in higher tax expense.

Results of Operations by Segment

The following segment discussion is presented on a basis consistent with our segment disclosure contained in Note 6 of our Notes to Condensed Consolidated Financial Statements.

Electronic Discovery Segment

Electronic discovery operating revenue from external customers before reimbursed direct costs for the three months ended June 30, 2009 was \$14.3 million, a decrease of \$1.9 million, or 12%, compared to the prior year. The change from the prior year is primarily related to industry pricing pressures, the impact of which was an approximate 10% decline in the average price of services, as well as a slower pace in the start-up of litigation matters, both of which can be attributed to the current economic climate.

Electronic discovery direct and administrative expenses were \$10.0 million for the three months ended June 30, 2009, an increase of \$1.7 million, or 21%, compared to the prior year. This increase is primarily a result of a \$1.1 million increase in compensation, commission and benefits expense related to the expansion of service offerings and geographic expansion; a \$0.3 million increase in software maintenance costs; a \$0.1 million increase in building and equipment lease expense, primarily related to data center expansion; and an increase of \$0.2 million in outside services expense.

Bankruptcy Segment

Bankruptcy operating revenue from external customers before reimbursed direct costs for the three months ended June 30, 2009 was \$24.1 million, an increase of \$11.5 million, or 93%, compared to \$12.5 million in the prior year. This increase is primarily attributable to an increase in corporate restructuring engagements. Partially offsetting this increase was a slight decline in bankruptcy trustee fees, as an increase in average deposit balances was more than offset by lower interest rates compared to the prior year period.

Bankruptcy direct and administrative expenses increased \$7.6 million, or 104%, to \$14.8 million for the three months ended June 30, 2009, compared to \$7.2 million in prior year. The increase is primarily attributable to a \$2.5 million increase in compensation related expense, due primarily to expanded staffing in support of new client engagements; a \$1.5 million increase in outside services expense; a \$2.3 million increase in reimbursed direct costs, which directly corresponds to the increase in operating revenue from reimbursed direct costs; a \$0.4 million increase in noticing expense; and a \$0.6 million increase in call center services.

Settlement Administration Segment

Settlement administration operating revenue from external customers before reimbursed direct costs was \$18.7 million in the three months ended June 30, 2009, a decrease of \$9.4 million, or 34%, compared to the prior year. This decrease was primarily related to a decline of \$7.6 million related to the digital conversion contract which was substantially completed during the second quarter of 2009, and a \$2.1 million decrease in legal notification revenue.

Settlement administration direct and administrative expenses, including reimbursed direct costs, for the three months ended June 30, 2009 were \$20.0 million, a decrease of \$9.1 million, or 31%, compared to \$29.1 million in the prior year. The decrease in expense is the result of a decrease in call center, outside services, and mailing supplies costs of \$6.2 million, which supported the digital conversion contract referenced above in the prior year; a \$1.9 million decrease in the cost of legal noticing, which is directly related to the decrease in legal notification revenue; and a \$1.2 million decrease in reimbursable expenses.

Results of Operations for the Six Months Ended June 30, 2009 Compared with the Six Months Ended June 30, 2008

Consolidated Results

Revenue

Total revenue was \$127.0 million for the six months ended June 30, 2009, an increase of \$13.2 million, or 12%, as compared to the prior year. A portion of our total revenue consists of reimbursement for direct costs we incur, such as postage related to document management services. We reflect the operating revenue from these reimbursed direct costs as a separate line item on our accompanying Condensed Consolidated Statements of Income. Operating revenue from reimbursed direct costs was \$17.3 million, an increase of \$4.3 million, or 33%, from \$13.0 million in the prior year. Although operating revenue from reimbursed direct costs may fluctuate significantly from quarter to quarter, these fluctuations have a minimal effect on our income from operations as we realize little or no margin from this revenue.

Operating revenue before reimbursed direct costs was \$109.8 million in the six months ended June 30, 2009, an increase of \$8.9 million, or 9%, as compared to the prior year. The increase consists of a \$15.5 million increase in the bankruptcy segment, partially offset by a \$5.5 million decrease in the settlement administration segment, and a \$1.1 million decrease in the electronic discovery segment. Changes by segment are discussed below.

Operating Expense

The direct cost of services, exclusive of depreciation and amortization, was \$39.4 million for the six months ended June 30, 2009, a decrease of \$3.9 million, or 9%, as compared to \$43.3 million in the prior year. Contributing to this decrease was a \$5.1 million decrease in legal noticing costs and a \$3.1 million decrease in the cost of outside services, primarily related to temporary help and mailing in the prior year period. These decreases were partially offset by an increase of \$2.3 million in compensation related expense; a \$1.0 million increase in production supplies; a \$0.6 million increase in software maintenance costs; a \$0.3 million increase in equipment expense; and a \$0.2 million increase in insurance expense.

The direct cost of bundled products and services, exclusive of depreciation and amortization, was \$1.7 million for the six months ended June 30, 2009, a decrease of \$0.1 million, or 8%, compared to the prior year. Changes by segment are discussed below.

Reimbursed direct costs increased \$4.1 million, or 31%, to \$17.1 million for the six months ended June 30, 2009, compared with \$13.0 million during the prior year. This increase directly corresponds to the increase in operating revenue from reimbursed direct costs. Changes by segment are discussed below.

General and administrative costs increased \$8.9 million, or 27%, to \$42.2 million for the six months ended June 30, 2009. Contributing to this increase was a \$5.6 million increase in compensation, commission and benefits expense, and a \$3.1 million increase in share-based compensation expense for nonvested share awards granted in February 2009. Changes by segment are discussed below.

