

Edgar Filing: EPICEDGE INC - Form 10QSB

EPICEDGE INC
Form 10QSB
May 15, 2003

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

Form 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2003

OR

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

Commission File Number: 001-15493

EPICEDGE, INC.

Formerly Known as Design Automation Systems, Inc.
(Exact name of Registrant as specified in its charter)

TEXAS 75-1657943
(State or other jurisdiction of (IRS Employer Identification Number)
Incorporation or organization)

5508 Two Ninety West, Suite 300
Austin, TX 78735
512-261-3346
(Address and telephone number of principal executive offices)

The number of shares of common stock of the Registrant outstanding at
May 12, 2003 was 18,200,333.

Transitional Small Business Disclosure Format (Check one): Yes No

Page 1

EPICEDGE, INC.
FORM 10-QSB
FOR THE QUARTER ENDED March 31, 2003

Page No.

PART I FINANCIAL INFORMATION

Item 1.	Condensed Financial Statements	
	Condensed Balance Sheets	3
	Condensed Statements of Operations	4
	Condensed Statements of Cash Flows	5
	Notes to Condensed Financial Statements	6
Item 2.	Management's Discussion and Analysis or Plan of Operation	11

Edgar Filing: EPICEDGE INC - Form 10QSB

Item 3.	Controls and Procedures	25
PART II OTHER INFORMATION		
Item 6.	Exhibits and Reports on Form 8-K	25

Page 2

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

EPICEDGE, INC.
CONDENSED BALANCE SHEETS

	MARCH 31, 2003	DECEMBER 31, 2002
	----- (UNAUDITED)	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 15,000	\$ 15,000
Trade receivables, net of allowance for doubtful accounts of \$193,000 and \$197,000, respectively	1,868,000	2,300,000
Contracts in progress	493,000	400,000
Prepaid insurance	206,000	200,000
Other prepaid expenses and current assets	107,000	100,000
	-----	-----
Total current assets	2,689,000	3,200,000
PROPERTY AND EQUIPMENT-- Net	274,000	400,000
GOODWILL-- Net	460,000	400,000
DEPOSITS AND OTHER ASSETS	125,000	100,000
	-----	-----
TOTAL	\$ 3,548,000	\$ 4,200,000
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
Revolving line of credit and term note	\$ 1,046,000	\$ 600,000
Convertible notes payable to stockholders-- current portion	--	200,000
Accounts payable	664,000	600,000
Accrued expenses and other current liabilities	1,651,000	1,700,000
	-----	-----
Total current liabilities	3,361,000	3,200,000
LONG TERM LIABILITIES:		
Convertible notes payable to stockholders-- less current portion	2,958,000	2,900,000
Long term notes payable	402,000	400,000

Edgar Filing: EPICEDGE INC - Form 10QSB

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' DEFICIENCY:

Convertible preferred stock, par value \$.01; 30,000,000 shares authorized; 12,868,932 total shares issued and outstanding - 9,695,481 Series A shares and 3,173,451 Series B shares	9,301,000	9,301,000
Common stock, par value \$.01; 100,000,000 shares authorized; 28,170,433 shares issued and 18,200,333 shares outstanding at March 31, 2003 and December 31, 2002	282,000	282,000
Common stock warrants	5,670,000	5,670,000
Additional paid-in capital	77,299,000	77,299,000
Treasury stock, at cost, 9,970,100 shares at March 31, 2003 and December 31, 2002	(3,171,000)	(3,171,000)
Accumulated deficit	(92,554,000)	(92,554,000)
	-----	-----
Total stockholders' deficiency	(3,173,000)	(3,173,000)
	-----	-----
TOTAL	\$ 3,548,000	\$ 4,200,000
	=====	=====

See notes to condensed financial statements.

Page 3

EPICEDGE, INC. CONDENSED STATEMENTS OF OPERATIONS (Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2003	2002
PROFESSIONAL SERVICES REVENUES	\$ 3,879,000	\$ 3,427,000
COST OF REVENUES	2,982,000	2,269,000
	-----	-----
GROSS PROFIT	897,000	1,158,000
OPERATING EXPENSES:		
Compensation and benefits	733,000	669,000
Selling, general and administrative	678,000	616,000
Depreciation and amortization	197,000	270,000
	-----	-----
Total operating expenses	1,608,000	1,555,000
	-----	-----
OPERATING LOSS	(711,000)	(397,000)
OTHER INCOME (EXPENSE):		
Interest expense	(75,000)	(246,000)
Other	(1,000)	1,000
	-----	-----
Total other expense	(76,000)	(245,000)
	-----	-----

Edgar Filing: EPICEDGE INC - Form 10QSB

NET LOSS	\$ (787,000)	\$ (642,000)
	=====	=====
NET LOSS PER SHARE - Basic and diluted	\$ (0.04)	\$ (0.04)
	=====	=====
WEIGHTED AVERAGE COMMON SHARES USED IN PER-SHARE COMPUTATIONS - Basic and diluted	18,200,333	18,200,336
	=====	=====

See notes to condensed financial statements.

Page 4

EPICEDGE, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2003	2002
	-----	-----
OPERATING ACTIVITIES:		
Loss from continuing operations	\$ (787,000)	\$ (642,000)
Non-cash items in net loss:		
Depreciation and amortization	198,000	270,000
Gain on debt restructuring	--	(27,000)
Changes in operating assets and liabilities:		
Accounts receivable, net	525,000	731,000
Prepaid and other assets	--	(646,000)
Accounts payable	(60,000)	(399,000)
Accrued expenses and other liabilities	(63,000)	224,000
	-----	-----
Net cash used in operating activities	(187,000)	(489,000)
	-----	-----
INVESTING ACTIVITIES:		
Purchase of property and equipment	(14,000)	(11,000)
	-----	-----
Net cash used in investing activities	(14,000)	(11,000)
	-----	-----
FINANCING ACTIVITIES:		
Proceeds from issuance of convertible debt	--	860,000
Proceeds from revolving line of credit and term note	2,817,000	--
Repayment of debt	(2,625,000)	(198,000)
	-----	-----
Net cash provided by financing activities	192,000	662,000
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,000)	162,000

Edgar Filing: EPICEDGE INC - Form 10QSB

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	24,000	256,000
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 15,000	\$ 418,000
	=====	=====

See notes to condensed financial statements.

Page 5

EPICEDGE, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared by EpicEdge, Inc. (the "Company" or "EpicEdge") pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2002 included in the Company's Annual Report on Form 10-K. The accompanying condensed financial statements reflect all adjustments (consisting solely of normal, recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of results for the interim periods presented. The results of operations for the three months ended March 31, 2003 are not necessarily indicative of the results to be expected for any future period or the full fiscal year.

2. CONVERTIBLE DEBT

Convertible notes payable to stockholders consist of the following:

	MARCH 31,	DECEMBER
	-----	-----
	2003	2002
	-----	-----
"New Substitute Note", due January 2006, convertible into Series B-1 preferred stock	\$2,000,000	\$ 2,000,000
"Amended November Convertible Notes", due December 2004	958,000	958,000
"December Convertible Notes", due January 2003	--	221,000
	-----	-----
	2,958,000	3,179,000
Less current portion	--	(221,000)
	-----	-----
Long-term portion	\$2,958,000	\$ 2,958,000
	=====	=====

Convertible notes payable are classified as current or long-term based on the contractual maturities as amended on April 16, 2002 and April 4, 2003.

June Convertible Notes

Edgar Filing: EPICEDGE INC - Form 10QSB

In June 2001, the Company began negotiations with certain existing stockholders and convertible debt holders for additional funding to provide the ability to execute on the unsecured creditor payment plan, pay or renegotiate legacy expenses, and provide working capital to execute on the current operating plan of the Company. Although the final documents were not executed until April 2002, the Company received \$1,050,000 as of December 31, 2001 as interim bridge financing in the form of convertible promissory notes ("June Convertible Notes"). The Company received additional funding under the June Convertible Notes of \$3,100,000 during 2002.

On April 16, 2002, the Company entered into a Note and Preferred Stock Purchase Agreement with Edgewater, Fleck T.I.M.E. Fund, L.P. ("Fleck T.I.M.E."), DeJoria and Locke (the "Note Agreement") that finalized the terms on these June Convertible Notes. The total amount to be received under these June Convertible Notes was to be a minimum of \$2,650,000 up to a maximum of \$4,500,000 (\$4,150,000 of which had been received as of November 11, 2002). On November 11, 2002, \$2,150,000 of these June Convertible Notes, and accrued but unpaid interest of \$230,000, were converted to shares of Series B Preferred Stock.

The additional \$2,000,000 of the June Convertible Notes could be converted into Series B Preferred Stock at the sole election of the holder, Edgewater. However, in November 2002, the Company entered into a Term Sheet with intentions of entering into a Series B-1 Note and Preferred Stock Purchase Agreement (the "B-1 Note Agreement") with Edgewater whereby Edgewater will have the option to convert the entire outstanding principal balance of \$2,000,000, plus accrued interest, into shares of the Company's Series B-1 Convertible Preferred Stock (the "Series B-1 Preferred Stock"). In March 2003, the Company reached an agreement on the \$2,000,000 outstanding balance of the June Convertible Notes to extend the due date to January 31, 2006 pursuant to the B-1 Note Agreement.

Page 6

New Substitute Note

On April 4, 2003, in lieu of entering into the B-1 Note Agreement, the Company issued Edgewater a new Substitute Secured Convertible Promissory Note (the "New Substitute Note") for a principal amount of \$2,000,000 in substitution for the Note Agreement held by Edgewater. Additionally, in connection with certain loans and other financial accommodations provided by Edgewater, the Company issued Edgewater a warrant to purchase 1,333,333 shares of Series B-1 Preferred Stock for an exercise price of \$0.01 per share and a warrant to purchase 200,000 shares of Series B-1 Preferred Stock for an exercise price of \$0.01 per share. The value of these warrants will be accounted for as debt discount when issued. The New Substitute Note has a maturity date of January 31, 2006, a new lower interest rate of 4% per annum and allows Edgewater to convert at its option the aggregate principal amount plus any accrued interest into Series B-1 Preferred Stock at any time up to the maturity date. The New Substitute Note is secured, until converted, by all investments, accounts receivable, inventory and property, subject only to a first lien and has demand registration rights. According to a covenant in the New Substitute Note, the Company may not redeem or repurchase any shares of company capital stock other than pursuant to equity incentive agreements with employees and service providers.

July Convertible Notes

Edgar Filing: EPICEDGE INC - Form 10QSB

Also, on April 16, 2002, the terms of \$5,000,000 July Convertible Notes with Edgewater Private Equity Fund III, L.P. and Fleck T.I.M.E. Fund, L.P. were renegotiated. On November 11, 2002, under the new terms of the July Convertible Notes, the principal of \$5,000,000 and accrued but unpaid interest of \$1,114,000 was converted into Series A Preferred Stock.

November Convertible Notes

In conjunction with and as part of the conditions prior to executing the final documents, the June Convertible Notes required that terms of the November Convertible Notes be renegotiated. On April 16, 2002, the Company renegotiated the November Convertible Notes, as amended, (\$958,000 at March 31, 2003) such that the November Convertible Notes bear annual interest at the rate of 8%, are convertible at the lender's option into the Company's common stock at \$.25 per share and mature on December 1, 2004. In addition, the June Convertible Notes required that the 2,000,000 warrants that were issued along with the November Convertible Notes be relinquished and that the Company enter into a share return agreement with three stockholders, one of whom is the former Chairman, a major stockholder, and the holder of the November Convertible Notes, for the return of a total of 10,295,210 shares. Both of these additional requirements were completed as of December 31, 2001.

December Convertible Notes

Additionally, on April 16, 2002, the terms of the \$1,000,000 December Convertible Note with Fleck T.I.M.E. was renegotiated and 2,000,000 of the warrants issued along with the December Convertible Notes were relinquished. Also, Fleck T.I.M.E. waived any defaults or events of default under their December Convertible Notes. On November 11, 2002, under the new terms of the Fleck T.I.M.E. December Convertible Note, the principal of \$1,000,000 and accrued but unpaid interest of \$158,000 was converted to Series A Preferred Stock.

Also in April 2002, \$300,000 of the remaining \$500,000 under the December Convertible Notes was paid. The remaining \$221,000, consisting of remaining principle and accrued and unpaid interest as of April 2002, plus additional accrued and unpaid interest of \$13,000 was paid on January 10, 2003. The 1,000,000 warrants for common stock at \$0.01 per share issued in conjunction with this portion of the December Convertible Notes remain outstanding.

Conversion of Debt to Preferred Stock

As discussed above, on November 11, 2002, in accordance with the Note Agreement, certain convertible notes were converted into 9,696,000 shares of Series A Preferred Stock and 3,173,000 shares of Series B Preferred Stock. The effect of the debt conversion was an issuance of additional preferred stock of \$9,301,000 as a result of the following:

- a) the conversion of current debt of \$8,150,000 to preferred equity,
- b) the conversion of accrued and unpaid interest on the converted debt of \$1,502,000, and
- c) a reduction for legal and professional fees of \$351,000 relating to the Note Agreement.

Edgar Filing: EPICEDGE INC - Form 10QSB

The following table summarizes the convertible notes payable at March 31, 2003 and the pro-forma equivalent of both the convertible preferred stock, issuable under the New Substitute Note, and the potential additional common stock outstanding that would result from the conversion of the convertible notes:

	March 31, 2003	Pro-forma Equivalent Shares	
		Potential Preferred Shares (1)	As-Converted Common Shares (1)
"New Substitute Note" due January 2006, convertible to Series B-1 convertible preferred stock (2)	\$2,000,000	2,750,000	8,250,000
"Amended November Convertible Notes" due December 2004 (3)	958,000	--	3,832,000
	\$2,958,000	2,750,000	\$12,082,000
	=====	=====	=====

(1) Includes the shares related to the accrued and unpaid interest on these notes through March 31, 2003.

(2) This note is convertible into shares of the Company's Series B-1 Preferred Stock at the option of the holder. The Series B-1 Preferred Stock has the following terms in summary: a stated value of \$0.75 and a conversion rate equal to one share of common stock for each \$.25 of stated value.

(3) This note is convertible into shares of the Company's common stock at the option of the holder at \$.25 per share.

