

# EPIQ SYSTEMS INC

## FORM 8-K

(Current report filing)

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Address	501 KANSAS AVENUE KANSAS CITY, KS 66105-1309
Telephone	9136219500
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Symbol	EPIQ
SIC Code	7371 - Computer Programming Services
Industry	Software & Programming
Sector	Technology
Fiscal Year	12/31

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

February 24, 2009 ( February 24, 2009 )

Date of Report (Date of earliest event reported)

EPIQ Systems, Inc.

(Exact name of registrant as specified in its charter)

Missouri  
(State or other jurisdiction  
of incorporation)

000-22081  
(Commission  
File Number)

48-1056429  
(IRS Employer  
Identification No.)

501 Kansas Avenue, Kansas City, Kansas 66105  
(Address of principal executive offices)

(913) 621-9500  
(Registrant's telephone number, including area code)

N/A

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)  
 Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)  
 Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))  
 Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 2.02. Results of Operations and Financial Condition.**

On February 24, 2009, Epiq Systems, Inc. issued a press release announcing its financial results for the three months and year ended December 31, 2008. A copy of the press release is attached as Exhibit 99.1 to this report and is incorporated herein by reference.

The attached press release includes three non-GAAP financial measures that management uses and that the company believes may be useful to investors:

- Non-GAAP net income, calculated as net income adjusted for amortization of acquisition-related intangibles, share-based compensation, realized cash gains on financial instruments, non-cash mark-to-market adjustments, acquisition expense and the gain or loss on the disposal of long-lived assets, the effect of tax adjustments which are outside of the company's anticipated effective tax rate, and capitalized loan fee amortization, all net of tax;
- Non-GAAP earnings per share, calculated as non-GAAP net income on a fully diluted per share basis; and
- Non-GAAP adjusted EBITDA, calculated as net income adjusted for interest/financing, taxes, depreciation, amortization, share-based compensation, realized cash gains on financial instruments, non-cash mark-to-market adjustments, and acquisition expense and the gain or loss on the disposal of long-lived assets.

Reconciliations of each of these non-GAAP measures are included in schedules to the press release filed with this report. The press release also includes certain reconciliations of non-GAAP financial measures for the company's business segments.

These non-GAAP financial measures are intended to supplement the accounting principles generally accepted in the United States of America

(GAAP) financial information included in the press release by providing management and investors with additional insight regarding results of operations.

Management uses non-GAAP net income (i) in its strategic planning for the company and (ii) in evaluating the results of operations of the company. The company's compensation committee has used non-GAAP net income in evaluating the performance of management and in determining executive bonuses. Management believes the non-GAAP net income measure provides management with additional perspective when evaluating the results of operations and may be similarly useful to investors when evaluating financial results of the company for comparable periods for the following reasons:

- Certain of the adjusted items can fluctuate significantly from period-to-period due in part to the timing of completion of acquisitions or divestitures, the timing of refinancings (whether or not related to acquisitions) and similar events. Management believes the adjustments to net income to account for these types of corporate arrangements may be useful to investors in comparing the results of operations of the company without the effect of certain aspects of those corporate arrangements;
- Certain of the adjusted items represent non-cash credits or charges to net income, which investors may find useful in excluding from operating results to evaluate comparable periods; and
- Mark-to-market adjustments represent non-cash credits or charges related to its convertible debt embedded option and interest rate floor options, adjusted to reflect realized cash gains.

Management recognizes that its use of non-GAAP net income, as with any non-GAAP financial measure, has various limitations, including the fact that the adjusted item may be a normally recurring expense for the company or may involve the actual use of cash. Nonetheless, management believes that this non-GAAP net income measure provides additional insight for investors into the operating results and business trends of the company. A reconciliation of net income to non-GAAP net income is included in the schedules to the press release filed with this report.