Depreciation and software and leasehold amortization costs for the six months ended June 30, 2009 were \$9.1 million, an increase of \$1.5 million, or 20%, compared to the prior year. This increase was primarily the result of increased software amortization expense and increased hardware depreciation related to investments in our business segments.

Amortization of identifiable intangible assets for the six months ended June 30, 2009 was \$3.8 million, a decrease of \$0.8 million, or 18%, compared to the prior year. This decrease was the result of certain non-compete and customer contract intangible assets that were fully amortized in the current year; partly offset by an increase in non-compete amortization resulting from our acquisition of an electronic discovery business in the United Kingdom in the second quarter of 2008.

Other operating expense of \$0.5 million for the six months ended June 30, 2009 primarily consists of expenses related to potential acquisitions. For the six months ended June 30, 2008, we had other operating income of \$1.5 million which was comprised of a gain of \$2.4 million that we recognized related to interest rate floor options purchased during 2007; partially offset by acquisition-related expenses of \$0.9 million.

Interest Expense

We recognized interest expense of \$0.7 million for the six months ended June 30, 2009 compared with \$0.9 million for the same period in the prior year. The \$0.2 million decrease in interest expense resulted from a decrease in loan fee amortization.

Effective Tax Rate

Our effective tax rate for the six months ended June 30, 2009 was 51.4% compared with an effective rate of 47.3% for the prior year. The increase compared to the prior year is primarily related to non-deductible equity compensation in 2009 for which a comparable expense did not exist in the prior year. State taxes and non-deductible equity compensation are the primary reasons our tax rate is higher than the statutory federal rate of 35%. We have significant operations located in New York City that are subject to state and local tax rates that are higher than the tax rates assessed by other jurisdictions where we operate.

It is reasonably possible that we will recognize approximately \$1.0 million of previously unrecognized tax benefits as a result of anticipated lapses in the statute of limitations during 2009 within twelve months of our reporting date. If recognized, the \$1.0 million of tax benefits would affect the effective tax rate in 2009.

Net Income

Our net income was \$6.2 million for the six months ended June 30, 2009 compared to \$5.8 million for the prior year, an increase of \$0.4 million, or 6%. Growth in our bankruptcy segment, resulting primarily from an increase in corporate restructuring retentions, as well as growth in our settlement administration segment, contributed to the increase in net income. These increases were offset in part by increased expenses in the electronic discovery segment related to the expansion of services and geographic expansion of the business; a decline in other operating income due to the gain on the interest rate floor options recognized in the prior year; and an increase in our 2009 effective tax rate, resulting in higher tax expense.

Results of Operations by Segment

The following segment discussion is presented on a basis consistent with our segment disclosure contained in Note 6 of our Notes to Condensed Consolidated Financial Statements.

Electronic Discovery Segment

Electronic discovery operating revenue from external customers before reimbursed direct costs decreased \$1.1 million, or 4%, to \$28.4 million for the six months ended June 30, 2009, compared to \$29.5 million in the prior year. The change from the prior year is primarily related to industry pricing pressures, the impact of which was an approximate 8% decline in the average price of services, as well as a slower pace in the start-up of litigation matters, both of which can be attributed to the current economic climate.

Electronic discovery direct and administrative expenses increased \$3.9 million, or 26%, to \$19.1 million for the six months ended June 30, 2009, compared with \$15.2 million in the prior year. This increase is primarily a result of a \$2.3 million increase in compensation, commission and benefits expense, and \$0.2 million increase in travel and entertainment expense, resulting from the expansion of services and geographic expansion of our business; a \$0.5 million increase in the outside services; a \$0.5 million increase in software maintenance costs; and a \$0.3 million increase in building and equipment lease expense, primarily related to data center expansion.

Bankruptcy Segment

Bankruptcy operating revenue from external customers before reimbursed direct costs for the six months ended June 30, 2009 was \$41.4 million, an increase of \$15.5 million, or 60%, compared to \$25.9 million in the prior year. This increase is primarily attributable to an increase in corporate restructuring engagements. Partially offsetting this increase was a decline in bankruptcy trustee fees, as an increase in average deposit balances was more than offset by lower interest rates compared to the prior year period.

Bankruptcy direct and administrative expenses increased \$11.1 million, or 78%, to \$25.2 million for the six months ended June 30, 2009, compared to \$14.1 million in prior year. The increase is primarily attributable to a \$3.5 million increase in compensation related expense, due to expanded staffing in support of new client engagements; a \$2.5 million increase in outside services expense; a \$3.0 million increase in reimbursed direct costs, which directly corresponds to the increase in operating revenue from reimbursed direct costs; a \$0.4 million increase in outside services; a \$0.2 million increase in production supplies; a \$0.2 million increase in professional fees; and a \$1.1 million increase in call center services.

Settlement Administration Segment

Settlement administration operating revenue from external customers before reimbursed direct costs was \$40.0 million in the six months ended June 30, 2009, a decrease of \$5.5 million, or 12%, compared to the prior year. Call center and professional services revenue increased \$3.3 million compared to the prior year due to several new engagements. This increase was offset by a decline of \$2.7 million related to the digital conversion contract, which was substantially completed during the second quarter of 2009; a \$5.7 million decrease in legal notification revenue; and a \$0.4 million decrease in legal settlements revenue.

Settlement administration direct and administrative expenses, including reimbursed direct costs, for the six months ended June 30, 2009 were \$41.6 million, a decrease of \$8.3 million, or 17%, compared to \$49.9 million in the prior year. The decrease in expense is the result of a decrease in call center, outside services, and mailing supplies costs, which supported the digital conversion contract referenced above, of \$4.2 million, and a \$5.0 million decrease in the cost of legal noticing which is directly related to the decrease in legal notification revenue. These decreases were partially offset by an increase of \$1.0 million in call center, outside services, and mailing supplies costs related to several new engagements.