3. EARNINGS (LOSS) PER SHARE

Earnings (loss) per basic share is calculated by dividing net income (loss) available to common stockholders by the weighted average shares of common stock outstanding during the period. Diluted earnings per share is calculated by dividing net income available to common stockholders by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive shares outstanding. Stock options, warrants, and convertible notes were excluded from the calculation of the loss per share because the effect would have been anti-dilutive. The anti-dilutive effects excluded from net loss per share computation at March 31 were as follows:

	Three months ended March 31,	
	2003	2002
Common stock options:		
Beginning of period	11,698,474	1,891,282
Granted (expired) during the period	(941,122)	1,481,818

Edgar Filing: EPICEDGE INC - Form 10QSB

End of period	10,757,352	3,373,100
Common stock warrants	2,021,700	4,021,700
Convertible preferred stock	19,215,837	--
Convertible notes payable (1)	12,082,000	21,974,759
	-----	-----
Total	44,076,889	29,369,559
	=====	=====

(1) includes shares related to the accrued and unpaid interest on these notes through March 31 which amounts are convertible into common shares.

Page 8

4. PRO FORMA STOCK-BASED COMPENSATION

The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock option plans. Compensation cost was recognized for the Company's stock option plans only when the options were granted to employees at an exercise price that was below the fair value of the stock on the grant date. SFAS No. 123 prescribes a method to record compensation cost for stock-based employee compensation plans at the estimated fair value of the options at the grant date, but allows disclosure as an alternative. The pro forma disclosure as if the Company had adopted the cost recognition requirements under SFAS No. 123 for options granted to employees in the first quarter of 2003 and 2002 is presented below. The pro forma compensation cost may not be representative of that expected in future years.

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2003	2002
	-----	-----
Net Loss:		
As reported	\$ (787,000)	\$ (642,000)
Pro forma	\$ (1,056,000)	\$ (1,237,000)
Per share -- basic and diluted:		
As reported	\$ (0.04)	\$ (0.04)
Pro forma	\$ (0.06)	\$ (0.07)

In the pro forma calculations, the weighted average fair value of options granted to employees during the first quarter of 2003 and 2002 was estimated at \$0.08 and \$0.20 per share, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: (i) expected volatility computed using the monthly average of the Company's common stock market price as listed on the American Stock Exchange for the period from April 2000 through March 12, 2003 and the Pink Sheets for the period from March 13, 2003 through March 31, 2003, which market price volatility averaged 188% and 146% for the first quarter of 2003 and 2002, respectively; (ii) expected dividend yield of 0%; (iii) expected option term of three years; and (iv) risk-free interest rate of 3.1% and 4.0% for

Edgar Filing: EPICEDGE INC - Form 10QSB

the first quarter of 2003 and 2002, respectively.

5. OTHER NEW ACCOUNTING PRONOUNCEMENTS

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," which rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." The Statement also rescinds FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers." The Statement amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The Company adopted SFAS No. 145 as of January 1, 2003 and has reclassified certain extraordinary items upon adoption of this statement.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation --Transition and Disclosure," an amendment of FASB Statement No. 123, which amends FASB Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Certain disclosure requirements under SFAS No. 148 became effective for the Company beginning December 15, 2002 and the Company has complied with those requirements. The remaining disclosure requirements under SFAS No. 148 became effective for the Company in the first quarter of 2003 and the Company has complied with those requirements as well.

Page 9

6. LEGAL PROCEEDINGS

From time to time, the Company may be involved in litigation relating to claims arising out of the ordinary course of business. The Company is not currently a party to any material litigation, except for the legal matter currently pending as described below.

SEC Investigation. The Company has been notified by the SEC Staff that the SEC is conducting an investigation into (1) the trading activity of certain individuals and entities in its securities and the securities of other companies during the period between 1999 and 2000, and (2) certain of the Company's actions during that same period. The Company intends to fully cooperate with the SEC to the extent it requests information. As a result of the investigation, the Company could become subject to an order enjoining it from unlawful conduct and incur civil monetary penalties. Such penalties could have a material adverse effect on the Company's operations or financial condition.

While the outcome of this investigation and other legal matters cannot be predicted with certainty, the Company believes that they will not have a material adverse effect on the Company's financial statements. However, an unfavorable outcome could have a material adverse effect. In addition, any failure in a client's system could result in a claim against the Company

Edgar Filing: EPICEDGE INC - Form 10QSB

for substantial damages, regardless of the Company's responsibility for such failure. The Company cannot guarantee that the limitations of liability set forth in the Company's service contracts will be enforceable or will otherwise protect the Company from liability for damages. The successful assertion of one or more claims against the Company that exceed available insurance coverage or changes in insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, would adversely affect the Company's business.

7. SUBSEQUENT EVENTS

On April 4, 2003, in lieu of entering into the B-1 Note Agreement, the Company issued Edgewater a New Substitute Note for a principal amount of \$2,000,000 in substitution for the Note Agreement held by Edgewater as discussed in Note 2.

Page 10

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

OVERVIEW

The following analysis of the results of operations and financial condition of the Company should be read in conjunction with the condensed financial statements, including the notes thereto, contained elsewhere in this Form 10-QSB.

This discussion contains forward-looking statements reflecting management's current forecast of certain aspects of our future. It is based on current information that we have assessed but which by its nature is dynamic and subject to rapid and even abrupt changes. Forward looking statements include statements regarding future operating results, liquidity, capital expenditures, numbers of personnel, strategic relationships with third parties, and strategy. The forward-looking statements are generally accompanied by words such as "plan," "estimate," "expect," "intend," "believe," "should," "would," "could," "anticipate" or other words that convey uncertainty of future events or outcomes. Our actual results could differ materially from those stated or implied by our forward-looking statements due to risks and uncertainties associated with our business. These risks are described throughout this Form 10-QSB, which you should read carefully and in conjunction with our other filings with the SEC. We would particularly refer you to the section of this Form 10-QSB under the heading "Risk Factors" for an extended discussion of the risks confronting our business. The forward-looking statements in this Form 10-QSB should be considered in the context of these risk factors.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, income taxes and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following are critical accounting policies and estimates used in the preparation of our financial statements.

Edgar Filing: EPICEDGE INC - Form 10QSB

Revenue Recognition - We engage in the business of providing consulting services to assist state and local government agencies, as well as commercial enterprises, meet their business goals through implementation and support of client/server and Internet-enabled PeopleSoft applications, custom Web application development, and strategic consulting. We deliver successful IT project-based services by combining the elements of market-leading products, highly skilled technical personnel, and proven project methodologies. Our business technology solutions are designed to help clients maximize their return on investment and lower their total cost of ownership of their software.

Our services currently include guiding clients through the entire software development life cycle of their projects, including the following: strategic planning, project management, business process evaluation, integrated marketing and communications, system architecture and design, product acquisition, application hosting, configuration and implementation, ongoing operational support, and evolutions in technology. We also focus our solutions on application management and business process outsourcing. The majority of our revenues was, and is expected to be, associated with providing project management, consulting services, and software implementation to state and local governments, including those in the States of Texas, Washington and California.

Professional services revenues are recognized as the services are performed, primarily on a time-and-materials basis using the number of hours worked by consultants at agreed-upon rates per hour. Billings that are subject to be withheld by the customer are included in revenues when the project completion event has occurred. Fixed price contract revenues are recognized when defined milestones are achieved. Out-of-pocket expenses reimbursed by clients are included in professional services revenues, and the expenses incurred by us are included in cost of professional services revenues.

Concentration of Credit Risk -- Our financial instruments that are exposed to concentrations of credit risk consist of trade receivables. Concentrations of credit risk with respect to receivables are a result of a limited number of customers and their significant percentage of accounts receivable. We perform periodic credit evaluations of our customers' financial condition and generally do not require collateral. Five customers account for approximately 98% of total accounts receivable as of March 31, 2003. At December 31, 2002, four customers accounted for approximately 64% of total accounts receivable. No other single customer represents greater than 10% of total accounts receivable as of March 31, 2003 or as of December 31, 2002.

Page 11

Allowance for Doubtful Accounts -- We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Management specifically analyzes accounts receivable and analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

Property and Equipment -- Property and Equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the

Edgar Filing: EPICEDGE INC - Form 10QSB

following estimated useful lives: computer hardware and software, three to five years; office furniture and fixtures, three to seven years; and leasehold improvements, three years.

Goodwill -- Goodwill represents the unamortized excess of cost over the estimated fair value of net assets acquired in business combinations, less impairment write-offs. Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which revises the accounting for purchased goodwill and intangible assets, became effective for us on January 1, 2002. Under SFAS 142, goodwill will no longer be amortized, but will be tested for impairment annually and also in the event of an impairment indicator. The Company assessed the carrying value of its goodwill of \$460,000 in the first quarter of 2003. No impairment was required at March 31, 2003.

Valuation Allowance for Deferred Tax Assets -- Deferred income taxes are recorded, in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes." Under SFAS 109, deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax basis of assets and liabilities using the tax rates and laws in effect when the differences are expected to reverse. SFAS 109 provides for the recognition of deferred tax assets if realization of such assets are more likely than not to occur. Realization of our net deferred tax assets is dependent upon our generating sufficient taxable income in future years in appropriate tax jurisdictions to realize benefit from the reversal of temporary differences and from net operating loss carryforwards. Based on the weight of the available evidence, we have provided a valuation allowance against all of our net deferred tax assets. Management will continue to evaluate the realizability of the deferred tax asset and its related valuation allowance.

Stock Based Compensation -- Stock Based Compensation arising from stock option grants to employees is accounted for by the intrinsic value method under Accounting Principles Board ("APB") Opinion No. 25. Statement of Financial Accounting Standards ("SFAS") No. 123 encourages (but does not require) the cost of stock-based compensation arrangements with employees to be measured based on the fair value of the equity instrument awarded. As permitted by SFAS No. 123, we apply APB Opinion No. 25 to our stock-based compensation awards to employees and disclose the required pro forma effect on net income and earnings per share.

RESULTS OF OPERATIONS

The following table sets forth the percentage of total revenues of operations data for the period indicated:

	FOR THE THREE MONTHS ENDED MARCH 31,	
	----- 2003 -----	2002 -----
PROFESSIONAL SERVICES REVENUES	100.0%	100.0%
COST OF REVENUES	76.9 -----	66.2 -----

Edgar Filing: EPICEDGE INC - Form 10QSB

GROSS PROFIT	23.1	33.8
OPERATING EXPENSES:		
Compensation and benefits	18.9	19.5
Selling, general and administrative	17.4	18.0
Depreciation and amortization	5.1	7.9
	-----	-----
Total operating expenses	41.4	45.4
	-----	-----
OPERATING LOSS	(18.3)	(11.6)
OTHER INCOME (EXPENSE):		
Interest expense	(1.9)	(7.2)
Other	(0.1)	0.1
	-----	-----
Total other expense	(2.0)	(7.1)
	-----	-----
NET LOSS	(20.3)%	(18.7)%
	=====	=====

REVENUES

For the three months ended March 31, 2003, as compared to the three months ended March 31, 2002, total revenues increased \$452,000 or 13.2%, to \$3,879,000 from \$3,427,000. The increase in revenues is due primarily to the addition of projects with state and local agencies. Four customers represented 65% of total revenues in the three months ended March 31, 2003 and two customers represented 62% of total revenues in the three months ended March 31, 2002. No other single customer represented 10% or more of revenues for the three months ended March 31, 2003 and 2002.

GROSS PROFIT

Gross profit decreased \$261,000 or 22.5% to \$897,000 from \$1,158,000 for the three months ended March 31, 2003 and 2002, respectively. The gross profit as a percentage of revenues decreased 10.7% to 23.1% from 33.8% for the three months ended March 31, 2003 and 2002, respectively. The decrease is a result of decreased utilization of billable staff. To better align costs with revenues, we had an approximate 35% reduction in workforce of our billable staff during March and April of 2003.

OPERATING EXPENSES

Compensation and Benefits -- Compensation and benefit expenses increased \$64,000 or 9.6% to \$733,000 from \$669,000 for the three months ended March 31, 2003 and 2002, respectively. The increase is primarily due to an increase in our unemployment taxes. However, compensation and benefit expenses decreased as a percent of revenues to 18.9% from 19.5% of revenues in the respective periods. The decrease in compensation and benefit expenses as a percent of revenues is a result of our plan, implemented in August 2002, to reduce annual cost by \$1 million, which included an 8% reduction of our workforce at that time. Due to the nature and timing of the execution of the plan, the associated cost reductions began to be fully realized in the first quarter of 2003. We anticipate further decreases in compensation and benefit expenses as a few additional full-time non-billable positions were eliminated during the first quarter of 2003 with the associated cost reductions to begin to be fully realized in the third quarter of 2003.

Edgar Filing: EPICEDGE INC - Form 10QSB

Selling, General and Administrative -- Selling, general and administrative expenses (SG&A) increased \$62,000 or 10.1% to \$678,000 from \$616,000 for the three months ended March 31, 2003 and 2002, respectively. SG&A expenses decreased 0.6% as a percent of revenues to 17.4% from 18.0% of revenues in the respective periods. The increase in SG&A expenses is due primarily to increases in legal expenses and insurance costs offset slightly by the decrease in facilities as a result of closing several offices in 2002.

Page 13

INTEREST EXPENSE

Interest expense decreased \$171,000 or 69.5% to \$75,000 from \$246,000 for the three months ended March 31, 2003 and 2002, respectively. Interest expense decreased 5.3% as a percent of revenues to 1.9% from 7.2% of revenues in the respective periods. The decrease in interest expense is a result of the debt conversion (see "Liquidity and Capital Resources"), which occurred on November 11, 2002, as the majority of debt that generated the interest expense was converted into equity.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2003, our primary sources of liquidity were cash and cash equivalents of \$15,000, net accounts receivable of \$1,868,000, and our available line of credit of \$525,000.

As of December 31, 2002, our primary sources of liquidity were cash and cash equivalents of \$24,000, net accounts receivable of \$2,393,000, and our available line of credit of \$735,000.

Our contractual cash obligations at March 31, 2003, are as follows:

CONTRACTUAL OBLIGATIONS	TOTAL	PAYMENTS DUE BY PERIOD		
		LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS
	-----	-----	-----	-----
Revolving line of credit and term note	\$1,046,000	\$1,046,000	--	
Convertible debt	2,958,000 (1)	--	\$2,958,000 (1)	
Long term notes payable	402,000	--	402,000	
Operating Leases	1,407,000	560,000	847,000	
	-----	-----	-----	-----
Total	\$5,813,000	\$1,606,000	\$4,207,000	
	=====	=====	=====	=====

 (1) As more fully described above and in the notes to the audited financial statements, the maturity of these obligations may not require all cash. Convertible notes payable are classified as current or long-term based on the contractual maturities as amended in April 2002 and March 2003. The convertible notes of \$2,000,000 are expected to be converted into Series B-1 preferred stock and \$958,000 may require cash payments over the next 2 years if not converted into common stock at the note holder's option. However, we cannot ensure that all of the notes will be converted which would adversely affect our financial condition.

Edgar Filing: EPICEDGE INC - Form 10QSB

Net cash used in operating activities was \$187,000 and \$489,000 for the three months ended March 31, 2003 and 2002, respectively. The difference was primarily due to a decrease in non-cash items for prepaid expenses and accounts payable.