Management also uses non-GAAP earnings per share, which is calculated as non-GAAP net income on a fully diluted per share basis. Management uses non-GAAP earnings per share for the same reasons that it uses non-GAAP net income and believes that non-GAAP earnings per share may be useful to investors for the same purposes as non-GAAP net income. The compensation committee has used non-GAAP earnings per share in evaluating the performance of management and in determining executive bonuses. A reconciliation of non-GAAP earnings per share to GAAP earnings per share is included in schedules to the press release filed with this report.

Management also uses non-GAAP adjusted EBITDA as a non-GAAP performance measure. Management regularly reviews non-GAAP adjusted EBITDA as it assesses its current and prospective operating results, and for assessing anticipated operating results for acquired businesses. Management uses non-GAAP adjusted EBITDA (i) in its strategic planning for the company and its business segments and (ii) in evaluating the results of operations of the company. The compensation committee has used non-GAAP adjusted EBITDA in evaluating the performance of management and in determining executive bonuses. Management believes non-GAAP adjusted EBITDA is useful to management and may be useful to investors in evaluating the results of operations when comparing financial results for comparable periods for the following reasons:

- Certain of the adjusted items can fluctuate significantly from period-to-period due in part to the timing of completion of acquisitions or divestitures, the timing of refinancings (whether or not related to acquisitions) and similar events. Management believes the adjustments to net income to account for these types of corporate arrangements may be useful to investors in comparing the results of operations of the company without the effect of certain aspects of those corporate arrangements; and
- Certain of the adjusted items represent non-cash credits or charges to net income, which investors may find useful in excluding from operating results to evaluate comparable periods; and
- Mark-to-market adjustments represent non-cash credits or charges related to its convertible debt embedded option and interest rate floor options, adjusted to reflect realized cash gains.

Management recognizes that its use of non-GAAP adjusted EBITDA, as with any non-GAAP financial measure, has various limitations, including the fact that the adjusted items may be a normally recurring expense or may involve the actual use of cash. Nonetheless, management believes that this non-GAAP adjusted EBITDA measure provides additional insight for investors into the operating results and business trends of the company. A reconciliation of net income to non-GAAP adjusted EBITDA is included in a schedule to the press release filed with this report.

The information in Item 2.02 of this report and in the exhibit attached hereto is not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section or Sections 11 or 12(a)(2) of the Securities Act of 1933, as amended. The information contained in this Item 2.02 and in the accompanying exhibit is not incorporated by reference into any filing with the SEC made by the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

## **Item 9.01. Financial Statements and Exhibits.**

### **(c) Exhibits.**

The following exhibit is filed as part of this report:

**Exhibit No.**   **Description**

99.1      Epiq Systems, Inc. Press Release issued February 24, 2009, reporting quarter and year ended December 31, 2008 financial results.

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**SIGNATURE**

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

**EPIQ Systems, Inc.**

Date: February 24, 2009

By: /s/ TOM W. OLOFSON

Name: Tom W. Olofson

Title: Chairman of the Board and Chief Executive Officer

## **Epiq Systems, Inc. Announces Fourth Quarter and Full Year 2008 Results Reporting 37 percent Growth in Operating Revenue for the Year**

KANSAS CITY, Kan., Feb. 24, 2009 (GLOBE NEWSWIRE) -- Epiq Systems, Inc. (Nasdaq:EPIQ) today announced results of operations for the fourth quarter and full year of 2008 with fourth quarter operating revenue (total revenue before operating revenue from reimbursed direct costs) of \$55.2 million, up 41% compared to \$39.2 million for the same period last year. 2008 operating revenue was \$207.9 million, up 37% compared to \$151.6 million for the prior year.

Net income for the fourth quarter of 2008 was \$4.0 million, \$0.10 per share, up 54% compared to \$2.6 million, \$0.07 per share, for the year ago quarter. 2008 net income was \$13.8 million, \$0.36 per share, up 100% compared to \$6.9 million, \$0.21 per share, for the prior year.