Liquidity and Capital Resources

Operating Activities

During the six months ended June 30, 2009, our operating activities provided net cash of \$21.0 million. Contributing to net cash provided by operating activities was net income of \$6.2 million and increased non-cash expenses, such as depreciation and amortization and share-based compensation expense, of \$17.1 million. These items were partially offset by a \$3.0 million net use of cash resulting from changes in operating assets and liabilities. The most significant change in operating assets and liabilities was a \$6.3 million increase in trade accounts receivable, related to several large matters in the bankruptcy and electronic discovery segments. Trade accounts receivable will fluctuate from period to period depending on the timing of sales and collections. Partially offsetting the increase in accounts receivable was an increase in accounts payable and other liabilities of \$3.9 million. Accounts payable will fluctuate from period to period depending on timing of purchases and payments.

Investing Activities

During the six months ended June 30, 2009, we used cash of \$6.5 million for the purchase of property and equipment, including computer hardware, purchased software licenses, and purchased computer hardware. Enhancements to our existing software and the development of new software is essential to client retention and continued growth, and during the six months ended June 30, 2009, we used cash of \$3.8 million to fund internal costs related to the development of software for which technological feasibility had been established. We anticipate that cash generated from operations will be adequate to fund our anticipated property, equipment, and software spending for the foreseeable future.

Financing Activities

During the six months ended June 30, 2009, we used cash to pay approximately \$1.8 million for capital lease payments, and \$1.5 million for a deferred acquisition payment. These financing uses of cash were partially offset by \$1.6 million of net proceeds from stock issued in connection with the exercise of employee stock options. We also recognized a portion of the tax benefit related to the exercise of stock options as a financing source of cash.

As of June 30, 2009, our borrowings consisted of \$51.5 million (including the fair value of the embedded option) from the contingent convertible subordinated notes, which bears interest at 4% per annum based on the \$50.0 million principal amount, and approximately \$5.7 million of obligations related to capital leases and deferred acquisition price payments. During 2007,

the term of our contingent convertible subordinated notes was extended to June 2010. The notes will require the use of \$50.0 million of cash at the extended maturity date if the note holders do not convert the notes into shares of our common stock. If the notes are not converted prior to maturity, we will use a combination of cash on hand and our revolving credit facility to fund the payment of these notes. The holders of the contingent convertible subordinated notes have the right to convert at a price of approximately \$11.67 per share. If any or all notes are converted into shares of our common stock prior to the scheduled maturity of those notes, then there will be no cash requirements associated with those converted notes, other than the regular payment of interest earned prior to the conversion date. One holder of the notes converted an nominal principal amount of the notes into shares of common stock in July 2009.

As of June 30, 2009 we did not have any borrowings outstanding under our \$100.0 million senior revolving loan. During the term of the credit facility, we have the right, subject to compliance with our covenants, to increase the senior revolving loan to \$175.0 million. Interest on the credit facility is generally based on a spread, not to exceed 325 basis points over the LIBOR rate. As of June 30, 2009, significant financial covenants, all as defined within our credit facility agreement, include a leverage ratio not to exceed 3.00 to 1.00, a fixed charge coverage ratio of not less than 1.25 to 1.00, and a current ratio of not less than 1.50 to 1.00. As of June 30, 2009, we were in compliance with all financial covenants.

Covenants contained in our credit facility and in our contingent convertible subordinated notes include limitations on acquisitions, should we pursue acquisitions in the future. Pursuant to the terms of our credit facility, we generally cannot incur indebtedness outside the credit facility, with the exceptions of capital leases and subordinated debt, with a limit of \$100.0 million of aggregate subordinated debt. Furthermore, for any acquisition we must be able to demonstrate that, on a pro forma basis, we would be in compliance with our covenants during the four quarters prior to the acquisition and bank permission must be obtained for an acquisition for which cash consideration exceeds \$80.0 million or total consideration exceeds \$125.0 million.

We believe that funds generated from operations, plus our existing cash resources and amounts available under our credit facility, will be sufficient over the next 12 months, and for the foreseeable future thereafter, to finance currently anticipated working capital requirements, internal software development expenditures, property, equipment and third party software expenditures, deferred acquisition price agreements and capital leases, interest payments due on our outstanding borrowings, and payments for other contractual obligations.

Off-balance Sheet Arrangements

We generally do not utilize off-balance sheet arrangements in our operations; however, we enter into operating leases in the normal course of business. Our operating lease obligations are disclosed in Note 6 of the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2008.

Critical Accounting Policies

In our Annual Report on Form 10-K for the year ended December 31, 2008, we disclose accounting policies, referred to as critical accounting policies, that require management to use significant judgment or that require significant estimates. Management regularly reviews the selection and application of our critical accounting policies. There have been no updates to the critical accounting policies contained in our Annual Report on Form 10-K for the year ended December 31, 2008.

Recently Adopted Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141 (revised 2007), *Business Combinations* (“SFAS 141(R)”). SFAS 141(R) establishes guidelines for the recognition and measurement of assets, liabilities and equity in business combinations. The provisions of SFAS 141(R) were effective for us as of January 1, 2009. Due to the adoption of SFAS 141(R) we now expense, as incurred, acquisition-related costs for potential and completed acquisitions. Acquisition-related costs expensed in the first quarter of 2009 were approximately \$0.5 million. These costs are included in “Other operating expense (income)” in our Condensed Consolidated Statements of Income. SFAS 141(R) also amends SFAS No. 109, *Accounting for Income Taxes*, and now requires the recognition of changes in an acquirer’s income tax valuation allowance on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS 141(R) to apply the provisions of SFAS 141(R). The provisions of SFAS 141(R) will primarily apply to all future acquisitions.