Net cash used in investing activities was \$14,000 and \$11,000 for the three months ended March 31, 2003 and 2002, respectively.

Net cash provided by financing activities was \$192,000 and \$662,000 for the three months ended March 31, 2003 and 2002, respectively. The difference was primarily a result of the \$860,000 of proceeds from the issuance of convertible debt during the first quarter of 2002.

In July 2000, we issued \$5 million in a convertible debt offering to Edgewater and Fleck T.I.M.E. These notes (the "July 2000 Convertible Notes") were originally convertible at a 25% discount to the price paid by investors in a qualified financing into the security sold in such qualified financing or, if no such financing occurred, at \$5.00 per share into our common stock. A qualified financing never occurred, so these notes remained convertible at \$5.00 per share into our common stock until we entered into the Note Agreement (as defined below). On November 11, 2002, the July 2000 Convertible Notes plus accrued interest were converted into 8,151,481 shares of Series A Preferred Stock.

In November 2000, our former Chairman and major stockholder provided a \$1,000,000 line of credit to us in the form of convertible notes (the "November 2000 Convertible Notes"). Initially, we were able to draw upon the line of credit from time to time as needed, and as of September 30, 2001, we had drawn \$900,000 on the line of credit. As a result of later amendments, we no longer have any available borrowing under the line of credit. The November 2000 Convertible Notes originally bore interest at an annual rate of 8%, were convertible at the lenders' option at \$.50 per share and were scheduled to mature on December 31, 2001. In August 2001, we renegotiated the terms of the November 2000 Convertible Notes that extended the maturity date and increased the conversion feature to \$1.00 per share, convertible at the lender's option. In exchange, we agreed to commence interest only payments to the lender based upon the principal and accrued interest as of September 1, 2001. On April 16, 2002, in conjunction with the Note Agreement discussed below, the November 2000 Convertible Notes were again renegotiated. The new terms are that the November 2000 Convertible Notes still bear an annual interest rate of 8%, are convertible at the lenders' option into shares of our common stock at \$.25 per share and mature on December 1, 2004. We are still making monthly interest-only payments of approximately \$6,400 per month.

Page 14

In December 2000, we issued \$1,500,000 in convertible notes to two of our stockholders (the "December 2000 Convertible Notes"), both of which formerly served or had representatives serve on our Board of Directors. The December 2000 Convertible Notes were initially convertible at the lenders' option at \$.50 per share. The December 2000 Convertible Notes bear interest at 8% per annum and originally matured on December 31, 2001. The principal and accrued interest on \$1,000,000 of the December Convertible Notes was converted into 1,544,000 shares of Series A Preferred Stock on November 11, 2002. Of the remaining \$500,000 under the December Convertible Notes, \$300,000 was due and was paid in April 2002 and the remaining \$221,000, consisting of remaining principle and accrued interest as of April 2002, plus accrued and unpaid interest of \$13,000 was paid on January 10, 2003.

In June 2001, we began negotiations with certain existing stockholders and

Edgar Filing: EPICEDGE INC - Form 10QSB

convertible debt holders for additional funding to provide the ability to execute on the unsecured creditor payment plan, pay or renegotiate legacy expenses, and provide working capital. Although the final documents were not executed until April 2002, we had received \$1,050,000 as of December 31, 2001 as interim bridge financing in the form of convertible promissory notes (the "June 2001 Convertible Notes"). We received additional funding under the June 2001 Convertible Notes of \$3,100,000 during 2002. On April 16, 2002, the terms were finalized on these convertible notes and approval was obtained at the 2002 Annual Meeting held in July 2002 (the "2002 Annual Meeting"). Until converted, these June 2001 Convertible Notes were for a term of one year and were due April 2003, and have a stated interest rate of 8%.

On April 16, 2002, we entered into a Note and Preferred Stock Purchase Agreement with Edgewater, Fleck T.I.M.E., DeJoria and Loche (the "Note Agreement"), whereby the holders of the July 2000 Convertible Notes and \$1,000,000 of the December 2000 Convertible Notes agreed to convert the outstanding principal balance of such notes and accrued interest into shares of the our Series A Convertible Preferred Stock (the "Series A Preferred Stock") at the Equity Closing (as defined in the Note Agreement). However, the holder of the remaining \$500,000 of the December 2000 Convertible Notes demanded payment. On April 16, 2002, we negotiated with this individual to repay this note over an installment period. As noted above, we paid \$300,000 on the remaining December 2000 Convertible Notes in April 2002. The balance plus accrued interest was due and was paid in January 2003.

In addition to the conversion of the July 2000 Convertible Notes and certain of the December 2000 Convertible Notes at the Equity Closing, the holders of the June 2001 Convertible Notes agreed to convert most of the outstanding principal balance of such notes and accrued interest into shares of our Series B Convertible Preferred Stock (the "Series B Preferred Stock"). On November 11, 2002, in accordance with the Note Agreement, we converted \$6,000,000 of convertible debt, (July 2000 Convertible Notes of \$5,000,000 and \$1,000,000 of the December 2000 Convertible Notes), and the related accrued and unpaid interest of \$1,272,000 into 9,695,000 shares of Series A Preferred Stock and \$2,150,000 of convertible debt, (all but \$2,000,000 of the June 2001 Convertible Notes), and the related accrued and unpaid interest of \$230,089 into 3,173,000 shares of Series B Preferred Stock.

The remaining \$2,000,000 of the June 2001 Convertible Notes could be converted into Series B Preferred Stock at the sole election of the holder, Edgewater. However, in November 2002, we entered into a Term Sheet with intentions of entering into a Series B-1 Note and Preferred Stock Purchase Agreement (the "B-1 Note Agreement") with Edgewater whereby Edgewater will have the option to convert the entire outstanding principal balance of \$2,000,000, plus accrued interest into shares of our Series B-1 Convertible Preferred Stock (the "Series B-1 Preferred Stock"). In March 2003, we reached an agreement on the \$2,000,000 outstanding balance of the June Convertible Notes to extend the due date to January 31, 2006 pursuant to a term sheet for the B-1 Note Agreement.

On April 4, 2003, in lieu of entering into the B-1 Note Agreement, we issued Edgewater a new Substitute Secured Convertible Promissory Note for \$2,000,000 (the "New Substitute Note") in substitution for the Note Agreement. The New Substitute Note has a maturity date of January 31, 2006, a new lower interest rate of 4% per annum and allows Edgewater to convert at its option the aggregate principal amount plus any accrued interest into Series B-1 Preferred Stock at any time up to the maturity date. We issued Edgewater a warrant to purchase up to 1,333,333 shares of Series B-1 Preferred Stock at an exercise price of \$.01 per share.

The Series A Preferred Stock has the following terms: a conversion rate equal to one share of common stock for each \$.75 of stated value or a

Edgar Filing: EPICEDGE INC - Form 10QSB

liquidation preference such that in the event of any liquidation, dissolution or winding up of EpicEdge, the holders thereof shall be entitled to receive, at their option, either: (a) in preference to the holders of the common stock and on a pro-rated pari passu basis with the Series B Preferred Stock, an amount equal to 2.75 times the stated value, or (b) a ratable share of the distribution of assets and property with the holders of the common stock, participating on an as converted basis, if a liquidation event occurs within 24 months. If, however, a liquidation event occurs after 24 months, the preference multiple becomes 3 times the stated value. The Series A Preferred Stock shall have a stated value of \$.75. A merger or sale of capital stock in which our shareholders do not own a majority of the outstanding shares of the surviving corporation or sale of all or substantially all of our assets shall be deemed to be a liquidation.

The Series B Preferred Stock has the following terms: a conversion rate equal to one share of common stock for each \$.25 of stated value or a liquidation preference such that in the event of any liquidation, dissolution or winding up of EpicEdge, the holders thereof shall be entitled to receive, at their option, either: (a) in preference to the holders of the common stock and on a pro-rated pari passu basis with the Series A Preferred Stock, an amount equal to 2.75 times the stated value, or (b) a ratable share of the distribution of assets and property with the holders of the common stock, participating on an as converted basis, if a liquidation event occurs within 24 months. If, however, a liquidation event

Page 15

occurs after 24 months, the preference multiple becomes 3 times the stated value. In addition, if the holders of the Series B Preferred Stock choose upon a liquidation event to receive the liquidation preference multiple in effect at the time of the event and there still remains undistributed new equity value after any debt obligations and Series A Preferred Stock liquidating preference payments, then the Series B Preferred Stock will participate in that additional distribution on an as converted basis at a conversion rate equal to one share of common stock for each \$.75 of stated value. The Series B Preferred Stock shall have a stated value of \$.75. A merger or sale of capital stock in which our shareholders do not own a majority of the outstanding shares of the surviving corporation or sale of all or substantially all of our assets shall be deemed to be a liquidation.

The Series B-1 Preferred Stock has the following terms: a conversion rate equal to one share of common stock for each \$.25 of stated value or a liquidation preference such that in the event of any liquidation, dissolution or winding up of EpicEdge, the holders thereof shall be entitled to receive, at their option, either: (a) senior to the holders of the Series A Preferred Stock and Series B Preferred Stock and in preference to common stock, an amount equal to 3.5 times the original Series B-1 Preferred Stock purchase price per share (the "Series B-1 Preference") and a ratable share of the distribution of assets and property with the holders of Common Stock at a conversion price of \$0.75 per share, or (b) a ratable share of the distribution of assets and property with the holders of common stock, participating on an as converted basis at \$0.25 per share. The Series B-1 Preferred Stock has a stated value of \$.75. The holders of the Series B-1 Preferred Stock have the right to convert shares of Series B-1 Preferred Stock, at the option of each holder thereof, at any time, into shares of common stock at a conversion price equal to one share of common stock for each \$0.25 of stated value if the holders of the Series B-1 Preferred Stock elect not to take the Series B-1 Preference. If the holders of the Series B-1 Preferred Stock take the Series B-1 Preference, the conversion price will be \$0.75 per share. The total number of shares of common stock into which such shares may be converted initially will be determined by dividing the aggregate original Series B-1 Preferred Stock purchase price of \$.75 plus accrued interest, by the conversion price. The initial conversion price for the Series

Edgar Filing: EPICEDGE INC - Form 10QSB

B-1 Stock will be \$0.25 or \$0.75 (if the holders of the Series B-1 Stock take the Series B-1 Preference), as the case may be. A merger or sale of capital stock in which our shareholders do not own a majority of the outstanding shares of the surviving corporation or sale of all or substantially all of our assets shall be deemed to be a liquidation.

All of the preferred stock has anti-dilution protection that will adjust the conversion price of each series to increase the number of shares of common stock issuable upon conversion of such shares of preferred stock if, and to the extent, we issue additional securities at a price per share lower than the conversion price of each such series of preferred stock. The adjustment will be based upon a broad-based, weighted average formula that increases the conversion rate based upon the number of new securities issued and the extent to which such securities were issued below the conversion price of each series of preferred.

Also, on November 6, 2002, we entered into a Loan and Security Agreement with Silicon Valley Bank ("SVB"), whereby SVB agreed to loan us up to \$1,400,000. This facility includes a \$1 million revolving line of credit that is an accounts receivable based operating line of credit to support short-term working capital requirements as well as a \$400,000 term note. At the closing of the loan, we used \$400,000 from the term note facility to extinguish the \$856,000 balance and cure our secured loan from GE Access that was in default since it was due on October 16, 2002. As of March 31, 2003, we have borrowed \$775,000 under the SVB line of credit, and have \$525,000 of borrowing ability remaining. Of the \$1,400,000 credit facility with SVB, \$1,000,000 was guaranteed by Edgewater. The SVB debt is secured by all of our assets. The line of credit is priced at prime plus 1% on a fully-floating basis and matures in twelve months. The advance rate on the line is determined by the defined borrowing base, which is 80% of eligible accounts receivable. The term loan is priced at 10% on a fixed-rate basis. The term loan is fully amortizing and also matures in one year.

On January 9, 2003, we entered into a Loan Modification Agreement with SVB which amended the November 6, 2002 Loan and Security Agreement and temporarily increased the line of credit extended from \$1,000,000 to \$1,300,000 until July 31, 2003 at which time the line will be reduced to \$1,000,000 for the remaining term of the agreement. Edgewater agreed to guarantee the amount to which the line of credit exceeds \$1,000,000 on July 31, 2003, up to a maximum of \$300,000. On April 4, 2003, we issued Edgewater a warrant to purchase 200,000 shares of our Series B-1 Preferred Stock at an exercise price of \$0.01 per share in consideration for Edgewater entering into the Guarantee.

At March 31, 2003, we had a working capital deficit of \$672,000, as compared to a deficit of \$9.3 million at March 31, 2002. Management expects that our current available funds, funds provided from operations, and the available funds under our line of credit and term loan facility with SVB will be sufficient to satisfy our cash requirements through the end of 2003 based on our current projections. Our current projections include a plan to reduce headcount and expenses to better align us for profitability. We believe that our success in satisfying our cash requirements in 2003 will depend upon, among other factors, successfully executing on our current operating plan and successfully extending our line of credit facility, which expires in November 2003.

Page 16

RISK FACTORS

The following important factors could cause actual results to differ materially from those contained in forward-looking statements made in this Quarterly Report on Form 10-QSB or presented elsewhere by management from time to time.

Edgar Filing: EPICEDGE INC - Form 10QSB

WE MAY NEED TO RAISE ADDITIONAL CAPITAL, WHICH MAY NOT BE AVAILABLE.

Management expects that our current available funds, funds provided from operations, and the available funds under our line of credit and term loan facility with SVB will be sufficient to satisfy our cash requirements through the end of 2003 based on our current projections. Our current projections include a plan to reduce headcount and expenses to better align us for profitability. We believe that our success in satisfying our cash requirements in 2003 will depend upon, among other factors, successfully executing on our current operating plan and successfully extending our line of credit facility, which expires in November 2003.

However, if we fail to execute on our current operating plan, revenues deteriorate or our operating cash flows and SVB line of credit become inadequate, or if our revenues grow faster and/or higher than expected in a manner that increases expenses, we may not be able to continue successfully funding our operations. In that event, we may need to raise additional funding from other sources. Sources of additional financing may include additional bank debt, factoring of accounts receivable or the public or private sale of equity or debt securities. However, there can be no assurance that we will be successful in arranging such additional financing at all or on terms commercially acceptable to us. In addition, the issuance of more debt or equity may require us to agree to restrictive covenants that could hamper our business and operations. These uncertainties could have a material adverse affect on us.

WE MAY REPORT AN OPERATING LOSS IN 2003 AND MAY NOT ACHIEVE OR SUSTAIN FUTURE PROFITABILITY.