Fourth quarter 2008 net cash provided by operating activities was \$16.2 million, up 27% compared to \$12.8 million for the year ago quarter. 2008 net cash provided by operations was \$34.2 million compared to \$36.2 million for the prior year. A condensed consolidated cash flow statement is attached.

Epiq Systems' management also evaluates the following non-GAAP financial measures: (i) non-GAAP net income (net income adjusted for amortization of acquisition-related intangibles, share-based compensation, realized cash gains on financial instruments, non-cash mark-to-market adjustments, acquisition expense and the gain or loss on the disposal of long-lived assets, the effect of tax adjustments which are outside of the company's anticipated effective tax rate, and capitalized loan fee amortization, all net of tax), (ii) non-GAAP earnings per share, calculated as non-GAAP net income on a fully diluted per share basis, and (iii) non-GAAP adjusted EBITDA (net income adjusted for interest/financing, taxes, depreciation, amortization, share-based compensation, realized cash gains on financial instruments, non-cash mark-to-market adjustments, and acquisition expense and the gain or loss on the disposal of long-lived assets). Reconciliation statements for non-GAAP financial measures are provided below.

Non-GAAP net income for the fourth quarter of 2008 was \$6.4 million, \$0.16 per share, up 25% compared to \$5.1 million, \$0.14 per share, for the year ago quarter. 2008 non-GAAP net income was \$23.5 million, \$0.60 per share, up 36% compared to \$17.3 million, \$0.50 per share, for the prior year.

Fourth quarter 2008 non-GAAP adjusted EBITDA was \$15.7 million, up 27% compared to \$12.4 million for the year ago quarter. 2008 non-GAAP adjusted EBITDA was \$57.8 million, up 17% compared to \$49.5 million for the prior year.

Operating revenue for the Bankruptcy segment for the fourth quarter of 2008 was \$20.8 million, up 44% compared to \$14.4 million for the year ago quarter. 2008 operating revenue was \$59.8 million, compared to \$60.3 million in the prior year. Non-GAAP adjusted EBITDA was \$10.5 million for the fourth quarter of 2008, up 28% compared to \$8.2 million for the year ago quarter. 2008 non-GAAP adjusted EBITDA was \$34.1 million compared to \$35.1 million in the prior year. During the fourth quarter of 2008, Epiq was retained on an all-time record number of Chapter 11 bankruptcy engagements for a single quarter. Revenue for the year was affected by lower Chapter 7 revenue primarily related to pricing formulas that reference short-term interest rates. Responding to increasing Chapter 11 business volumes, Epiq opened an additional corporate restructuring facility in Connecticut and added over a dozen seasoned bankruptcy professionals to its roster of subject matter experts.

Operating revenue for the Electronic Discovery segment for the fourth quarter of 2008 was \$13.5 million compared to \$13.7 million for the year ago quarter. 2008 operating revenue was \$58.1 million, up 18% compared to \$49.1 million in the prior year. Fourth quarter 2008 non-GAAP adjusted EBITDA for Electronic Discovery was \$5.2 million compared to \$6.6 million for the year ago quarter. 2008 non-GAAP adjusted EBITDA was \$26.3 million compared to \$24.4 million in the prior year. Fewer new e-discovery matters commenced in the fourth quarter, influenced by client budgets and timing preferences, though the pace of new business has accelerated since January 1.

Operating revenue for the Settlement Administration segment for the fourth quarter of 2008 was \$20.9 million compared to \$11.1 million in the year ago quarter. 2008 operating revenue was \$89.9 million compared to \$42.3 million in the prior year. Non-GAAP adjusted EBITDA was \$6.4 million for the fourth quarter of 2008 compared to \$1.6 million for the year ago quarter. 2008 non-GAAP adjusted EBITDA was \$19.9 million, compared to \$8.8 million in the prior year. The increases in both operating revenue and non-GAAP adjusted EBITDA were related to client engagements under contract.