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In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements* (“SFAS 160”). SFAS 160 changes the way in which noncontrolling interests in subsidiaries are measured and classified on the balance sheet. The provisions of SFAS 160 were effective for us as of January 1, 2009. The adoption of SFAS 160 had no impact on our consolidated financial position or results of operations.

In February 2008, the FASB issued FASB Staff Position (“FSP”) No. FAS 157-2, *Effective Date of FASB Statement No. 157*, (“FSP FAS 157-2”) which, as of February 12, 2008, indefinitely delayed the effective date of SFAS No. 157, *Fair Value Measurements*, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The provisions of FSP FAS 157-2 were effective for us as of January 1, 2009. The adoption of FSP FAS 157-2 did not have a material impact on our financial position, results of operations, or cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133* (“SFAS 161”). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. The provisions of SFAS 161 were effective for us as of January 1, 2009. The adoption of SFAS 161 had no impact on our consolidated financial position or results of operations. Disclosures required by this statement are included in Note 3 to our Condensed Consolidated Financial Statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (“FSP FAS 142-3”). FSP FAS 142-3 provides guidance on determining the useful life of a recognized intangible asset. The provisions of FSP FAS 142-3 were effective for us as of January 1, 2009. The provisions of FSP FAS 142-3 had no impact on our consolidated financial position or results of operations during the quarter ended June 30, 2009 as we did not renew or extend the useful lives of any of our intangible assets.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (“FSP EITF 03-6-1”). FSP EITF 03-6-1 clarifies that share-based payment awards that entitle their holders to receive non-forfeitable dividends or dividend equivalents before vesting should be considered participating securities, and requires them to be included in the computation of earnings per share pursuant to the two-class method described in SFAS No. 128, *Earnings per Share* (“SFAS 128”). The provisions of FSP EITF 03-6-1 were effective for us as of January 1, 2009, and require all prior period income per share data presented to be adjusted retroactively. We have determined that nonvested share awards that were granted in the first quarter of 2009 are participating securities as defined by FSP EITF 03-6-1 because they have equivalent common stock dividend rights. Accordingly, we have included these shares in our basic and diluted share calculations as appropriate. There is no prior period impact of this guidance as there were no participating securities outstanding prior to the first quarter of 2009. Details of the income per share calculation are described in Note 4 to our Condensed Consolidated Financial Statements.

In June 2008, the FASB ratified the consensus reached by the EITF on three issues discussed at its June 12, 2008 meeting pertaining to EITF Issue No. 07-5, *Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity’s Own Stock* (“EITF 07-5”). The issues include how an entity should evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument’s contingent exercise and settlement provisions; how the currency in which the strike price of an equity-linked financial instrument (or embedded feature) is denominated affects the determination of whether the instrument is indexed to an entity’s own stock; and how the issuer should account for market-based employee stock option valuation. The adoption of EITF 07-5 did not have an impact on our consolidated financial position.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (“FSP FAS 141(R)-1”). FSP FAS 141(R)-1 amends and clarifies FASB No. 141 (revised 2007), *Business Combinations*, to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP FAS 141(R)-1 is effective for us for business combinations completed on or after January 1, 2009.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (“FSP FAS 107-1 and APB 28-1”). FSP FAS 107-1 and APB 28-1, amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about the fair value of financial instruments in interim as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to

require those disclosures in summarized financial information at interim reporting periods. These standards are effective for periods ending after June 15, 2009. The disclosures required by this guidance are included in Note 8 to our Condensed Consolidated Financial Statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (“SFAS 165”). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The provisions of SFAS 165 are effective for reporting periods ending after June 15, 2009. The disclosures required by SFAS 165 are included in Note 1 to our Condensed Consolidated Financial Statements.

Recently Issued Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162* (“SFAS 168”). SFAS 168 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS 168 is effective for periods ending after September 15, 2009. We do not expect the adoption of SFAS 168 in the third quarter of 2009 will have an impact on our condensed consolidated financial position, but the adoption will change the format of the references to accounting guidance within our regulatory filings.

Forward-Looking Statements

In this report, in other filings with the SEC and in press releases and other public statements by our officers throughout the year, Epiq Systems, Inc. makes or will make statements that plan for or anticipate the future. These forward-looking statements include statements about our future business plans and strategies, and other statements that are not historical in nature. These forward-looking statements are based on our current expectations. In this Quarterly Report on Form 10-Q, we make statements that plan for or anticipate the future. Many of these statements are found in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of this report.

Forward-looking statements may be identified by words or phrases such as “believe,” “expect,” “anticipate,” “should,” “planned,” “may,” “estimated,” “goal,” “objective” and “potential.” Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, provide a “safe harbor” for forward-looking statements. Because forward-looking statements involve future risks and uncertainties, listed below are a variety of factors that could cause actual results and experience to differ materially from the anticipated results or other expectations expressed in our forward-looking statements. These factors include (1) any material changes in our total number of client engagements and the volume associated with each engagement, (2) any material changes in our client’s deposit portfolio or the services required or selected by our clients in engagements, (3) material changes in the number of bankruptcy filings, class action filings or mass tort actions each year, (4) risks associated with handling of confidential data and compliance with information privacy laws, (5) changes in or the effects of pricing structures and arrangements, (6) risks associated with the integration of acquisitions into our existing business operations, (7) risks associated with our indebtedness, (8) risks associated with foreign currency fluctuations, (9) risks associated with developing and providing software and internet-based technology solutions to our clients, and (10) other risks detailed from time to time in our SEC filings, including our annual report on Form 10-K. In addition, there may be other factors not included in our SEC filings that may cause actual results to differ materially from any forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements contained herein to reflect future events or developments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal market risks to which we are exposed include interest rates under our senior revolving credit facility, foreign exchange rates giving rise to translation, and fluctuations in short-term interest rates on a portion of our bankruptcy trustee revenue.