Although our core business is providing information technology services, our business strategy continues to evolve. We have reported an operating loss in each of the previous four fiscal years. Although our revenues have generally been increasing since the third quarter of fiscal 2000 and this trend has continued through most of 2002, it is possible that we may continue to incur operating losses, and that our revenues may decline for 2003. During the course of 2001, we fundamentally restructured our business by consolidating office space, reducing our workforce and reshaping our service offerings. To the extent that our restructuring plan and continued cost cutting measures do not generate the cost savings or revenues that we anticipate, our results of operations and liquidity could be materially and adversely affected. If we are unable to maintain the historical increase in our revenues, or if our operating expenses exceed our expectations, we may continue to incur losses and may not achieve profitability. If we achieve profitability in the future, we may not be able to sustain it.

WE DEPEND ON GOVERNMENT AGENCIES FOR A MAJORITY OF OUR REVENUES AND THE LOSS OR DECLINE OF EXISTING OR FUTURE GOVERNMENT AGENCY FUNDING WOULD ADVERSELY AFFECT OUR REVENUES AND CASH FLOWS.

For the three months ended March 31, 2003, approximately 89% of our revenues were either directly or indirectly, as a subcontractor, derived from services provided to government agencies. These government agencies may be subject to budget cuts, budgetary constraints, a reduction or discontinuation of funding or changes in the political or regulatory environment that may cause government agencies to divert funds. A significant reduction in funds available for government agencies to purchase professional services would significantly reduce our revenues and cash flows. In addition, the loss of a major government client, or any significant reduction or delay in orders by that client, would also significantly reduce our revenues and cash flows. See Risk Factor entitled "We depend heavily on our principal clients" below.

WE DEPEND HEAVILY ON OUR PRINCIPAL CLIENTS.

Edgar Filing: EPICEDGE INC - Form 10QSB

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of large clients. Four customers represented 65% of total revenues in the three months ended March 31, 2003 and two customers represented 62% of total revenues in the three months ended March 31, 2002. The volume of work performed for specific clients is likely to vary from year to year, and a major client in one year may not use our services in a subsequent year. In addition, revenues from a large client may constitute a significant portion of our total revenues in a particular quarter. Most of our contracts are terminable by the client following limited notice and without significant penalty to the client. The loss of any large client could have a material adverse effect on our business, financial condition and results of operations.

The State of Texas is a significant client. We have executed contracts with several agencies of that state for which we are performing services. During the three months ended March 31, 2003, approximately 63% of our revenue was derived from Texas agencies. These contracts, for the most part, are multi-year and run through 2005. However, many of the contracts are terminable by our clients following limited notice and without significant penalties. Northrop Grumman has also been a significant client. We had a subcontract with that organization which represented approximately 19% of our revenues for the three months ended March 31, 2003. This contract terminated on March 15, 2003. Due to anticipated government budget shortfalls, many government clients may terminate or sharply reduce the scope of work performed under our contracts with them.

Page 17

DUE TO THE LIQUIDATION PREFERENCES OF OUR OUTSTANDING PREFERRED STOCK, THE HOLDERS OF SUCH PREFERRED STOCK MAY BE ENTITLED TO RECEIVE ALL OR SUBSTANTIALLY ALL OF THE PROCEEDS FROM ANY SALE OF THE COMPANY THAT RESULTS IN A LIQUIDATION EVENT UNDER THE TERMS OF THE PREFERRED STOCK.

According to the terms of our currently outstanding shares of Series A and Series B Preferred Stock and the Series B-1 Preferred Stock issuable upon conversion of the New Substitute Note or the warrants for Series B-1 Preferred Stock, any merger or sale of capital stock in which our shareholders prior to such action do not own a majority of the outstanding shares of the surviving corporation or any sale of all or substantially all of our assets shall be deemed to be a liquidation event. Upon a liquidation event, the holders of the Series A and Series B Preferred Stock have a right to receive 2.75 times the original purchase price of such preferred stock in the event such liquidation event occurs on or before April 15, 2004. After such date, these holders will be entitled to a liquidation preference equal to 3 times the original purchase price of such preferred. In addition, the liquidation preference of the Series B-1 Preferred Stock is 3.5 times the original purchase price of the Series B-1 Preferred Stock. As a result, the holders of the 12,868,932 shares of currently outstanding preferred stock and the shares of Series B-1 Preferred Stock currently issuable would be entitled to the first approximately \$37.5 million of proceeds from any liquidation event available to be distributed to our shareholders if such liquidation event happens on or before April 15, 2004, or approximately \$40.0 million if such event occurs after such date. Lastly, the management participants in our cash Bonus Plan could be entitled to receive certain of the proceeds available for distribution to our shareholders in preference to the holders of both our preferred and common stock. As a result of the liquidation preferences of the preferred stock and the Bonus Plan, certain members of our management and the holders of our preferred stock may be entitled to receive all or substantially all of the proceeds from any sale of the company that results in a liquidation event under the terms of the preferred stock in preference to the holders of our common stock. The existence of such liquidation preferences could materially affect the market price of our common stock.

Edgar Filing: EPICEDGE INC - Form 10QSB

WE HAVE SIGNIFICANT FIXED OPERATING COSTS AND OUR OPERATING RESULTS ARE SUBJECT TO FLUCTUATION.

A high percentage of our operating expenses, approximately 85%, particularly personnel and rent, are fixed in advance of any particular quarter. As a result, unanticipated variations in the number, or progress toward completion, of our projects or in employee utilization rates may cause significant variations in operating results in any particular quarter and could result in losses for such quarter. An unanticipated termination of a major project, a client's decision not to proceed to the subsequent stage of a project, or the completion during a quarter of several major client projects could require us to maintain underutilized employees and therefore have a material adverse effect on our business, financial condition and results of operations. Our revenues and earnings may also fluctuate from quarter to quarter based on such factors as the contractual terms and degree of completion of such projects, any delays incurred in connection with projects, the accuracy of estimates of resources required to complete ongoing projects, and general economic conditions.

WE ARE DEPENDENT ON A NUMBER OF KEY PERSONNEL.

Our success will depend in large part upon the continued services of a number of key employees, including our senior management, key consultants and practice leaders. The loss of the services of any of these individuals or of one or more of our other key personnel could have a material adverse effect on us. In addition, if one or more of our key employees resigns to join a competitor or to form a competing company, the loss of such personnel and any resulting loss of existing or potential clients to any such competitor could have a material adverse effect on our business, financial condition and results of operations. In the event of the loss of any such personnel, there can be no assurance that we would be able to prevent the unauthorized disclosure or use of our technical knowledge, practices or procedures by such personnel.

IF WE DO NOT ATTRACT AND RETAIN QUALIFIED PROFESSIONAL STAFF, WE MAY NOT BE ABLE TO ADEQUATELY PERFORM OUR CLIENT ENGAGEMENTS AND COULD BE LIMITED IN ACCEPTING NEW CLIENT ENGAGEMENTS.

A critical component of our business is the level of experience and technical proficiency of our employees. Our business is labor intensive and our success will depend upon our ability to attract, retain, train and motivate highly skilled employees. Although many specialized e-business and other business and technology companies have reduced their workforces or slowed their hiring efforts, and we reduced our workforce in October 2000, March and September 2001, September 2002 and again in March 2003, intense competition still exists for certain employees who have specialized skills or significant experience in business and technology consulting. We may not be successful in attracting a sufficient number of these highly skilled employees in the future. In particular, qualified project managers and senior technical and professional staff are in great demand worldwide. In addition, we require that some of our employees travel to client sites to perform services on our behalf, which may make a position with us less attractive to potential employees. Additionally, the industry attrition rates for these types of employees are high, and we may not be successful in retaining, training and motivating the employees we are able to attract. The failure of our employees to achieve expected levels of performance could adversely affect our business as well. Any inability to attract, retain, train and motivate employees could impair our ability to adequately manage and complete existing projects and to bid for or accept new client engagements.

Edgar Filing: EPICEDGE INC - Form 10QSB

IF OUR MARKETING RELATIONSHIPS WITH SOFTWARE VENDORS DETERIORATE, WE WOULD LOSE THEIR POTENTIAL CLIENT REFERRALS.

We currently have marketing relationships with software vendors, including PeopleSoft and Sun Microsystems. We estimate that we derive most of our revenues directly or indirectly from these relationships. Although we have historically received a number of business leads from these software vendors to implement their products, they are not required to refer business to us, may cease referring business to us and furthermore may terminate these relationships at any time. If our relationships with these software vendors deteriorate, we may lose their client leads and thus our ability to develop new clients could be negatively impacted. Any decrease in our ability to obtain new clients may cause a reduction in our revenue growth.

OUR CLIENTS MAY CANCEL OR DELAY SPENDING ON BUSINESS AND TECHNOLOGY INITIATIVES BECAUSE OF THE CURRENT ECONOMIC CLIMATE.

Since the second half of 2000, many companies have experienced financial difficulties or uncertainty, and have cancelled or delayed spending on business and technology consulting initiatives. Additionally, the severe financial difficulties that many start-up Internet companies have experienced have reduced or eliminated their competition and have further reduced the perceived urgency by larger companies to begin or continue technology initiatives. Since some of our revenues are derived from large companies, if large companies continue to cancel or delay their business and technology consulting initiatives because of the current economic climate, or for other reasons, our business, financial condition and results of operations could be materially adversely affected.

BUSINESSES MAY DECREASE OR DELAY THEIR USE OF ADVANCED TECHNOLOGIES AS A MEANS FOR CONDUCTING COMMERCE.

Our future success depends heavily on the increased acceptance and use of advanced technologies as a means for conducting commerce and streamlining operations. We focus our services on the development and implementation of advanced technology strategies and solutions. If use of these advanced technologies does not continue to grow, or grows more slowly than expected, our revenue growth could slow or decline and our business, financial condition and results of operations could be materially adversely affected. Consumers and businesses may delay adoption of advanced technologies for a number of reasons, including:

- inability to implement and sustain profitable business models using advanced technologies;
- inadequate network infrastructure or bandwidth;
- delays in the development or adoption of new technical standards and protocols required to handle increased levels of usage;
- delays in the development of security and authentication technology necessary to effect secure transmission of confidential information; and
- failure of companies to meet their clients' expectations in delivering goods and services using advanced technologies.

WE COULD BECOME SUBJECT TO LAWSUITS OR INVESTIGATIONS THAT COULD RESULT IN MATERIAL LIABILITIES TO US OR CAUSE US TO INCUR MATERIAL COSTS.

From time to time, we may be involved in litigation relating to claims arising out of our ordinary course of business. We are not currently a party to any material litigation, except for the legal matters currently pending as

Edgar Filing: EPICEDGE INC - Form 10QSB

described below.

We were notified by the SEC Staff that the SEC is conducting an investigation into (1) the trading activity of certain individuals and entities in our securities and the securities of other companies during the period 1999 and 2000, and (2) certain of our actions during that same period. We intend to fully cooperate with the SEC to the extent it requests information. At this time, management is unable to predict the outcome of this investigation with certainty. We could become subject to an order enjoining us from unlawful conduct and/or incur civil monetary penalties as a result of the investigation. Such penalties could have a material adverse effect on us and our operations or financial condition.

While the outcome of these and other legal matters cannot be predicted with certainty, we believe that they will not have a material adverse effect on our financial statements. However, an unfavorable outcome of any of these matters could have a material adverse effect. In addition, any failure in a client's system could result in a claim against us for substantial damages, regardless of our responsibility for such failure. We cannot guarantee that the limitations of liability set forth in our service contracts will be enforceable or will otherwise protect us from liability for damages.

Our general liability insurance coverage, as well as coverage for errors or omissions, may not continue to be available on reasonable terms or in sufficient amounts to cover one or more claims, and the insurer may disclaim

Page 19

coverage as to any future claim. The successful assertion of one or more claims against us that exceed available insurance coverage or changes in insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, would adversely affect our business.

OUR COMMON STOCK WAS RECENTLY DELISTED FROM THE AMERICAN STOCK EXCHANGE, (THE "AMEX"), AND IS NOW TRADING OVER THE COUNTER ("OTC"). THE MARKET PRICE OF THE COMMON STOCK COULD DECLINE POTENTIALLY TO ZERO AND YOU COULD LOSE YOUR INVESTMENT.

As a result of our delay in filing Form 10-KSB for 2000 and the first and second quarter 10-Q of 2001, the AMEX suspended the trading of our common stock. Upon review of these items once they were filed, they reinstated trading in our stock. On May 28, 2002, we received notice from the AMEX indicating that we were not in compliance with certain of the AMEX's continued listing standards. Specifically, our shareholders' equity fell below \$2 million and we incurred losses from continuing operations and/or net losses in the two of our three most recent fiscal years, as set forth in Section 1003(a)(i) of the AMEX Company Guide. We were afforded an opportunity to submit a plan of compliance to the AMEX and on June 26, 2002 we presented our plan. On July 30, 2002, the AMEX notified us that it accepted our plan of compliance and granted us an extension of time to regain compliance with the continued listing standards until March 31, 2003. The AMEX also notified us that we would be subject to periodic reviews by the AMEX during the extension period and that failure to make progress consistent with the plan or to regain compliance with the continued listing standards by the end of the extension period would result in our being delisted from the AMEX.

During February 2003, the AMEX requested a report on our compliance with the plan submitted in June 2002. Based upon this information, the AMEX informed us that it would commence the steps required to delist our common stock. On February 28, 2003, we received a formal notice from the AMEX Staff, indicating that we no longer complied with the AMEX's continued listing standards. We

Edgar Filing: EPICEDGE INC - Form 10QSB

informed the AMEX that we would not appeal and consented to the AMEX's decision to remove the listing of our common stock. We did not comply with Section 1003(a) (i) of the AMEX Company Guide, because our shareholders' equity was less than \$2,000,000 and we had losses from continuing operations and/or net losses in two of our three most recent fiscal years. Also, in light of our inability to meet the continued listing requirements of the AMEX, we have elected not to pay portions of the AMEX's applicable listing fees in accordance with Section 1003(f) (iv). We were informed by the AMEX that we did not comply with Section 1003(b) (i) (C), which states that the AMEX will normally consider suspending dealings in, or removing from the list, a security if the aggregate market value of shares publicly held is less than \$1,000,000 for more than 90 consecutive days. Finally, under Section 1003(f) (v), our common stock was selling for a substantial period of time at a low share price. On March 12, 2003, the AMEX suspended trading in our common stock and submitted an application to the SEC to strike our common stock from listing and registration on the AMEX. The SEC granted approval of the application on March 24, 2003.