Tom W. Olofson, chairman and CEO, and Christopher E. Olofson, president and COO of Epiq Systems, stated, "We are very pleased to be among the very few companies to have achieved their operating objectives for the year. The year was highlighted by a high number of significant new bankruptcy retentions, and in the fourth quarter, we were retained on a record number of corporate restructuring engagements for a single three-month period. We believe there will be continued increased filing activity in 2009 across all of Chapters 7, 11 and 13. We achieved our financial goals in spite of Chapter 7 pricing formulas that reference short-term interest rates being at their floor levels during the latter portion of the year. Future increases in short-term interest rates will increase bankruptcy revenue and profit automatically."

The executives continued, "Our global e-discovery business continues to achieve market leadership with new offices opened in Brussels and Hong Kong in early 2009. Regulatory compliance, litigation and investigations in the fall-out from the credit crisis are expected to drive expanded requirements for each of our bankruptcy, e-discovery and settlements franchises."

## Key events in 2008 included:

- \* Chapter 11 bankruptcy engagements for 2008 increased by more than 200% compared to 2007. In the fourth quarter, Epiq was retained on an all-time record number of corporate restructuring bankruptcy engagements for a single quarter.
- \* Epiq was retained for claims administration services for the Lehman Brothers Holdings Inc. Chapter 11 filing, the largest bankruptcy in U.S. history, as well as on the related matter of the Securities Investor Protection Act (SIPA) proceedings involving Lehman Brothers Inc. and the transfer of customer assets to Barclays.
- \* Epiq opened an additional corporate restructuring office in Connecticut and added over a dozen seasoned bankruptcy professionals to its roster of subject matter experts to help meet increased corporate restructuring business volumes.
- \* As reported by the Administrative Office of the U.S. Courts, bankruptcy filings exceeded one million for the 12 month period ending September 30, 2008, up more than 30% versus the same period in 2007. During this period, Chapter 7 filings were up 40%, Chapter 11 filings were up 49%, and Chapter 13 filings were up 14%.
- \* The Federal Reserve reported that both corporate debt and consumer credit increased compared to the prior year, reaching \$7.0 trillion and \$2.6 trillion, respectively, as of September 30, 2008.
- \* Epiq Systems ranked as a top five provider for both e-discovery processing and e-discovery review solutions.
- \* A major software release of DocuMatrix(tm), our e-discovery software, which offers foreign language-enabled support for over 80 languages including Arabic, Chinese, German, Hebrew, Japanese and Russian.

## Conference Call

The company will host a conference call today at 3:30 p.m. central time to discuss these results. The internet broadcast of the call can be accessed at [www.epiqsystems.com](http://www.epiqsystems.com). To listen by phone, please call (800) 967-7154 before 3:30 p.m. central time. The archive of the internet broadcast will be available on the company's website until the next earnings update. A recording of the call will be available through March 24, 2009 beginning approximately two hours after the call ends. To access the recording, call (888) 203-1112 and enter passcode 6441173.

## Company Description

Epiq Systems is a leading 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. Our clients include leading law firms, corporate legal departments, bankruptcy trustees and other professional advisors who require innovative technology, responsive service and deep subject-matter expertise. For more information, visit us online at [www.epiqsystems.com](http://www.epiqsystems.com).

The Epiq Systems, Inc. logo is available at <http://www.globenewswire.com/newsroom/prs/?pkgid=5250>

## Forward-looking and Cautionary Statements

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act, including those relating to the possible or assumed future results of our operations and financial condition. These forward-looking statements are based on our current expectations and may be identified by terms such as "believe," "expect," "anticipate," "should," "planned," "may," "estimated," "goal," "objective" and "potential." 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 obligations to update any forward-looking statements contained herein to reflect future events or developments.