Interest on our senior revolving credit facility is generally based on a spread, not to exceed 325 basis points over the LIBOR rate. There were no amounts due under our senior revolving credit facility as of June 30, 2009; therefore, we had no market risk exposure.

We have limited operations outside of the United States, therefore, a portion of our revenues and expenses are incurred in a currency other than U.S. dollars. We do not utilize hedge instruments to manage the exposures associated with fluctuating currency exchange rates. The company's operating results are exposed to changes in exchange rates between the U.S. dollar and the functional currency of the countries where we have operations. When the U.S. dollar weakens against foreign currencies, the dollar value of revenues and expenses denominated in foreign currencies increases. When the U.S. dollar strengthens, the opposite situation occurs.

We currently do not hold any interest rate floor options or other derivatives.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

An evaluation was carried out by the Epiq Systems, Inc.'s Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operations of the company's disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on this evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures are effective. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the company in its periodic filings with the SEC is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the company in the reports that it files or submits to the SEC is accumulated and communicated to company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION.

ITEM 1 . LEGAL PROCEEDINGS

On July 29, 2008, the Alaska Electrical Pension Fund filed a putative shareholder derivative action in the U.S. District Court for the District of Kansas (Civil Action No. 08-CV-2344 CM/JPO), alleging on behalf of Epiq Systems that each of our current directors and certain current and former executive officers and directors engaged in misconduct regarding stock option grants.

The plaintiff complaint asserts, among other things, that the company backdated certain stock options from July 1997 through January 2006, and that the individual defendants either participated in the backdating or permitted it to occur, violations of generally accepted accounting principles as a result of the alleged backdating of options, related claims of false and misleading proxy statements and annual reports filed by the company under the Securities Exchange Act of 1934, also as a result of the alleged backdating of options, and various violations of state law, breaches of fiduciary duty of loyalty and insider trading in company stock. The plaintiff is seeking among other things, unspecified money damages, an accounting for profits obtained from the alleged backdating of options, specified changes in our corporate governance policies, punitive damages and rescission of the allegedly backdated options.

In October 2008, the company and the individual defendants filed a motion to dismiss the plaintiff's complaint on a variety of grounds. The Court entered a Memorandum and Order on June 3, 2009 with respect to the dismissal motion, which Order: (i) barred certain of plaintiff's federal securities law claims arising before July 29, 2005, leaving only the claim for the stock option grant dated June 3, 2006; (ii) held that the statute of limitations was tolled on those federal securities law claims; (iii) barred plaintiff's other federal securities law claims arising before December 9, 2003; (iv) declined to rule at that time on defendants' motions to dismiss plaintiff's state law claims based on any statute of repose or statute of limitations; (v) dismissed plaintiff's state law claim for constructive fraud; and (vi) held that plaintiff's complaint stated federal securities law and state law claims with sufficient particularity to avoid dismissal at this stage in the proceedings.

The individual defendants and the company have filed an answer denying the plaintiff's claims. Discovery in this action is just beginning and is expected to continue until summer 2010.

We believe the plaintiff's claims are without merit and will continue to defend against them vigorously. No amounts have been recorded in the accompanying Condensed Consolidated Financial Statements associated with this matter.

ITEM 1A . RISK FACTORS

There have been no material changes in our Risk Factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our annual meeting of shareholders was held on June 3, 2009, at which the shareholders elected the directors named below and ratified the appointment of Deloitte & Touche LLP as independent registered public accounting firm for the company for the year ending December 31, 2009. The results of the voting at the annual meeting were as follows:

Election of Directors	For	Withhold
Tom W. Olofson	32,836,581	1,622,251
Christopher E. Olofson	33,026,411	1,432,421
W. Bryan Satterlee	33,024,175	1,434,657
Edward M. Connolly, Jr.	32,060,317	2,398,515
James A. Byrnes	33,658,329	800,503
Joel Pelofsky	33,658,644	800,188

Ratification of auditors

For	Against	Abstain
33,628,546	820,679	9,607

ITEM 5. OTHER INFORMATION

On July 27, 2009, the Company’s board of directors approved indemnification agreements between the Company and each of its independent directors, its Chairman of the Board and Chief Executive Officer, its President and Chief Operating Officer and its Executive Vice President and Chief Financial Officer. The indemnification agreements provide certain indemnification rights to the covered persons consistent with the indemnification provisions in the Company’s Restated For Profit Articles of Incorporation and Bylaws and the Missouri general business and corporation law. Each indemnification agreement provides, among other things, that the Company will indemnify the counterparty to that agreement to the fullest extent permitted by Missouri law or the Company’s Articles of Incorporation and Bylaws, as the same now exist or may hereafter be amended (but only to the extent any such amendment permits the Company to provide broader indemnification rights than the law or the Articles of Incorporation and Bylaws permitted prior to such amendment), including the advancement of legal fees and other expenses incurred by the directors or officers in connection with any threatened, pending or completed action, suit or proceeding, whether of a civil, criminal, administrative, regulatory, investigative or other nature, arising out of the individual’s service as a director, officer, employee or agent of the Company, subject to certain exclusions and procedures set forth in the indemnification agreement.

The foregoing description is qualified in its entirety by reference to the indemnification agreement, the form of which is filed as Exhibit 10.1 to this report.