On March 12, 2003, our common stock began trading OTC under the trading symbol "EPED." The OTC has historically been a limited public market providing lower trading volume than the NYSE, AMEX and Nasdaq and no assurance can be given that an active market on the OTC or any other market will develop or that a shareholder ever will be able to liquidate his or her investment without considerable delay, if at all. If a market should develop, the price may be highly volatile. Additionally, some investors view low-priced stocks trading OTC as unduly speculative and therefore as not appropriate for investment. Many institutional investors have internal policies prohibiting the purchase or maintenance of positions in low-priced stocks. This has the effect of limiting the pool of potential purchasers of our common stock at present price levels. Shareholders may find greater percentage spreads between bid and asked prices, and more difficulty in completing transactions and higher transaction costs when buying or selling our common stock than they would if our stock were listed on a NYSE, AMEX or the Nasdaq.

TRADING OF OUR COMMON STOCK MAY BE RESTRICTED BY THE SEC'S PENNY STOCK REGULATIONS WHICH MAY LIMIT A SHAREHOLDER'S ABILITY TO BUY AND SELL OUR STOCK.

The SEC has adopted regulations which generally define "penny stock" to be any equity security that has a market price (as defined in the regulations) that is less than \$5.00 per share, subject to certain exceptions. Such exceptions include any equity security listed on the AMEX, Nasdaq National Market or Small Cap Market and any equity security issued by an issuer that has (i) net tangible assets of more than \$2,000,000, if such issuer has been in continuous operation for at least three years, (ii) net tangible assets of more than \$5,000,000, if such issuer has been in continuous operation for less than three years, or (iii) average annual revenue of at least \$6,000,000 for the past three years. Our common stock is covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors." The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally

or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability or the willingness of broker-dealers to trade our common stock. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

OUR BUSINESS IS DEPENDENT ON OUR ABILITY TO KEEP PACE WITH THE LATEST TECHNOLOGICAL CHANGES.

Our market and the enabling technologies used by our clients are characterized by rapid technological change. Failure to respond successfully to these technological developments, or to respond in a timely or cost-effective way, will result in serious harm to our business and operating results. We expect to derive a substantial portion of our revenues from creating e-business systems that are based upon today's leading technologies and that are capable of adapting to future technologies. As a result, our success will depend, in part, on our ability to offer services that keep pace with continuing changes in technology, evolving industry standards and changing client preferences as well as being first to market new services in this market. There can be no assurance that we will be successful in addressing these developments on a timely basis or that if addressed we will be successful in the marketplace. Our failure to address these developments could have a material adverse effect on our business, financial condition and results of operations.

WE FACE SIGNIFICANT COMPETITION IN MARKETS THAT ARE NEW, INTENSELY COMPETITIVE AND RAPIDLY CHANGING.

The markets for the services we provide are highly competitive. We believe that we currently compete principally with large accounting and consulting firms and systems consulting and implementation firms. We compete to a lesser extent with specialized e-business consulting firms, strategy consulting firms, other package technology vendors, and our clients' own internal information systems groups. Some of our competitors are Accenture Ltd., Maximus, Inc., Lante Corporation, IBM Global Services, Braxton Consulting (formerly Deloitte), Intelligroup, Inc. and KPMG Consulting, Inc. Many of the companies that provide such services have significantly greater financial, technical and marketing resources than we do and generate greater revenues and have greater name recognition. These firms may attempt to gain a competitive advantage by offering large pricing concessions. In addition, there are relatively low barriers to entry into our markets and we have faced, and expect to continue to face, additional competition from new entrants into our markets. Increased competition may result in price reductions, fewer client projects, underutilization of our technical staff, reduced operating margins and loss of market share, any of which could have a material adverse effect on our business, operating results and financial condition. We believe that the major competitive factors in our market relate to a company's distinctive technical capabilities, successful past contract performance, reputation for quality and pricing.

WE SOMETIMES ENTER INTO FIXED-PRICE CONTRACTS.

Some of our projects are based on fixed-price, fixed-timeframe contracts, rather than contracts in which payment to us is determined on a time and materials basis. We recognize revenues when defined milestones are reached. For

Edgar Filing: EPICEDGE INC - Form 10QSB

the three months ended March 31, 2003, approximately 22% of our revenues were from fixed-price, fixed time frame contracts. Our failure to accurately estimate the resources required for a project or our failure to complete our contractual obligations in a manner consistent with the project plan upon which our fixed-price, fixed-timeframe contract was based would adversely affect our overall profitability and could have a material adverse effect on our business, financial condition and results of operations. We have at times been required to commit unanticipated additional resources to complete certain projects, which has resulted in losses on certain contracts. We recognize that we may experience similar situations in the future. In addition, for certain projects we may fix the price before the design specifications are finalized, which could result in a fixed price that turns out to be less than our expenses on the project and therefore adversely affects our profitability.

OUR FAILURE TO DELIVER ERROR-FREE PRODUCTS AND SERVICES COULD RESULT IN REDUCED PAYMENTS, SIGNIFICANT FINANCIAL LIABILITY OR ADDITIONAL COSTS TO US, AS WELL AS NEGATIVE PUBLICITY.

Many of our engagements involve projects that are critical to the operations of our clients' businesses and provide benefits that may be difficult to quantify. The failure by us to meet a client's expectations in the performance of the engagement could damage our reputation and adversely affect our ability to attract new business. We have undertaken, and may in the future undertake, projects in which we guarantee performance based upon defined operating specifications or guaranteed delivery dates. Unsatisfactory performance or unanticipated difficulties or delays in completing such projects may result in client dissatisfaction and a reduction in payment to us, payment of penalties or damages by us as a result of litigation or otherwise. In addition, unanticipated delays could necessitate the use of more resources than we initially budgeted for a particular project, which could increase our costs for that project.

Page 21

CERTAIN SHAREHOLDERS CAN CONTROL MATTERS REQUIRING SHAREHOLDER APPROVAL BECAUSE THEY OWN A LARGE PERCENTAGE OF OUR COMMON STOCK, AND THEY MAY VOTE THIS COMMON STOCK IN A WAY WITH WHICH OTHER SHAREHOLDERS MAY NOT AGREE.

Certain shareholders, Edgewater Private Equity Fund III and Fleck T.I.M.E. Fund, LP and affiliates of Fleck, own approximately 68% and 17%, respectively, of the voting power of our common stock. As a result, if these persons act together, they will have the ability to exercise substantial control over our affairs and corporate actions requiring shareholder approval, including the election of directors, a sale of substantially all our assets, a merger with another entity or an amendment our certificate of incorporation. The ownership position of these shareholders could delay, deter or prevent a change in control and could adversely affect the price that investors might be willing to pay in the future for shares of our common stock.

OUR REVENUES AND OPERATING RESULTS ARE VOLATILE AND DIFFICULT TO FORECAST, WHICH MAY CAUSE THE MARKET PRICE OF OUR COMMON STOCK TO DECLINE.

Our revenues and operating results are subject to significant variation from quarter to quarter due to a number of factors, including:

- the number, size and scope of projects in which we are engaged;
- demand for our services generated by strategic relationships and certain prime contractors;
- economic conditions in the vertical and geographic markets we serve;

Edgar Filing: EPICEDGE INC - Form 10QSB

- our employee utilization rates and the number of billable days in a particular quarter;
- the contractual terms and degree of completion of projects;
- any delays or costs incurred in connection with a project or early termination of a project;
- the accuracy of estimates of resources required to complete ongoing projects;
- our ability to staff projects with salaried employees versus hourly employees, hourly independent contractors and subcontractors;
- start-up costs including software license fees incurred in connection with the initiation of large projects; and
- the adequacy of provisions for losses.

The timing and realization of opportunities in our sales pipeline make the timing and variability of revenues difficult to forecast. Because of the variability of our quarterly operating results, we believe that period-to-period comparisons of our operating results are not necessarily meaningful, should not be relied upon as indications of future performance and may result in volatility and declines in the price of our common stock. In addition, our operating results may from time to time be below the expectations of analysts and investors. If so, the market price of our common stock may continue to decline.

THE TRADING PRICE OF OUR STOCK HAS BEEN, AND IS EXPECTED TO BE, HIGHLY VOLATILE. THE PRICE OF OUR COMMON STOCK IS SUBJECT TO SIGNIFICANT FLUCTUATION.

In addition, the trading price of our common stock could be subject to wide fluctuations in response to:

- general economic or stock market conditions unrelated to our operating performance;
- quarterly variations in operating results;
- changes in earnings estimates by analysts;
- any differences between reported results and analysts' published or unpublished expectations;
- announcements of new contracts or service offerings by us or our competitors; and
- other events or factors.

Page 22

INCREASING GOVERNMENT REGULATION COULD AFFECT OUR BUSINESS.

We are subject not only to regulations applicable to businesses generally, but also laws and regulations directly applicable to electronic commerce. Although there are currently few such laws and regulations, state, federal and foreign governments may adopt a number of these laws and regulations. Any such legislation or regulation could dampen the growth of the Internet and decrease its acceptance as a communications and commercial medium. If such a decline occurs, companies may decide in the future not to use our services to create an

Edgar Filing: EPICEDGE INC - Form 10QSB

electronic business channel. This decrease in the demand for our services could seriously harm our business and operating results.

LEGISLATIVE ACTIONS, HIGHER INSURANCE COST AND POTENTIAL NEW ACCOUNTING PRONOUNCEMENTS ARE LIKELY TO IMPACT OUR FUTURE FINANCIAL POSITION AND RESULTS OF OPERATIONS.

There have been regulatory changes, including the Sarbanes-Oxley Act of 2002, and there may be potential new accounting pronouncements or regulatory rulings which will have an impact on our future financial position and results of operations. The Sarbanes-Oxley Act of 2002 and other rule changes and proposed legislative initiatives following the Enron bankruptcy are likely to increase general and administrative costs. In addition, insurers are increasing rates as a result of high claims rates over the past year and our rates for our various insurance policies have increased and may continue to increase. Further, proposed initiatives may result in changes in accounting rules, including legislative and other proposals to account for employee stock options as an expense. These and other potential changes could materially increase the expenses we report under generally accepted accounting principles, and adversely affect our operating results.

OUR BUSINESS COULD BE ADVERSELY AFFECTED IF WE ARE UNABLE TO PROTECT OUR PROPRIETARY TECHNOLOGY.

Our success depends, in part, upon our proprietary methodologies and other intellectual property rights. We rely upon a combination of trade secret, nondisclosure and other contractual arrangements to protect our proprietary rights. We enter into confidentiality agreements with our employees; generally require that our consultants and clients enter into such agreements; and limit access to distribution of our proprietary information. We currently do not have any trademark or copyright protection on any of our intellectual property. There can be no assurance that the steps taken by us in this regard will be adequate to deter misappropriation of our proprietary information or that we will be able to detect unauthorized use and take appropriate steps to enforce our intellectual property rights. In addition, although we believe that our services and products do not infringe on the intellectual property rights of others, there can be no assurance that such a claim will not be asserted against us in the future, or that if asserted any such claim will be successfully defended. A successful claim against us could have material adverse affect on our business, financial condition and results of operations.

WE MAY NOT HAVE THE RIGHT TO RESELL OR REUSE APPLICATIONS DEVELOPED FOR SPECIFIC CLIENTS.

A portion of our business involves the development of Internet and software applications for specific client engagements. Ownership of such software is the subject of negotiation and is frequently assigned to the client, although we may retain a license for certain uses. Issues relating to the ownership of and rights to use software applications can be complicated and there can be no assurances that disputes will not arise that affect our ability to resell or reuse such applications. Any limitation on our ability to resell or reuse an application could require us to incur additional expenses to develop new applications for future projects.

WE COULD SUFFER MATERIAL LOSSES IF OUR SYSTEMS OR OPERATIONS FAIL OR ARE DISRUPTED.

Any system failure, including network, software or hardware failure, whether caused by us, a third party service provider, unauthorized intruders and hackers, computer viruses, natural disasters, power shortage or terrorist attacks, could cause interruptions or delays in our business or loss of data. In addition, if our mail, communications or utilities are disrupted or fail, our

Edgar Filing: EPICEDGE INC - Form 10QSB

operations, including our transaction processing, could be suspended or interrupted and our business could be harmed. Our property insurance and business interruption insurance may not be adequate to compensate us for all losses that may occur as a result of any system failure or disruption.

THE ISSUANCE OF ADDITIONAL COMMON STOCK UPON THE CONVERSION OR EXERCISE OF OUR OUTSTANDING DERIVATIVE SECURITIES WILL RESULT IN DILUTION TO EACH SHAREHOLDER'S PERCENTAGE OWNERSHIP INTEREST AND COULD MATERIALLY AFFECT THE MARKET PRICE OF OUR COMMON STOCK.

As of March 31, 2003, there were approximately 18,200,333 shares of our common stock outstanding. Approximately 10,757,000 shares of common stock are issuable upon exercise of employee and director stock options under our current stock option plans and will become eligible for sale in the public markets at prescribed times in the future. We also have outstanding warrants, which are exercisable into an aggregate of 2,022,000 shares of common stock and an outstanding note convertible into 3,832,000 shares of common stock. Also, the outstanding shares of preferred stock are convertible into an aggregate of 19,215,837 additional shares of our common stock. In addition, 2,750,000 shares of convertible preferred stock are issuable upon conversion of the remaining \$2,000,000 principal balance plus interest on the June Convertible Notes issued to Edgewater, and 1,533,333 shares of convertible preferred

Page 23

stock are issuable upon exercise of warrants, all of which could convert into approximately 12,850,000 shares of our common stock. Lastly, the number of shares issuable upon the conversion of each of our series of preferred stock is subject to adjustment upon the occurrence of certain dilutive events, which could result in the issuance of additional shares of common stock.

The issuance and sale of a significant number of shares of common stock upon the exercise of stock options and warrants, the conversion of our outstanding preferred stock, or the sales of a substantial number of shares of common stock pursuant to Rule 144 or otherwise, could adversely affect the market price of the common stock.

OUR ISSUANCE OF PREFERRED STOCK COULD MAKE IT DIFFICULT FOR ANOTHER COMPANY TO ACQUIRE US, WHICH COULD DEPRESS THE PRICE OF OUR COMMON STOCK.

We currently have two series of preferred stock authorized and outstanding and have entered into a term sheet that would require the authorization of a third series. In addition, our board of directors has the authority to create additional classes of preferred stock (subject to certain protective provision of our current outstanding preferred stock). The preferred stock has voting rights, liquidation preferences, and other rights superior to the rights of our common stock. The potential issuance of additional preferred stock may delay or prevent a change in control of us, discourage bids for the common stock at a premium over the market price and adversely affect the market price and the voting and other rights of the holders of our common stock.

Page 24

ITEM 3. CONTROLS AND PROCEDURES

(a) Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), within 90 days of the filing date of this

Edgar Filing: EPICEDGE INC - Form 10QSB

report. Based on their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective.

