

CAPTARIS INC
Form 10-Q
November 14, 2002
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2002

or

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

For the transition period from _____ to _____.
Commission File Number 0-25186

CAPTARIS, INC.

(Name of Registrant as Specified in Its Charter)

Washington
(State of incorporation)

91-1190085
(I.R.S. Employer Identification Number)

11410 NE 122nd Way
Kirkland, WA 98034
(Address of principal executive offices)

Registrant's telephone number, including area code: (425) 820-6000

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

The number of outstanding shares of the Registrant's Common Stock as of October 25, 2002 was 31,888,465.

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As reported in Captaris Inc.'s (the Company) Quarterly report on Form 10-Q for the quarterly period ended June 30, 2002 filed on August 19, 2002, and as further discussed in Note 14 to the accompanying unaudited condensed consolidated financial statements, the Company has determined, after consultation with its new independent auditor, that it must restate (1) its consolidated financial statements for the year ended December 31, 2001 and (2) its unaudited condensed consolidated financial statements for the quarterly period ended March 31, 2002 and for each quarterly period during the year ended December 31, 2001. The restatement results from a deferred tax liability related to identified intangible assets associated with the acquisition of Infinite Technologies in January 2001.

As a result of the Company's restatement of its consolidated financial statements for the year ended December 31, 2001, the Company has engaged its independent auditors to reaudit those financial statements. Upon completion of the audit, the Company expects to amend its Annual Report on Form 10-K for the year ended December 31, 2001, its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002 and any other Quarterly Report on Form 10-Q that the Company determines must be amended.

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FORM 10-Q
For the Quarter Ended September 30, 2002

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(Unaudited)**

	September 30, 2002	December 31, 2001 (as restated see Note 14)
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,540	\$ 12,726
Short-term investments, available for sale	61,105	64,446
Accounts receivable, net	15,967	14,597
Inventories	5,175	5,022
Deferred and prepaid income taxes	8,037	8,267
Prepaid expenses and other assets	1,591	1,304
	<u>100,415</u>	<u>106,362</u>
Total current assets	100,415	106,362
Equipment and leasehold improvements, net	6,636	7,463
Goodwill, net	8,941	12,104
Intangibles and other assets, net	2,923	9,632
Deferred income taxes	2,705	2,769
Restricted cash	1,000	
	<u>\$ 122,620</u>	<u>\$ 138,330</u>
Total assets	\$ 122,620	\$ 138,330
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 5,105	\$ 4,941
Accrued compensation and benefits	5,236	7,985
Deferred revenue	8,076	7,433
Other accrued liabilities	4,077	3,356
Current portion of note payable		527
	<u>22,494</u>	<u>24,242</u>
Total current liabilities	22,494	24,242
Deferred income taxes	1,366	3,301
Note payable, net of current portion		882
	<u>23,860</u>	<u>28,425</u>
Total liabilities	23,860	28,425
Shareholders' equity:		
Preferred stock, par value \$.01 per share, 2,000,000 authorized; none outstanding		
Common stock, par value \$.01 per share, 120,000,000 authorized; 31,884,465 and 31,746,067 shares outstanding, respectively, and additional paid-in capital	63,913	66,260
Retained earnings	35,351	44,173
Accumulated other comprehensive loss	(504)	(528)
	<u>98,760</u>	<u>109,905</u>
Total shareholders' equity	98,760	109,905

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Total liabilities and shareholders' equity	<u>\$ 122,620</u>	<u>\$ 138,330</u>
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See accompanying notes to unaudited condensed consolidated financial statements.

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(Unaudited)

	Quarter ended September 30,		Nine months ended September 30,	
	2002	2001 (as restated see Note 14)	2002	2001 (as restated see Note 14)
(in thousands, except per share data)				
Net sales	\$ 23,087	\$ 23,737	\$ 67,378	\$ 67,714
Cost of sales	8,920	9,174	25,268	25,549
Gross profit	14,167	14,563	42,110	42,165
Operating expenses:				
Research and development	3,088	3,408	8,535	10,911
Sales, general and administrative	11,659	14,898	37,112	45,330
Stock compensation	(633)		(1,247)	
Impairment of intangible assets			5,529	
Non-recurring charges			2,994	2,942
Total operating expenses	14,114	18,306	52,923	59,183
Operating income (loss)	53	(3,743)	(10,813)	(17,018)
Other income, net	506	771	1,388	2,586
Income (loss) before income taxes and cumulative effect of change in accounting principle	559	(2,972)	(9,425)	(14,432)
Income tax expense (benefit)	196	(891)	(3,298)	(4,902)
Income (loss) before cumulative effect of change in accounting principal	363	(2,081)	(6,127)	(9,530)
Cumulative effect of change in accounting principle			(2,695)	
Net income (loss)	\$ 363	\$ (2,081)	\$ (8,822)	\$ (9,530)
Net income (loss) per common share, basic and diluted:				
Prior to cumulative effect of change in accounting principle	\$ 0.01	\$ (0.06)	\$ (0.19)	\$ (0.30)
Cumulative effect of change in accounting principle			(0.09)	
Net income (loss) per common share, basic and diluted	\$ 0.01	\$ (0.06)	\$ (0.28)	\$ (0.30)
Weighted average common shares outstanding, basic	31,914	32,075	31,876	32,137
Weighted average common shares outstanding, diluted	32,047	32,075	31,876	32,137

See accompanying notes to unaudited condensed consolidated financial statements.

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(Unaudited)**

	Nine months ended September 30,	
	2002	2001 (as restated see Note 14)
	(in thousands)	
Cash flows from operating activities:		
Net loss	\$ (8,822)	\$ (9,530)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,032	5,902
Loss on disposal of assets	353	
Deferred income taxes	(1,935)	3,333
Stock compensation	(1,247)	
Purchased in-process research and development, expensed		1,900
Impairment of intangibles	5,529	
Cumulative effect of change in accounting principle	2,695	
Changes in assets and liabilities, net of amounts acquired:		
Accounts receivable	(1,370)	1,420
Inventories	(127)	458
Prepaid income taxes	294	(3,795)
Prepaid expenses and other assets	(273)	