ITEM 6 . EXHIBITS

- 10.1 Form of Indemnification Agreement between the Company and each independent director, its Chairman and Chief Executive Officer, its President and Chief Operating Officer and its Executive Vice President and Chief Financial Officer.
- 12.1 Computation of Ratio of Earnings to Fixed Charges.
- 31.1 Certifications of Chief Executive Officer of the Company under Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certifications of Chief Financial Officer of the Company under Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certifications of CEO and CFO pursuant to 18 U.S.C. Section 1350.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Epiq Systems, Inc.

Date: July 30, 2009

/s/ Tom W. Olofson

Tom W. Olofson
Chairman of the Board
Chief Executive Officer
Director
(Principal Executive Officer)

Date: July 30, 2009

/s/ Elizabeth M. Braham

Elizabeth M. Braham
Executive Vice President, Chief Financial Officer
(Principal Financial & Accounting Officer)

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (the “Agreement”) is entered into effective as of the day of , 2009, between EPIQ SYSTEMS, INC., a Missouri corporation (the “Company”), and (the “Indemnified Party”).

WHEREAS, to induce the Indemnified Party to provide services or to continue to provide services to or at the request of the Company, the Company wishes to provide in this Agreement for the indemnification of, and the advancing of expenses to, the Indemnified Party to the fullest extent (whether partial or complete) permitted by Missouri law and as set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the Company and the Indemnified Party hereby agree as follows:

1. **Basic Indemnification Arrangement.**

1.1 Indemnity. If the Indemnified Party was, is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Claim (as defined below and including but not limited to any Claim related to the action styled Alaska Electrical Pension Fund v. Tom W. Olofson, et al, Defendants, and Epiq Systems, Inc., Nominal Defendant) by reason of (or arising in whole or in part out of) an Indemnifiable Event (as defined below), then the Company shall indemnify the Indemnified Party to the fullest extent permitted by Missouri law or the Company’s Articles of Incorporation and Bylaws, as the same now exist or may hereafter be amended (but only to the extent any such amendment permits the Company to provide broader indemnification rights than the law or the Articles of Incorporation and Bylaws permitted prior to such amendment), as soon as practicable, but not later than 30 days after written demand is presented to the Company, against any and all Expenses (as defined below) of the Claim. If so requested by the Indemnified Party, the Company shall advance (within five business days after the request) any and all Expenses to the Indemnified Party. The Indemnified Party agrees to repay all Expenses advanced by the Company to the Indemnified Party if it is determined in a Claim that the Indemnified Party is not entitled to indemnification pursuant to this Agreement or otherwise. Repayment of advanced Expenses will be made without interest thereon and on terms that are reasonably acceptable to the Company and the Indemnified Party. For purposes of this Agreement, the phrase “determined in a Claim” or “determined in the Claim” means a decision by a court, arbitrator, hearing officer or other judicial agent having the requisite legal authority to make that decision, which decision has become final and from which no appeal or other review proceeding is permissible.

1.2 Claim. “Claim” means any threatened, pending or completed action, suit or proceeding, any inquiry or investigation, or any appeal therefrom whether conducted by the Company or any other party, that the Indemnified Party in good faith believes has led or might lead to the institution of any action, suit or proceeding, whether civil, criminal, administrative, regulatory, investigative or other and any counterclaims in connection therewith. Claim shall not include an action by or in the right of the Company if the Indemnified Party is adjudged to be liable to the Company unless and only to the extent that it is determined in the Claim that, despite the adjudication of liability but in view of all the circumstances of the case, the Indemnified Party is fairly and reasonably entitled to indemnity for expenses that the court deems proper.

1.3 Indemnifiable Event. “Indemnifiable Event” means any event or occurrence arising from or related to the fact that the Indemnified Party is or was serving the Company in some capacity, including without limitation, as a director, officer, employee, or agent of the Company or of any direct or indirect subsidiary, or any corporation, limited liability company, partnership, joint venture, trust, employee benefit plan, or other enterprise related to the business or activities of the Company or its direct or indirect subsidiaries, or by reason of anything done or not done by the Indemnified Party in any such capacity if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company, and with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. An “Indemnifiable Event” does not include (i) any proceeding initiated by the Indemnified Party (other than in the Indemnified Party’s capacity as an officer or director of the Company) against the Company or any current or former director or officer of the Company, unless the Company has joined in or consented in writing to the initiation of such action, or (ii) any proceedings arising from the purchase and sale by the Indemnified Party of securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended.

1.4 Expenses. “Expenses” include reasonable attorneys’ fees and all other reasonable costs, expenses and obligations actually incurred and paid or payable in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, any Claim relating to any Indemnifiable Event. Expenses also include judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges actually incurred and paid or payable in connection with or in respect of any Expenses) of any Claim relating to any Indemnifiable Event. Expenses also include Additional Expenses as defined in **Section 3** below.

2. Notification and Defense of Claim.

2.1 Notification. Promptly after receipt by the Indemnified Party of notice of the commencement of any Claim, the Indemnified Party will, if a claim for indemnification in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof; provided, however, the failure to notify the Company will not relieve the Company from any liability which it may have to the Indemnified Party under this Agreement if the omission does not materially adversely prejudice the rights of the Company. In addition, the Indemnified Party shall give the Company the information and cooperation as the Company may reasonably require, subject to reasonable claims of privilege or other basis for nondisclosure by the Indemnified Party. No notification is required by this **Section 2.1** with respect to any named defendant in the action styled Alaska Electrical Pension Fund v. Tom W. Olofson, et al, Defendants, and Epiq Systems, Inc., Nominal Defendant.