(b) There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced in paragraph (a) above.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are filed as part of, or incorporated by reference into, this Form 10-QSB:

EXHIBIT NUMBER	DESCRIPTION
2.1	Exchange Agreement, dated December 31, 1998, by and between Loch Exploration, Inc., Loch Energy, Inc., Design Automation Systems, Inc. and Carl Rose (Incorporated herein by reference to exhibit 2.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 15, 1999)
2.2	Amendment to Exchange Agreement, dated January 27, 1999, effective December 31, 1998, by and between Loch Exploration, Inc., Loch Energy, Inc., Design Automation Systems, Inc., Carl Rose, Glen Loch, Southport Capital Corporation, Carl R. Rose, Trustee, Charles Leaver and Kelly Knake (Incorporated herein by reference to exhibit 2.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 27, 1999)
2.3	Agreement and Plan of Merger, dated March 31, 1999, by and between Loch Exploration, Inc., the Shareholders of COAD Solutions, Inc. and COAD Solutions, Inc. (Incorporated herein by reference to exhibit 2.2 to our Annual Report on Form 10-KSB for the year ended December 31, 1998 filed with the Securities Exchange Commission on April 15, 1999)
2.4	Articles of Merger of Parent and Subsidiary between Loch Exploration, Inc. and Design Automation Systems, Inc. filed with the Texas Secretary of State on April 12, 1999 (Incorporated herein by reference to exhibit 2.4 to our Annual Report on Form 10-KSB for the year ended December 31, 1998 filed with the Securities Exchange Commission on April 15, 1999)
2.5	Agreement and Plan of Merger, dated May 1999, by and between Design Automation Systems, Inc., Dynamic Professional Services, L.L.C. and COAD Solutions, Inc. (Incorporated herein by reference to exhibit 2.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 14, 1999)
2.6	Agreement and Plan of Merger, dated July 30, 1999, by and between Design Automation Systems, Inc., Connected Software Solutions, Inc., COAD Solutions, Inc., Roger Barnes and Lance Dunbar (Incorporated herein by reference to exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on August 11, 1999)

Edgar Filing: EPICEDGE INC - Form 10QSB

- 2.7 Purchase and Sale Agreement, dated October 29, 1999, by and between Design Automation Systems, Inc., COAD Solutions, Inc. and Net Information Systems, Inc. (Incorporated herein by reference to exhibit 2.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on December 14, 1999)
- 2.8 Agreement and Plan of Merger, dated February 29, 2000, by and between Design Automation Systems, Inc., EACQ, LLC, The Growth Strategy Group, Inc., Peter Davis, Jean Albert and Michael McCahey (Incorporated herein by reference to exhibit 2.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2000)
- 2.9 Agreement and Plan of Merger, dated June 6, 2000, by and between the Company, IPS Associates, Inc., EDG Acquisition Corporation, William Kern, Isabelle Soares, Peter Heinrich and William Johnson (Incorporated herein by reference to exhibit 2.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 14, 2000)
- 2.10 Amendment to Agreement and Plan of Merger, dated June 30, 2000, by and between the Company, IPS Associates, Inc., EDG Acquisition Corporation, William Kern, Isabelle Soares, Peter Heinrich and William Johnson (Incorporated herein by reference to exhibit 2.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 14, 2000)
- 2.11 Asset Purchase Agreement, dated July 19, 2000, by and between the Company, Tumble Interactive Media, Inc. and Charles C. Vornberger (Incorporated herein by reference to exhibit 2.11 to our Quarterly Report on Form 10-QSB for the quarter ended September 30, 2000 filed with the Securities and Exchange Commission on November 21, 2000)
- 2.12 Stock Purchase Agreement, dated January 1, 2001, by and between the Company, RED & BLUE, INC. and IPS Associates, Inc. Employee Stock Ownership Plan for the sale of all the outstanding stock of IPS Associates, Inc. (Incorporated herein by reference to exhibit 99.1 to our Current Report on Form 8-K filed

Page 25

EXHIBIT NUMBER	DESCRIPTION
	with the Securities and Exchange Commission on March 5, 2001)
3.1(#)	Second Restated Articles of Incorporation filed with the Texas Secretary of State on April 2, 2003
3.2	Second Amended and Restated Bylaws (Incorporated herein by reference to exhibit 3.7 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 filed with the Securities and Exchange Commission on May 20, 2002)
4.1	Specimen Common Stock Certificate (Incorporated herein by reference to exhibit 4.1 to our Annual Report on Form 10-K for the year ended

Edgar Filing: EPICEDGE INC - Form 10QSB

December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)

- 4.2 Specimen Series A Convertible Preferred Stock Certificate (Incorporated herein by reference to exhibit 4.2 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 4.3 Specimen Series B Convertible Preferred Stock Certificate (Incorporated herein by reference to exhibit 4.3 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 4.4 Common Stock Warrant Purchase Agreement, dated December 29, 1999, by and between the Company and FINOVA Capital Corporation (Incorporated herein by reference to exhibit 10.29 to our Quarterly Report on Form 10-QSB for the quarter ended September 30, 2000 filed with the Securities and Exchange Commission on November 21, 2000)
- 4.5 Common Stock Purchase Warrant issued by the Company to FINOVA Capital Corporation on December 29, 1999 (Incorporated herein by reference to exhibit 10.30 to our Quarterly Report on Form 10-QSB for the quarter ended September 30, 2000 filed with the Securities and Exchange Commission on November 21, 2000)
- 4.6 Stock Purchase Agreement, dated February 18, 2000, by and between Design Automation Systems, Inc., Edgewater Private Equity Fund III, L.P., Aspen Finance Investors I, LLC, Fleck T.I.M.E. Fund, LP, Fleck Family Partnership II, LP, LJH Partners LP, Wain Investment, LLC, Gerald C. Allen, and John Paul DeJoria (Incorporated herein by reference to exhibit 4.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2000)
- 4.7 Registration Agreement, dated February 18, 2000, by and between Design Automation Systems, Inc., Edgewater Private Equity Fund III, L.P., Aspen Finance Investors I, LLC, Fleck T.I.M.E. Fund, LP, Fleck Family Partnership II, LP, LJH Partners LP, Wain Investment, LLC, Gerald C. Allen, and John Paul DeJoria (Incorporated herein by reference to exhibit 4.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2000)
- 4.8 Warrant Certificate issued by Design Automation Systems, Inc. to Aspen Finance Group on February 18, 2000 (Incorporated herein by reference to exhibit 4.6 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.9 Form of Warrant issued by Design Automation Systems, Inc. to Robert Maddocks for 25,000 shares of our Common Stock and to Robert Heller for 15,000 shares of our Common Stock on March 20, 2000 (Incorporated herein by reference to exhibit 4.7 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.10 Warrant to Purchase Common Stock issued by the Company to Reliant Energy, Inc. on April 30, 2000 (Incorporated herein by reference to exhibit 4.8 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.11 Warrant issued by the Company to Nicholas L. Reding on May 25, 2000 (Incorporated herein by reference to exhibit 4.9 to our Annual

Edgar Filing: EPICEDGE INC - Form 10QSB

Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)

- 4.12 Amended and Restated Shareholders' Agreement, dated July 21, 2000, by and between the Company, Carl Rose, Charles Leaver, Jeff Sexton, Kelly Knake, Edgewater Private Equity Fund III, L.P., Aspen Finance Investors I, LLC, Fleck T.I.M.E. Fund, LP, Fleck Family Partnership II, LP, LJH Partners LP, Wain Investment, LLC, Gerald C. Allen and John Paul DeJoria (Incorporated herein by reference to exhibit 4.41 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 filed with the Securities and Exchange Commission on May 20, 2002)

- 4.13 Stock Purchase Agreement, dated September 29, 2000, by and between the Company, Edgewater Private Equity Fund III, L.P. and Fleck T.I.M.E. Fund, LP (Incorporated herein by reference to exhibit 99.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on October 16, 2000)

- 4.14 Shareholders' Agreement, dated September 29, 2000, by and between the Company, Carl Rose, Charles Leaver, Jeff Sexton, Edgewater Private Equity Fund III, L.P., Aspen Finance Investors I, LLC, Fleck T.I.M.E. Fund, LP and Fleck Family Partnership II, LP (Incorporated herein by reference to exhibit 99.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on October 16, 2000)

- 4.15 Registration Agreement, dated September 29, 2000, by and between the Company, Edgewater Private Equity Fund III, L.P. and Fleck T.I.M.E. Fund, LP (Incorporated herein by reference to exhibit 99.4 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on October 16, 2000)

- 4.16 Amendment to Registration Agreement, dated April 16, 2002, by and between the Company, Edgewater Private Equity Fund III, L.P. and Fleck T.I.M.E. Fund, LP (Incorporated herein by reference to exhibit 4.32 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)

- 4.17(#) Amendment to Registration Agreement, dated April 4, 2003, by and between the Company, Edgewater

Page 26

EXHIBIT NUMBER	DESCRIPTION
4.18	Private Equity Fund III, L.P. Form of Convertible Note issued by the Company to Carl Rose on November 1, 2000 for a principal amount of \$500,000 and on November 7, 2000 for a principal amount of \$400,000 (Incorporated herein by reference to exhibit 4.13 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
4.19	Form of Amendments to Convertible Notes, dated August 31, 2001, by

Edgar Filing: EPICEDGE INC - Form 10QSB

and between the Company and Carl Rose, amending the notes issued by the Company to Carl Rose on November 1, 2000 for a principal amount of \$500,000 and on November 7, 2000 for a principal amount of \$400,000 (Incorporated herein by reference to exhibit 4.14 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)

- 4.20 Form of Amendments to Promissory Notes, dated April 16, 2002, by and between the Company and Carl Rose, amending the notes issued by the Company to Carl Rose on November 1, 2000 for a principal amount of \$500,000 and on November 7, 2000 for a principal amount of \$400,000 (Incorporated herein by reference to exhibit 4.39 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.21 Settlement Agreement, dated April 15, 2002, by and between the Company, Richard Carter, Sam DiPaola, Carl Rose and Bahram Nour-Omid (Incorporated herein by reference to exhibit 4.26 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 4.22 Form of Warrant issued by the Company to Bahram Nour-Omid for 1,000,000 shares of our Common Stock (Incorporated herein by reference to exhibit 4.10 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.23 Warrant Agreement issued by the Company to Brewer & Pritchard, P.C. on May 15, 2001 (Incorporated herein by reference to exhibit 4.12 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.24 Form of Warrant issued by the Company to each of Panna Sharma and Eric Loeffel, each for 30,000 shares of our Common Stock, on July 31, 2001 and to John A. Svahn for 30,000 shares of our Common Stock in November 2001 (Incorporated herein by reference to exhibit 4.11 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.25 Subordination Agreement, dated February 19, 2002, by and between Edgewater Private Equity Fund III, L.P. and MRA Systems, Inc., d/b/a GE Access (Incorporated herein by reference to exhibit 4.18 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.26 Security Agreement, dated February 19, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 4.19 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.27 First Amendment to Security Agreement, dated March 5, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 4.22 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.28 Trademark and License Security Agreement, dated February 19, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 4.20 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with

Edgar Filing: EPICEDGE INC - Form 10QSB

the Securities and Exchange Commission on April 17, 2002)

- 4.29 First Amendment to Trademark and License Security Agreement, dated March 5, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 4.23 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.30 Note and Preferred Stock Purchase Agreement, dated April 16, 2002, by and between the Company, Edgewater Private Equity Fund III, L.P., Fleck T.I.M.E. Fund, LP, John Paul DeJoria and Patrick Loche (Incorporated herein by reference to exhibit 4.27 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.31 Amendment No. 1 to The Note and Preferred Stock Purchase Agreement, dated April 29, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 10.53 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed with the Securities and Exchange Commission on August 14, 2002)
- 4.32 Amendment No. 2 to The Note and Preferred Stock Purchase Agreement, dated June 14, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 10.54 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed with the Securities and Exchange Commission on August 14, 2002)
- 4.33 Amendment No. 3 to The Note and Preferred Stock Purchase Agreement, dated July 18, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 10.55 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed with the Securities and Exchange Commission on August 14, 2002)
- 4.34 Amendment No. 4 to The Note and Preferred Stock Purchase Agreement, dated July 31, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to

Page 27

EXHIBIT
NUMBER

DESCRIPTION

exhibit 10.56 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed with the Securities and Exchange Commission on August 14, 2002)

- 4.35 Amendment No. 5 to The Note and Preferred Stock Purchase Agreement, dated August 21, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 4.41 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)

Edgar Filing: EPICEDGE INC - Form 10QSB

- 4.36 Amendment No. 6 to The Note and Preferred Stock Purchase Agreement, dated October 22, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 4.42 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 4.37 Amendment No. 7 to The Note and Preferred Stock Purchase Agreement, dated November 1, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 4.43 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 4.38(#) Amendment No. 8 to The Note and Preferred Stock Purchase Agreement, dated April 4, 2003, by and between the Company and Edgewater Private Equity Fund III, L.P.
- 4.39(#) Substitute Secured Convertible Promissory Note, dated April 4, 2003 issued by the Company to Edgewater Private Equity Fund III, L.P. for a principal amount of \$2,000,000
- 4.40 Security Agreement, dated April 16, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P., on behalf of itself and certain other lenders (Incorporated herein by reference to exhibit 4.29 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.41 First Amendment to Security Agreement, dated April 29, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P., on behalf of itself and certain other lenders (Incorporated herein by reference to exhibit 4.47 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 4.42(#) Second Amendment to Security Agreement, dated April 4, 2003, by and between the Company and Edgewater Private Equity Fund III, L.P., on behalf of itself and certain other
- 4.43 Subordination Agreement, dated April 16, 2002, by and between Edgewater Private Equity Fund III, L.P. and MRA Systems, Inc., d/b/a GE Access (Incorporated herein by reference to exhibit 4.30 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.44 Trademark and License Security Agreement, dated April 16, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P., on behalf of itself and certain other lenders (Incorporated herein by reference to exhibit 4.31 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.45 First Amendment to Trademark and License Security Agreement, dated April 29, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P., on behalf of itself and certain other lenders (Incorporated herein by reference to exhibit 4.50 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 4.46(#) Second Amendment to Trademark and License Security Agreement, dated April 4, 2003, by and between the Company and Edgewater Private