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

	Three months ended December 31,		Twelve months ended December 31,	
	2008	2007	2008	2007
<b>REVENUE:</b>				
Case management services	\$ 30,031	\$ 25,542	\$128,331	\$ 96,612
Case management bundled products and services	3,532	6,285	17,774	26,424
Document management services	21,622	7,359	61,751	28,601
	-----	-----	-----	-----
Operating revenue before reimbursed direct costs	55,185	39,186	207,856	151,637
Operating revenue from reimbursed direct costs	8,198	5,046	28,262	22,776
	-----	-----	-----	-----
Total Revenue	63,383	44,232	236,118	174,413
	-----	-----	-----	-----
<b>OPERATING EXPENSES:</b>				
Direct costs of services	19,093	11,369	81,884	41,470
Direct costs of services - bundled	877	917	3,642	3,700
Reimbursed direct costs	8,146	4,993	28,134	22,618
General and administrative	19,948	18,162	71,113	62,546
Depreciation and software and leasehold amortization	4,466	3,696	16,302	12,766
Amortization of identifiable intangible assets	2,177	2,303	9,051	9,531
Other operating expense (income)	1,682	(1,659)	171	(1,094)
	-----	-----	-----	-----
Total Operating Expenses	56,389	39,781	210,297	151,537
	-----	-----	-----	-----
<b>INCOME FROM OPERATIONS</b>	<b>6,994</b>	<b>4,451</b>	<b>25,821</b>	<b>22,876</b>
	-----	-----	-----	-----
<b>INTEREST EXPENSE (INCOME):</b>				
Interest expense	419	1,358	1,757	11,973
Interest income	(60)	(49)	(279)	(92)
	-----	-----	-----	-----
Net Interest Expense	359	1,309	1,478	11,881
	-----	-----	-----	-----
<b>INCOME BEFORE INCOME TAXES</b>	<b>6,635</b>	<b>3,142</b>	<b>24,343</b>	<b>10,995</b>

PROVISION FOR INCOME TAXES	2,603	581	10,507	4,066
	-----	-----	-----	-----
NET INCOME	\$ 4,032	\$ 2,561	\$ 13,836	\$ 6,929
	=====	=====	=====	=====
NET INCOME PER SHARE INFORMATION:				
Net income per share - Diluted	\$ 0.10	\$ 0.07	\$ 0.36	\$ 0.21
	=====	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED	41,553	39,052	41,425	32,564
	=====	=====	=====	=====

EPIQ SYSTEMS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)  
(Unaudited)

	Dec. 31, 2008	Dec. 31, 2007
	-----	-----
ASSETS		
ASSETS:		
Cash and cash equivalents	\$ 19,006	\$ 13,415
Trade accounts receivable, net	48,540	33,925
Property and equipment, net	39,951	32,403
Goodwill	263,871	260,684
Other intangibles, net	26,851	34,310
Other	20,727	18,057
	-----	-----
Total Assets	\$418,946	\$392,794
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable	\$ 12,781	\$ 7,401
Indebtedness	61,222	61,592
Other liabilities	44,448	40,119
STOCKHOLDERS' EQUITY	300,495	283,682
	-----	-----
Total Liabilities and Stockholders' Equity	\$418,946	\$392,794
	=====	=====

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

	Three months ended December 31,		Twelve months ended December 31,	
	-----	-----	-----	-----
	2008	2007	2008	2007
	-----	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 4,032	\$ 2,561	\$ 13,836	\$ 6,929
Non-cash adjustments to net income:				

Depreciation and amortization	6,643	5,999	25,353	22,297
Other, net	2,534	1,256	5,114	4,853
Changes in operating assets and liabilities, net	2,941	2,960	(10,085)	2,133
	-----	-----	-----	-----
Net cash provided by operating activities	16,150	12,776	34,218	36,212
	-----	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash paid for business combinations	--	--	(4,762)	--
Property and equipment, software, and other	(3,595)	(3,932)	(21,063)	(19,279)
	-----	-----	-----	-----
Net cash used in investing activities	(3,595)	(3,932)	(25,825)	(19,279)
	-----	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net payments on indebtedness	(648)	(77,540)	(4,037)	(97,374)
Net proceeds from issuance of stock	796	79,268	2,525	87,999
Other	(25)	(11)	(700)	583
	-----	-----	-----	-----
Net cash provided by (used in) financing activities	123	1,717	(2,212)	(8,792)
	-----	-----	-----	-----
Effect of exchange rate changes on cash	(488)	--	(590)	--
	-----	-----	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 12,190	\$ 10,561	\$ 5,591	\$ 8,141
	=====	=====	=====	=====