2.2 Defense. With respect to any Claim as to which the Indemnified Party notifies the Company of the commencement thereof, the Company will be entitled to participate therein at its own expense. Except as otherwise provided below, to the extent that it may wish, the Company will be entitled to assume the defense of the Claim, with nationally recognized litigation defense counsel reasonably satisfactory to the Indemnified Party. After notice from the Company to the Indemnified Party of its election to assume the defense of the Claim, the Company will not be liable to the Indemnified Party under this Agreement for any legal expenses subsequently incurred by the Indemnified Party in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. The Indemnified Party shall have the right to employ counsel in the Claim, but the fees and expenses of counsel incurred after notice from the Company of its assumption of the defense thereof shall be at the expense of the Indemnified Party unless (i) the employment of counsel by the Indemnified Party has been authorized by the Company, (ii) independent legal counsel approved by both the Company and the Indemnified Party reasonably concludes that there is or is likely to be a conflict of interest between the Company and the Indemnified Party in the conduct of the defense of the Claim, or (iii) the Company shall not in fact have employed counsel to assume the defense of the Claim, in each of which cases the

reasonable fees and expenses of nationally recognized litigation defense counsel for the Indemnified Party shall be borne by the Company. The Company shall not be entitled to assume the defense of any Claim brought by or on behalf of the Company or as to which counsel shall have reasonably made the conclusion provided in clause (ii) above.

2.3 **Settlements** . The Company shall not be liable to indemnify the Indemnified Party under this Agreement for any amounts paid in settlement of any Claim made without the prior written consent of the Company. The Company shall not settle any Claim in any manner that would impose any penalty or limitation on the Indemnified Party or result in a finding of wrongdoing against the Indemnified Party without the Indemnified Party's prior written consent. Neither the Company nor the Indemnified Party will unreasonably withhold their consent to any proposed settlement.

3. **Indemnification for Additional Expenses** . The Company shall indemnify the Indemnified Party against any and all expenses (including reasonable attorneys' fees) (collectively, "Additional Expenses") and, if requested by the Indemnified Party, the Company shall (within five business days after the request) advance Additional Expenses to the Indemnified Party, which are or may be incurred by the Indemnified Party in connection with (a) any request by the Indemnified Party for indemnification or advancement of Expenses under this Agreement, or (b) any claim asserted against or action brought by the Indemnified Party for (i) indemnification or advance payment of Expenses by the Company under this Agreement or any other agreement or under the Company's Articles of Incorporation or Bylaws, now or hereafter in effect relating to Claims for an Indemnifiable Event or (ii) recovery under any directors' and officers' liability insurance policies maintained by the Company.

4. **Partial Indemnity, Etc** . If the Indemnified Party is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the Expenses of a Claim, but not, however, for the total amount thereof, the Company shall nevertheless indemnify the Indemnified Party for the portion thereof to which the Indemnified Party is entitled. Moreover, notwithstanding any other provision of this Agreement, to the extent that the Indemnified Party has been successful on the merits or otherwise in defense of any Claims relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, including dismissal without prejudice, the Indemnified Party shall be indemnified against all Expenses incurred in connection with the successful defense of that Claim or Claims.

5. **No Presumption** . For purposes of this Agreement, the termination of any Claim by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that the Indemnified Party did not meet any particular standard of conduct or have any particular belief or that it has been determined in a Claim that indemnification is not permitted by applicable law.

6. **Nonexclusivity** . The rights of the Indemnified Party hereunder shall be in addition to any other rights the Indemnified Party may have under the Company's Articles of Incorporation or Bylaws or rules, pursuant to resolutions or determinations of the Board of Directors, under an insurance policy or policies, under applicable law or otherwise. To the extent that a change in applicable law (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under the Company's Articles of Incorporation or Bylaws and this Agreement, it is the intent of the parties that the Indemnified Party shall enjoy by this Agreement the greater benefits so afforded by the change.

7. Liability Insurance . To the extent the Company maintains an insurance policy or policies providing liability insurance, the Indemnified Party shall be covered by the policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company employee.

8. Subrogation . In the event of payment under this Agreement, the Company shall be subrogated to the extent of the payment to all of the rights of recovery of the Indemnified Party, who shall execute all papers required and shall do everything that may be necessary to secure the recovery rights, including the execution of documents necessary to enable the Company effectively to bring suit to enforce those rights.

9. No Duplication of Payments . The Company shall not be liable under this Agreement to make any payment in connection with any Claim made against the Indemnified Party to the extent the Indemnified Party has otherwise actually received payment (under any insurance policy, the Company's Articles of Incorporation or Bylaws or otherwise) of the amounts otherwise indemnifiable hereunder.

10. Miscellaneous Provisions .

10.1 Dispute Resolution . Although the parties may agree on a case-by-case basis to submit to arbitration any specific dispute or controversy between the parties arising out of or in connection with this Agreement as to the construction, validity, interpretation or meaning, performance, nonperformance, enforcement, operation, or breach, neither party hereto shall be bound to arbitrate any matter under this Agreement in the absence of an additional written agreement signed by each party relating to the arbitration of any specified matter.

10.2 Entire Agreement . This Agreement supersedes all prior documents, understandings and agreements, oral or written, and constitutes the entire agreement and understanding between the parties with respect to the subject matter hereof, except that that this Agreement shall not limit the Undertaking to repay advanced expenses made by the undersigned on or about _____, 2008, with respect to the action styled Alaska Electrical Pension Fund v. Tom W. Olofson, et al, Defendants, and Epiq Systems, Inc., Nominal Defendant.

10.3 Successors and Assigns . This Agreement is binding upon and shall inure to the benefit of the parties and their respective heirs, personal and legal representatives, estate, spouse, and successors or assigns (including any direct or indirect successor by purchase, merger, consolidation, liquidation or otherwise to all or substantially all of the business or assets of the Company).