Edgar Filing: EPICEDGE INC - Form 10QSB

Equity Fund III, L.P., on behalf of itself and certain other lenders

- 4.47 Waiver Letter, dated April 16, 2002, by and between the Company, Edgewater Private Equity Fund III, L.P., Fleck T.I.M.E. Fund, LP and certain other parties (Incorporated herein by reference to exhibit 4.33 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.48 Termination Agreement, dated April 16, 2002, by and between the Company, Carl Rose, Charles Leaver, Jeff Sexton, Edgewater Private Equity Fund III, L.P., Aspen Finance Investors I, LLC, Fleck T.I.M.E. Fund, LP, and Fleck Family Partnership II, LP (Incorporated herein by reference to exhibit 4.34 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.49 Voting Agreement, dated April 16, 2002, by and between Carl Rose, Jenta Rose, Charles Leaver, Kelly Knake, Gerald Allen, John Paul DeJoria, Edgewater Private Equity Fund III, L.P., and Fleck T.I.M.E. Fund, LP (Incorporated herein by reference to exhibit 4.40 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.50 Waiver Letter, dated November 11, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 4.60 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 4.51(#) Series B-1 Preferred Stock Purchase Warrant, dated April 4, 2003, issued by the Company to Edgewater Private Equity Fund III, L.P. to purchase 1,333,333 shares of Series B-1 Preferred Stock
- 4.52(#) Series B-1 Preferred Stock Purchase Warrant, dated April 4, 2003, issued by the Company to Edgewater Private Equity Fund III, L.P. to purchase 200,000 shares of Series B-1 Preferred Stock
- 10.1 Design Automation Systems Incorporated 1999 Stock Option Plan (Incorporated herein by reference to exhibit B to our Definitive Proxy Statement on Schedule 14C filed with the Securities and Exchange Commission on March 9, 1999)

EXHIBIT NUMBER	DESCRIPTION
10.2	EpicEdge, Inc. 2000 Employee Stock Purchase Plan (Incorporated herein by reference to exhibit C to our Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 28, 2000)
10.3	Seattle Design Center Lease, dated March 23, 2000, by and between the Company and Bay West Design Center, LLC (Incorporated herein by reference to exhibit 10.38 to our Annual Report on Form 10-K for the

Edgar Filing: EPICEDGE INC - Form 10QSB

year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)

- 10.4 Microsystem Products Purchase Agreement, dated February 29, 2000, by and between the Company and MRA Systems, Inc., d/b/a GE Access (Incorporated herein by reference to exhibit 10.13 to our Annual Report on Form 10-KSB for the year ended December 31, 1999 filed with the Securities and Exchange Commission on March 30, 2000)
- 10.5 Office Lease Agreement, dated October 4, 2000, by and between the Company and ASC Management, Inc., as revised on September 14, 2001 and as modified on September 18, 2001 and again on March 28, 2002 for office space in Austin, Texas (Incorporated herein by reference to exhibit 10.39 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 10.6 Form of Consent to Settlement of Claim (Incorporated herein by reference to exhibit 10.32 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 filed with the Securities and Exchange Commission on August 28, 2001)
- 10.7 Employment Agreement, dated June 1, 1999, by and between COAD Solutions, Inc. and Richard Carter (Incorporated herein by reference to exhibit 10.42 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 10.8 First Amendment to Employment Agreement, dated April 16, 2002, by and between the Company and Richard Carter (Incorporated herein by reference to exhibit 10.48 to Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 30, 2002)
- 10.9 Employment Agreement, dated June 1, 1999, by and between COAD Solutions, Inc. and Robert Cohan (Incorporated herein by reference to exhibit 10.43 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 10.10 First Amendment to Employment Agreement, dated April 16, 2002, by and between the Company and Robert Cohan (Incorporated herein by reference to exhibit 10.49 to Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 30, 2002)
- 10.11 Employment Agreement, dated November 30, 1999, by and between COAD Solutions, Inc. and Mark Slosberg (Incorporated herein by reference to exhibit 10.44 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 10.12 First Amendment to Employment Agreement, dated April 16, 2002, by and between the Company and Mark Slosberg (Incorporated herein by reference to exhibit 10.50 to Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 30, 2002)
- 10.13 Employment Agreement, dated April 15, 2000, by and between the Company and Sam DiPaola (Incorporated herein by reference to exhibit 10.45 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April

Edgar Filing: EPICEDGE INC - Form 10QSB

17, 2002)

- 10.14 First Amendment to Employment Agreement, dated April 16, 2002, by and between the Company and Sam DiPaola (Incorporated herein by reference to exhibit 10.51 to Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 30, 2002)
- 10.15 Employment Agreement, dated February 28, 2000, by and between Design Automation Systems, Inc. and Peter Davis (Incorporated herein by reference to exhibit 10.46 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 10.16 First Amendment to Employment Agreement, dated April 16, 2002, by and between the Company and Peter Davis (Incorporated herein by reference to exhibit 10.52 to Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 30, 2002)
- 10.17 Employment Agreement, dated April 16, 2002, by and between the Company and Peter B. Covert (Incorporated herein by reference to exhibit 10.47 to Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 30, 2002)
- 10.18 Employment Agreement, dated June 17, 2002 by and between the Company and Robert A. Jensen (Incorporated herein by reference to exhibit 10.21 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 10.19 Form of Indemnification Agreement, by and between the Company and each of its directors (Eric Loeffel, Richard Carter, Mark McManigal, Panna Sharma and John A. Svahn) and by and between the Company and each of its executive officers (Robert A Jensen, Sam DiPaola, Peter Covert, Peter Davis, Mark Slosberg and Robert Cohan) (Incorporated herein by reference to exhibit 10.57 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed with the Securities and Exchange Commission on August 14, 2002)

Page 29

EXHIBIT NUMBER	DESCRIPTION
10.20	EpicEdge, Inc. 2002 Stock Option Plan (Incorporated herein by reference to exhibit C to our Definitive Proxy Statement on Schedule DEF 14A filed with the Securities Exchange Commission on June 17, 2002)
10.21	EpicEdge, Inc. Bonus Plan (Incorporated herein by reference to exhibit B to our Definitive Proxy Statement on Schedule DEF 14A filed with the Securities Exchange Commission on June 17, 2002)
10.22	Loan and Security Agreement, dated November 6, 2002, by and between the Company and Silicon Valley Bank (Incorporated herein by

Edgar Filing: EPICEDGE INC - Form 10QSB

reference to exhibit 10.22 to our Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Securities and Exchange Commission on March 31, 2003)

- 10.23 Loan Modification Agreement, dated January 9, 2003, by and between the Company and Silicon Valley Bank (Incorporated herein by reference to exhibit 10.23 to our Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Securities and Exchange Commission on March 31, 2003)
- 10.24 Consultant Agreement, dated January 10, 2003, by and between the Company and Eric Loeffel (Incorporated herein by reference to exhibit 10.25 to our Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Securities and Exchange Commission on March 31, 2003)
- 99.1(#) Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002
- 99.2(#) Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002
- 99.3(#) Certifications Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002

(#) Filed herewith.

A copy of any exhibit will be furnished (at a reasonable cost) to any of our shareholders upon receipt of a written request. Such request should be sent to EpicEdge, Inc. 5508 Two Ninety West, Suite 300 Austin, Texas 78735 Attention: Robert A. Jensen, Chief Operating Officer/Chief Financial Officer.

(b) Reports on Form 8-K

During the quarter ended March 31, 2003 and subsequently to date, EpicEdge has filed the following Current Reports on Form 8-K with the Securities and Exchange Commission:

- Form 8-K filed on January 3, 2003 announcing the appointment of a new chairman of the board.
- Form 8-K filed on February 13, 2003 announcing the resignation of the Chief Executive Officer.
- Form 8-K filed on March 7, 2003 announcing the delisting of common stock from American Stock Exchange.

Page 30

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EpicEdge, Inc.

Date: May 15, 2003

By/s/ Robert A. Jensen

Edgar Filing: EPICEDGE INC - Form 10QSB

Robert A. Jensen
Chief Operating Officer/
Chief Financial Officer

CERTIFICATIONS

I, Eric Loeffel, Chairman of the Board and Principal Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of EpicEdge, 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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (a) designed such disclosure controls and procedures 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) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect the internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Edgar Filing: EPICEDGE INC - Form 10QSB

Dated: May 15, 2003

/s/ Eric Loeffel
Eric Loeffel
Chairman of the Board

Page 31

I, Robert A. Jensen, Chief Financial Officer of the registrant, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of EpicEdge, 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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures 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) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect the internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material

Edgar Filing: EPICEDGE INC - Form 10QSB

weaknesses.

Dated: May 15, 2003

/s/ Robert A. Jensen
Robert A. Jensen
COO/CFO/Secretary

Page 32

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
2.1	Exchange Agreement, dated December 31, 1998, by and between Loch Exploration, Inc., Loch Energy, Inc., Design Automation Systems, Inc. and Carl Rose (Incorporated herein by reference to exhibit 2.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 15, 1999)
2.2	Amendment to Exchange Agreement, dated January 27, 1999, effective December 31, 1998, by and between Loch Exploration, Inc., Loch Energy, Inc., Design Automation Systems, Inc., Carl Rose, Glen Loch, Southport Capital Corporation, Carl R. Rose, Trustee, Charles Leaver and Kelly Knake (Incorporated herein by reference to exhibit 2.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 27, 1999)
2.3	Agreement and Plan of Merger, dated March 31, 1999, by and between Loch Exploration, Inc., the Shareholders of COAD Solutions, Inc. and COAD Solutions, Inc. (Incorporated herein by reference to exhibit 2.2 to our Annual Report on Form 10-KSB for the year ended December 31, 1998 filed with the Securities Exchange Commission on April 15, 1999)
2.4	Articles of Merger of Parent and Subsidiary between Loch Exploration, Inc. and Design Automation Systems, Inc. filed with the Texas Secretary of State on April 12, 1999 (Incorporated herein by reference to exhibit 2.4 to our Annual Report on Form 10-KSB for the year ended December 31, 1998 filed with the Securities Exchange Commission on April 15, 1999)
2.5	Agreement and Plan of Merger, dated May 1999, by and between Design Automation Systems, Inc., Dynamic Professional Services, L.L.C. and COAD Solutions, Inc. (Incorporated herein by reference to exhibit 2.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 14, 1999)
2.6	Agreement and Plan of Merger, dated July 30, 1999, by and between Design Automation Systems, Inc., Connected Software Solutions, Inc., COAD Solutions, Inc., Roger Barnes and Lance Dunbar (Incorporated herein by reference to exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on August 11, 1999)
2.7	Purchase and Sale Agreement, dated October 29, 1999, by and between

Edgar Filing: EPICEDGE INC - Form 10QSB

Design Automation Systems, Inc., COAD Solutions, Inc. and Net Information Systems, Inc. (Incorporated herein by reference to exhibit 2.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on December 14, 1999)

- 2.8 Agreement and Plan of Merger, dated February 29, 2000, by and between Design Automation Systems, Inc., EACQ, LLC, The Growth Strategy Group, Inc., Peter Davis, Jean Albert and Michael McCahey (Incorporated herein by reference to exhibit 2.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2000)

- 2.9 Agreement and Plan of Merger, dated June 6, 2000, by and between the Company, IPS Associates, Inc., EDG Acquisition Corporation, William Kern, Isabelle Soares, Peter Heinrich and William Johnson (Incorporated herein by reference to exhibit 2.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 14, 2000)

- 2.10 Amendment to Agreement and Plan of Merger, dated June 30, 2000, by and between the Company, IPS Associates, Inc., EDG Acquisition Corporation, William Kern, Isabelle Soares, Peter Heinrich and William Johnson (Incorporated herein by reference to exhibit 2.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 14, 2000)

- 2.11 Asset Purchase Agreement, dated July 19, 2000, by and between the Company, Tumble Interactive Media, Inc. and Charles C. Vornberger (Incorporated herein by reference to exhibit 2.11 to our Quarterly Report on Form 10-QSB for the quarter ended September 30, 2000 filed with the Securities and Exchange Commission on November 21, 2000)

- 2.12 Stock Purchase Agreement, dated January 1, 2001, by and between the Company, RED & BLUE, INC. and IPS Associates, Inc. Employee Stock Ownership Plan for the sale of all the outstanding stock of IPS Associates, Inc. (Incorporated herein by reference to exhibit 99.1 to our Current Report on Form 8-K filed

Page 33

EXHIBIT NUMBER	DESCRIPTION
	with the Securities and Exchange Commission on March 5, 2001)
3.1(#)	Second Restated Articles of Incorporation filed with the Texas Secretary of State on April 2, 2003
3.2	Second Amended and Restated Bylaws (Incorporated herein by reference to exhibit 3.7 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 filed with the Securities and Exchange Commission on May 20, 2002)
4.1	Specimen Common Stock Certificate (Incorporated herein by reference to exhibit 4.1 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)

Edgar Filing: EPICEDGE INC - Form 10QSB

- 4.2 Specimen Series A Convertible Preferred Stock Certificate (Incorporated herein by reference to exhibit 4.2 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 4.3 Specimen Series B Convertible Preferred Stock Certificate (Incorporated herein by reference to exhibit 4.3 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 4.4 Common Stock Warrant Purchase Agreement, dated December 29, 1999, by and between the Company and FINOVA Capital Corporation (Incorporated herein by reference to exhibit 10.29 to our Quarterly Report on Form 10-QSB for the quarter ended September 30, 2000 filed with the Securities and Exchange Commission on November 21, 2000)
- 4.5 Common Stock Purchase Warrant issued by the Company to FINOVA Capital Corporation on December 29, 1999 (Incorporated herein by reference to exhibit 10.30 to our Quarterly Report on Form 10-QSB for the quarter ended September 30, 2000 filed with the Securities and Exchange Commission on November 21, 2000)
- 4.6 Stock Purchase Agreement, dated February 18, 2000, by and between Design Automation Systems, Inc., Edgewater Private Equity Fund III, L.P., Aspen Finance Investors I, LLC, Fleck T.I.M.E. Fund, LP, Fleck Family Partnership II, LP, LJH Partners LP, Wain Investment, LLC, Gerald C. Allen, and John Paul DeJoria (Incorporated herein by reference to exhibit 4.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2000)
- 4.7 Registration Agreement, dated February 18, 2000, by and between Design Automation Systems, Inc., Edgewater Private Equity Fund III, L.P., Aspen Finance Investors I, LLC, Fleck T.I.M.E. Fund, LP, Fleck Family Partnership II, LP, LJH Partners LP, Wain Investment, LLC, Gerald C. Allen, and John Paul DeJoria (Incorporated herein by reference to exhibit 4.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2000)
- 4.8 Warrant Certificate issued by Design Automation Systems, Inc. to Aspen Finance Group on February 18, 2000 (Incorporated herein by reference to exhibit 4.6 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.9 Form of Warrant issued by Design Automation Systems, Inc. to Robert Maddocks for 25,000 shares of our Common Stock and to Robert Heller for 15,000 shares of our Common Stock on March 20, 2000 (Incorporated herein by reference to exhibit 4.7 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.10 Warrant to Purchase Common Stock issued by the Company to Reliant Energy, Inc. on April 30, 2000 (Incorporated herein by reference to exhibit 4.8 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.11 Warrant issued by the Company to Nicholas L. Reding on May 25, 2000 (Incorporated herein by reference to exhibit 4.9 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)