EPIQ SYSTEMS, INC.  
RECONCILIATION OF NET INCOME TO  
NON-GAAP ADJUSTED EBITDA  
(In thousands)  
(Unaudited)

	Three months ended December 31,		Twelve months ended December 31,	
	----- 2008	----- 2007	----- 2008	----- 2007
	-----	-----	-----	-----
NET INCOME	\$ 4,032	\$ 2,561	\$ 13,836	\$ 6,929
Acquisition expense/disposal of long-lived assets	1,682	--	2,541	--
Depreciation and amortization	6,643	5,999	25,353	22,297
Share-based compensation	390	3,793	2,831	5,602
Expenses related to financing, net	359	1,309	1,478	11,881
Mark-to-market interest rate floors	--	(1,794)	--	(1,273)

Realized gain on interest rate floors	--	--	1,273	--
Provision for income taxes	2,603	581	10,507	4,066
	<u>11,677</u>	<u>9,888</u>	<u>43,983</u>	<u>42,573</u>
NON-GAAP ADJUSTED EBITDA	<u>\$ 15,709</u>	<u>\$ 12,449</u>	<u>\$ 57,819</u>	<u>\$ 49,502</u>

EPIQ SYSTEMS, INC.  
BANKRUPTCY SEGMENT  
RECONCILIATION OF SEGMENT PERFORMANCE MEASURE TO  
NON-GAAP ADJUSTED EBITDA  
(In thousands)  
(Unaudited)

	Three months ended December 31,		Twelve months ended December 31,	
	2008	2007	2008	2007
SEGMENT PERFORMANCE MEASURE	\$ 10,492	\$ 8,175	\$ 30,621	\$ 35,103
Realized gain on interest rate floors	--	--	3,465	--
NON-GAAP ADJUSTED EBITDA	<u>\$ 10,492</u>	<u>\$ 8,175</u>	<u>\$ 34,086</u>	<u>\$ 35,103</u>

EPIQ SYSTEMS, INC.  
RECONCILIATION OF NET INCOME TO  
NON-GAAP NET INCOME  
(In thousands)  
(Unaudited)

	Three months ended December 31,		Twelve months ended December 31,	
	2008	2007	2008	2007
NET INCOME	\$ 4,032	\$ 2,561	\$ 13,836	\$ 6,929
Plus (net of tax):				
Amortization of acquisition intangibles	1,318	1,393	5,475	5,766
Share-based compensation	247	2,251	1,782	3,420
Acquisition expense/disposal of long-lived assets	1,017	--	1,537	--
Effective tax rate	(51)	154	770	286
Loan fee amortization	52	80	275	615
Mark-to-market adjustments	(244)	(1,329)	(974)	312
Realized gain on interest rate floors	--	--	770	--
	<u>2,339</u>	<u>2,549</u>	<u>9,635</u>	<u>10,399</u>
NON-GAAP NET INCOME	<u>\$ 6,371</u>	<u>\$ 5,110</u>	<u>\$ 23,471</u>	<u>\$ 17,328</u>

EPIQ SYSTEMS, INC.  
RECONCILIATION OF EPS TO  
NON-GAAP EPS  
(Unaudited)