10.4 Severability . If any one or more provisions of this Agreement is held to be illegal, invalid or unenforceable under present or future laws, then, if possible, the illegal, invalid or unenforceable provision will be modified to the extent as is necessary to comply with the present or future laws and the modification shall not affect any other provision hereof, provided that if the provision may not be so modified the illegality, invalidity or unenforceability will not affect any other provision, but this Agreement will be reformed, construed and enforced as if the invalid, illegal or unenforceable provision had never been contained herein.

10.5 Notices . Communications and other notices given under this Agreement will be deemed delivered when (i) personally delivered, (ii) on the third business day following deposit in the U.S. mail, first class, postage paid, or (iii) on the date of actual delivery by a national overnight courier service, and addressed to Indemnified Party at the address listed on the signature page to this Agreement

or at such other address as the Indemnified Party shall specify to the Company in a notice given pursuant to this Section, or to the Company, as follows:

Epiq Systems, Inc.
Attn: Legal Department
501 Kansas Avenue
Kansas City, KS 66105

10.6 Choice of Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Missouri, without regard to principles of conflict of law.

10.7 Headings and Captions. All headings and captions used in this Agreement are for convenience only and shall not be construed to either limit or broaden the language of this Agreement or any particular section.

10.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which may be executed by one or more of the parties, but all of which, when taken together, shall constitute but one agreement binding upon all of the parties.

10.9 Third-Party Beneficiaries. This Agreement is not intended to confer upon any non-party rights or remedies hereunder.

10.10 Binding Agreement. This Agreement shall be deemed effective and legally binding upon the parties when it has been executed and delivered by all parties. This Agreement shall inure to the benefit of the parties and their respective successors and permitted assignees.

10.11 Interpretation. The parties acknowledge and agree that (i) each party and its representatives has reviewed and negotiated the terms and provisions of this Agreement and have contributed to its revision, (ii) the rule of construction to the effect that any ambiguities are resolved against the drafting party shall not be employed in the interpretation of this Agreement and (iii) the terms and provisions of this Agreement shall be construed fairly as to all parties and not in favor of or against any party regardless of which party was generally responsible for the preparation of this Agreement.

IN WITNESS WHEREOF, the undersigned have executed this Indemnification Agreement as of the date first set forth above.

EPIQ SYSTEMS, INC.

By: _____
Name: _____
Title: _____

INDEMNIFIED PARTY:

Name: _____
Address: _____

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
EPIQ SYSTEMS, INC.
(In Thousands, except for Ratio)

	Six months ended June 30, 2009	2008	2007	2006	2005	2004
Earnings						
Net income (loss)	\$ 6,164	\$ 13,836	\$ 6,929	\$ 35,131	\$ (3,842)	\$ (7,290)
Income tax expense (benefit)	6,527	10,507	4,066	22,834	(2,400)	(4,313)
Fixed charges	1,663	3,505	13,882	15,349	7,676	7,176
Earnings (loss) available for fixed charges	<u>14,354</u>	<u>27,848</u>	<u>24,877</u>	<u>73,314</u>	<u>1,434</u>	<u>(4,427)</u>
Fixed Charges						
Interest expense *	581	1,331	10,980	12,023	5,662	4,223
Amortization of deferred loan charges	157	426	993	1,445	1,147	2,120
Estimated interest expense in leases	925	1,748	1,909	1,881	867	833
Total fixed charges	<u>\$ 1,663</u>	<u>\$ 3,505</u>	<u>\$ 13,882</u>	<u>\$ 15,349</u>	<u>\$ 7,676</u>	<u>\$ 7,176</u>
Ratio of Earnings to Fixed Charges	<u>8.6</u>	<u>7.9</u>	<u>1.8</u>	<u>4.8</u>	<u>0.2</u>	<u>n/a</u>

* Interest included in fixed charges includes only interest on third party indebtedness and, accordingly, we have excluded accrued interest expense related to uncertain tax positions.

For the year ended December 31, 2005, our earnings to fixed charges ratio was less than one to one coverage. The amount of such deficiency was \$6,242.

For the year ended December 31, 2004, we had a total loss. Accordingly, our earnings to fixed charges ratio was less than one to one coverage. The amount of such deficiency was \$11,603.

CERTIFICATIONS

I, Tom W. Olofson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Epiq Systems, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2009

/s/ Tom W. Olofson

Tom W. Olofson
Chairman of the Board
Chief Executive Officer

CERTIFICATIONS

I, Elizabeth M. Braham, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Epiq Systems, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2009

/s/ Elizabeth M. Braham

Elizabeth M. Braham

Executive Vice President, Chief Financial Officer

CERTIFICATIONS OF CEO AND CFO PURSUANT TO 18 U.S.C. SECTION 1350.

I, Tom W. Olofson, Chief Executive Officer of Epiq Systems, Inc. (the “Company”), hereby certify pursuant to Section 1350, of chapter 63 of title 18, United States Code, and Section 906 of the Sarbanes — Oxley Act of 2002, that, to the best of my knowledge, (1) the quarterly report on Form 10-Q of the Company to which this Exhibit is attached (the “Report”) fully complies with the requirements of section 15(d) of the Securities Exchange Act of 1934, and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tom W. Olofson

Tom W. Olofson

Dated: July 30, 2009

I, Elizabeth M. Braham, Chief Financial Officer of Epiq Systems, Inc. (the “Company”), hereby certify pursuant to Section 1350, of chapter 63 of title 18, United States Code, and Section 906 of the Sarbanes — Oxley Act of 2002, that, to the best of my knowledge, (1) the quarterly report on Form 10-Q of the Company to which this Exhibit is attached (the “Report”) fully complies with the requirements of section 15(d) of the Securities Exchange Act of 1934, and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Elizabeth M. Braham

Elizabeth M. Braham

Dated: July 30, 2009