Edgar Filing: EPICEDGE INC - Form 10QSB

- 4.12 Amended and Restated Shareholders' Agreement, dated July 21, 2000, by and between the Company, Carl Rose, Charles Leaver, Jeff Sexton, Kelly Knake, Edgewater Private Equity Fund III, L.P., Aspen Finance Investors I, LLC, Fleck T.I.M.E. Fund, LP, Fleck Family Partnership II, LP, LJH Partners LP, Wain Investment, LLC, Gerald C. Allen and John Paul DeJoria (Incorporated herein by reference to exhibit 4.41 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 filed with the Securities and Exchange Commission on May 20, 2002)
- 4.13 Stock Purchase Agreement, dated September 29, 2000, by and between the Company, Edgewater Private Equity Fund III, L.P. and Fleck T.I.M.E. Fund, LP (Incorporated herein by reference to exhibit 99.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on October 16, 2000)
- 4.14 Shareholders' Agreement, dated September 29, 2000, by and between the Company, Carl Rose, Charles Leaver, Jeff Sexton, Edgewater Private Equity Fund III, L.P., Aspen Finance Investors I, LLC, Fleck T.I.M.E. Fund, LP and Fleck Family Partnership II, LP (Incorporated herein by reference to exhibit 99.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on October 16, 2000)
- 4.15 Registration Agreement, dated September 29, 2000, by and between the Company, Edgewater Private Equity Fund III, L.P. and Fleck T.I.M.E. Fund, LP (Incorporated herein by reference to exhibit 99.4 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on October 16, 2000)
- 4.16 Amendment to Registration Agreement, dated April 16, 2002, by and between the Company, Edgewater Private Equity Fund III, L.P. and Fleck T.I.M.E. Fund, LP (Incorporated herein by reference to exhibit 4.32 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.17(#) Amendment to Registration Agreement, dated April 4, 2003, by and between the Company, Edgewater

Page 34

EXHIBIT
NUMBER

DESCRIPTION

-
- Private Equity Fund III, L.P.
- 4.18 Form of Convertible Note issued by the Company to Carl Rose on November 1, 2000 for a principal amount of \$500,000 and on November 7, 2000 for a principal amount of \$400,000 (Incorporated herein by reference to exhibit 4.13 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.19 Form of Amendments to Convertible Notes, dated August 31, 2001, by and between the Company and Carl Rose, amending the notes issued by the Company to Carl Rose on November 1, 2000 for a principal amount

Edgar Filing: EPICEDGE INC - Form 10QSB

of \$500,000 and on November 7, 2000 for a principal amount of \$400,000 (Incorporated herein by reference to exhibit 4.14 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)

- 4.20 Form of Amendments to Promissory Notes, dated April 16, 2002, by and between the Company and Carl Rose, amending the notes issued by the Company to Carl Rose on November 1, 2000 for a principal amount of \$500,000 and on November 7, 2000 for a principal amount of \$400,000 (Incorporated herein by reference to exhibit 4.39 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.21 Settlement Agreement, dated April 15, 2002, by and between the Company, Richard Carter, Sam DiPaola, Carl Rose and Bahram Nour-Omid (Incorporated herein by reference to exhibit 4.26 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 4.22 Form of Warrant issued by the Company to Bahram Nour-Omid for 1,000,000 shares of our Common Stock (Incorporated herein by reference to exhibit 4.10 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.23 Warrant Agreement issued by the Company to Brewer & Pritchard, P.C. on May 15, 2001 (Incorporated herein by reference to exhibit 4.12 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.24 Form of Warrant issued by the Company to each of Panna Sharma and Eric Loeffel, each for 30,000 shares of our Common Stock, on July 31, 2001 and to John A. Svahn for 30,000 shares of our Common Stock in November 2001 (Incorporated herein by reference to exhibit 4.11 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.25 Subordination Agreement, dated February 19, 2002, by and between Edgewater Private Equity Fund III, L.P. and MRA Systems, Inc., d/b/a GE Access (Incorporated herein by reference to exhibit 4.18 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.26 Security Agreement, dated February 19, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 4.19 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.27 First Amendment to Security Agreement, dated March 5, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 4.22 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.28 Trademark and License Security Agreement, dated February 19, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 4.20 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)

Edgar Filing: EPICEDGE INC - Form 10QSB

- 4.29 First Amendment to Trademark and License Security Agreement, dated March 5, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 4.23 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.30 Note and Preferred Stock Purchase Agreement, dated April 16, 2002, by and between the Company, Edgewater Private Equity Fund III, L.P., Fleck T.I.M.E. Fund, LP, John Paul DeJoria and Patrick Loche (Incorporated herein by reference to exhibit 4.27 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.31 Amendment No. 1 to The Note and Preferred Stock Purchase Agreement, dated April 29, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 10.53 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed with the Securities and Exchange Commission on August 14, 2002)
- 4.32 Amendment No. 2 to The Note and Preferred Stock Purchase Agreement, dated June 14, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 10.54 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed with the Securities and Exchange Commission on August 14, 2002)
- 4.33 Amendment No. 3 to The Note and Preferred Stock Purchase Agreement, dated July 18, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 10.55 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed with the Securities and Exchange Commission on August 14, 2002)
- 4.34 Amendment No. 4 to The Note and Preferred Stock Purchase Agreement, dated July 31, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to

Page 35

EXHIBIT
NUMBER

DESCRIPTION

-
- exhibit 10.56 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed with the Securities and Exchange Commission on August 14, 2002)
- 4.35 Amendment No. 5 to The Note and Preferred Stock Purchase Agreement, dated August 21, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 4.41 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 4.36 Amendment No. 6 to The Note and Preferred Stock Purchase Agreement, dated October 22, 2002, by and between the Company and Edgewater

Edgar Filing: EPICEDGE INC - Form 10QSB

Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 4.42 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)

- 4.37 Amendment No. 7 to The Note and Preferred Stock Purchase Agreement, dated November 1, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 4.43 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 4.38(##) Amendment No. 8 to The Note and Preferred Stock Purchase Agreement, dated April 4, 2003, by and between the Company and Edgewater Private Equity Fund III, L.P.
- 4.39(##) Substitute Secured Convertible Promissory Note, dated April 4, 2003 issued by the Company to Edgewater Private Equity Fund III, L.P. for a principal amount of \$2,000,000
- 4.40 Security Agreement, dated April 16, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P., on behalf of itself and certain other lenders (Incorporated herein by reference to exhibit 4.29 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.41 First Amendment to Security Agreement, dated April 29, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P., on behalf of itself and certain other lenders (Incorporated herein by reference to exhibit 4.47 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 4.42(##) Second Amendment to Security Agreement, dated April 4, 2003, by and between the Company and Edgewater Private Equity Fund III, L.P., on behalf of itself and certain other
- 4.43 Subordination Agreement, dated April 16, 2002, by and between Edgewater Private Equity Fund III, L.P. and MRA Systems, Inc., d/b/a GE Access (Incorporated herein by reference to exhibit 4.30 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.44 Trademark and License Security Agreement, dated April 16, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P., on behalf of itself and certain other lenders (Incorporated herein by reference to exhibit 4.31 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.45 First Amendment to Trademark and License Security Agreement, dated April 29, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P., on behalf of itself and certain other lenders (Incorporated herein by reference to exhibit 4.50 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 4.46(##) Second Amendment to Trademark and License Security Agreement, dated April 4, 2003, by and between the Company and Edgewater Private Equity Fund III, L.P., on behalf of itself and certain other lenders

Edgar Filing: EPICEDGE INC - Form 10QSB

- 4.47 Waiver Letter, dated April 16, 2002, by and between the Company, Edgewater Private Equity Fund III, L.P., Fleck T.I.M.E. Fund, LP and certain other parties (Incorporated herein by reference to exhibit 4.33 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.48 Termination Agreement, dated April 16, 2002, by and between the Company, Carl Rose, Charles Leaver, Jeff Sexton, Edgewater Private Equity Fund III, L.P., Aspen Finance Investors I, LLC, Fleck T.I.M.E. Fund, LP, and Fleck Family Partnership II, LP (Incorporated herein by reference to exhibit 4.34 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.49 Voting Agreement, dated April 16, 2002, by and between Carl Rose, Jenta Rose, Charles Leaver, Kelly Knake, Gerald Allen, John Paul DeJoria, Edgewater Private Equity Fund III, L.P., and Fleck T.I.M.E. Fund, LP (Incorporated herein by reference to exhibit 4.40 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 4.50 Waiver Letter, dated November 11, 2002, by and between the Company and Edgewater Private Equity Fund III, L.P. (Incorporated herein by reference to exhibit 4.60 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 4.51 (#) Series B-1 Preferred Stock Purchase Warrant, dated April 4, 2003, issued by the Company to Edgewater Private Equity Fund III, L.P. to purchase 1,333,333 shares of Series B-1 Preferred Stock
- 4.52 (#) Series B-1 Preferred Stock Purchase Warrant, dated April 4, 2003, issued by the Company to Edgewater Private Equity Fund III, L.P. to purchase 200,000 shares of Series B-1 Preferred Stock
- 10.1 Design Automation Systems Incorporated 1999 Stock Option Plan (Incorporated herein by reference to exhibit B to our Definitive Proxy Statement on Schedule 14C filed with the Securities and Exchange Commission on March 9, 1999)

Page 36

EXHIBIT
NUMBER

DESCRIPTION

-
- 10.2 EpicEdge, Inc. 2000 Employee Stock Purchase Plan (Incorporated herein by reference to exhibit C to our Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 28, 2000)
- 10.3 Seattle Design Center Lease, dated March 23, 2000, by and between the Company and Bay West Design Center, LLC (Incorporated herein by reference to exhibit 10.38 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)

Edgar Filing: EPICEDGE INC - Form 10QSB

- 10.4 Microsystem Products Purchase Agreement, dated February 29, 2000, by and between the Company and MRA Systems, Inc., d/b/a GE Access (Incorporated herein by reference to exhibit 10.13 to our Annual Report on Form 10-KSB for the year ended December 31, 1999 filed with the Securities and Exchange Commission on March 30, 2000)
- 10.5 Office Lease Agreement, dated October 4, 2000, by and between the Company and ASC Management, Inc., as revised on September 14, 2001 and as modified on September 18, 2001 and again on March 28, 2002 for office space in Austin, Texas (Incorporated herein by reference to exhibit 10.39 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 10.6 Form of Consent to Settlement of Claim (Incorporated herein by reference to exhibit 10.32 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 filed with the Securities and Exchange Commission on August 28, 2001)
- 10.7 Employment Agreement, dated June 1, 1999, by and between COAD Solutions, Inc. and Richard Carter (Incorporated herein by reference to exhibit 10.42 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 10.8 First Amendment to Employment Agreement, dated April 16, 2002, by and between the Company and Richard Carter (Incorporated herein by reference to exhibit 10.48 to Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 30, 2002)
- 10.9 Employment Agreement, dated June 1, 1999, by and between COAD Solutions, Inc. and Robert Cohan (Incorporated herein by reference to exhibit 10.43 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 10.10 First Amendment to Employment Agreement, dated April 16, 2002, by and between the Company and Robert Cohan (Incorporated herein by reference to exhibit 10.49 to Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 30, 2002)
- 10.11 Employment Agreement, dated November 30, 1999, by and between COAD Solutions, Inc. and Mark Slosberg (Incorporated herein by reference to exhibit 10.44 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 10.12 First Amendment to Employment Agreement, dated April 16, 2002, by and between the Company and Mark Slosberg (Incorporated herein by reference to exhibit 10.50 to Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 30, 2002)
- 10.13 Employment Agreement, dated April 15, 2000, by and between the Company and Sam DiPaola (Incorporated herein by reference to exhibit 10.45 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)

Edgar Filing: EPICEDGE INC - Form 10QSB

- 10.14 First Amendment to Employment Agreement, dated April 16, 2002, by and between the Company and Sam DiPaola (Incorporated herein by reference to exhibit 10.51 to Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 30, 2002)
- 10.15 Employment Agreement, dated February 28, 2000, by and between Design Automation Systems, Inc. and Peter Davis (Incorporated herein by reference to exhibit 10.46 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 17, 2002)
- 10.16 First Amendment to Employment Agreement, dated April 16, 2002, by and between the Company and Peter Davis (Incorporated herein by reference to exhibit 10.52 to Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 30, 2002)
- 10.17 Employment Agreement, dated April 16, 2002, by and between the Company and Peter B. Covert (Incorporated herein by reference to exhibit 10.47 to Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission on April 30, 2002)
- 10.18 Employment Agreement, dated June 17, 2002 by and between the Company and Robert A. Jensen (Incorporated herein by reference to exhibit 10.21 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
- 10.19 Form of Indemnification Agreement, by and between the Company and each of its directors (Eric Loeffel, Richard Carter, Mark McManigal, Panna Sharma and John A. Svahn) and by and between the Company and each of its executive officers (Robert A Jensen, Sam DiPaola, Peter Covert, Peter Davis, Mark Slosberg and Robert Cohan) (Incorporated herein by reference to exhibit 10.57 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed with the Securities and Exchange Commission on August 14, 2002)

Page 37

EXHIBIT NUMBER	DESCRIPTION
10.20	EpicEdge, Inc. 2002 Stock Option Plan (Incorporated herein by reference to exhibit C to our Definitive Proxy Statement on Schedule DEF 14A filed with the Securities Exchange Commission on June 17, 2002)
10.21	EpicEdge, Inc. Bonus Plan (Incorporated herein by reference to exhibit B to our Definitive Proxy Statement on Schedule DEF 14A filed with the Securities Exchange Commission on June 17, 2002)
10.22	Loan and Security Agreement, dated November 6, 2002, by and between the Company and Silicon Valley Bank (Incorporated herein by reference to exhibit 10.22 to our Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Securities and Exchange

Edgar Filing: EPICEDGE INC - Form 10QSB

Commission on March 31, 2003)

- 10.23 Loan Modification Agreement, dated January 9, 2003, by and between the Company and Silicon Valley Bank (Incorporated herein by reference to exhibit 10.23 to our Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Securities and Exchange Commission on March 31, 2003)
- 10.24 Consultant Agreement, dated January 10, 2003, by and between the Company and Eric Loeffel (Incorporated herein by reference to exhibit 10.25 to our Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Securities and Exchange Commission on March 31, 2003)
- 99.1(#) Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002
- 99.2(#) Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002
- 99.3(#) Certifications Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002

(#) Filed herewith.

A copy of any exhibit will be furnished (at a reasonable cost) to any of our shareholders upon receipt of a written request. Such request should be sent to EpicEdge, Inc. 5508 Two Ninety West, Suite 300 Austin, Texas 78735 Attention: Robert A. Jensen, Chief Operating Officer/Chief Financial Officer.

Page 38