	Three months ended December 31,		Twelve months ended December 31,	
	2008	2007	2008	2007
EPS (on a diluted basis)	\$ 0.10	\$ 0.07	\$ 0.36	\$ 0.21
Plus (net of tax):				
Amortization of acquisition intangibles	0.03	0.04	0.13	0.16
Share-based compensation	0.01	0.06	0.04	0.09
Acquisition expense/disposal of long-lived assets	0.03	--	0.04	--
Effective tax rate	--	0.01	0.02	0.01
Loan fee amortization	--	--	0.01	0.02
Mark-to-market adjustments	(0.01)	(0.04)	(0.02)	0.01
Realized gain on interest rate floors	--	--	0.02	--
	0.06	0.07	0.24	0.29
NON-GAAP EPS (on a diluted basis)	\$ 0.16	\$ 0.14	\$ 0.60	\$ 0.50

EPIQ SYSTEMS, INC.  
OPERATING REVENUE  
(In thousands)  
(Unaudited)

	Three months ended December 31,		Twelve months ended December 31,	
	2008	2007	2008	2007
Electronic Discovery	\$ 13,509	\$ 13,723	\$ 58,128	\$ 49,062
Bankruptcy	20,785	14,374	59,828	60,289
Settlement Administration	20,891	11,089	89,900	42,286
OPERATING REVENUE BEFORE REIMBURSED DIRECT COSTS	\$ 55,185	\$ 39,186	\$207,856	\$151,637

EPIQ SYSTEMS, INC.  
NON-GAAP ADJUSTED EBITDA  
(In thousands)  
(Unaudited)

	Three months ended December 31,		Twelve months ended December 31,	
	2008	2007	2008	2007
Electronic Discovery	\$ 5,184	\$ 6,594	\$ 26,324	\$ 24,369
Bankruptcy	10,492	8,175	34,086	35,103

Settlement Administration	6,391	1,615	19,851	8,827
Unallocated	(6,358)	(3,935)	(22,442)	(18,797)
	-----	-----	-----	-----
TOTAL NON-GAAP ADJUSTED EBITDA	\$ 15,709	\$ 12,449	\$ 57,819	\$ 49,502
	=====	=====	=====	=====

EPIQ SYSTEMS, INC.  
EPS CALCULATION  
(In thousands, except per share data)  
(Unaudited)

	Three months ended December 31,		Twelve months ended December 31,	
	2008	2007	2008	2007*
	-----	-----	-----	-----
NET INCOME	\$ 4,032	\$ 2,561	\$ 13,836	\$ 6,929
Interest expense adjustment for convertible debt	305	305	1,212	--
	-----	-----	-----	-----
NET INCOME ADJUSTED FOR DILUTED CALCULATION	\$ 4,337	\$ 2,866	\$ 15,048	\$ 6,929
	=====	=====	=====	=====
NON-GAAP NET INCOME	\$ 6,371	\$ 5,110	\$ 23,471	\$ 17,328
Interest expense adjustment for convertible debt	305	305	1,212	1,210
	-----	-----	-----	-----
NON-GAAP NET INCOME ADJUSTED FOR DILUTED CALCULATION	\$ 6,676	\$ 5,415	\$ 24,683	\$ 18,538
	=====	=====	=====	=====
BASIC WEIGHTED AVERAGE SHARES	35,606	32,364	35,459	30,424
Adjustment to reflect stock options	1,661	2,402	1,680	2,140
Adjustment to reflect convertible debt shares	4,286	4,286	4,286	--
	-----	-----	-----	-----
ADJUSTED FOR DILUTED CALCULATION	41,553	39,052	41,425	32,564
	=====	=====	=====	=====
NET INCOME PER SHARE - DILUTED	\$ 0.10	\$ 0.07	\$ 0.36	\$ 0.21
	=====	=====	=====	=====
NON-GAAP NET INCOME PER SHARE - DILUTED	\$ 0.16	\$ 0.14	\$ 0.60	\$ 0.50
	=====	=====	=====	=====

\* Convertible debt is antidilutive for the Net Income Per Share calculation, but dilutive for the Non-GAAP Net Income Per Share calculation. Diluted weighted average shares for calculating

Non-GAAP Net Income Per Share equal 36,850 (includes adjustment of 4,286 shares to reflect convertible debt shares).

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