

CAPTARIS INC
Form 10-Q
August 19, 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 June 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 July 31, 2002 was 31,910,480.

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As further discussed in Note 12 to the accompanying unaudited condensed consolidated financial statements, Captaris, Inc. (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.

As a result of the Company's restatement of its consolidated financial statements for the year ended December 31, 2001, the Company intends to engage its independent auditor 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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For the Quarter Ended June 30, 2002

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(Unaudited)**

	June 30, 2002	December 31, 2001 (as restated see Note 12)
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,658	\$ 12,726
Short-term investments, available for sale	64,332	64,446
Accounts receivable, net	14,303	14,597
Inventories	5,881	5,022
Deferred and prepaid income taxes	7,698	8,267
Prepaid expenses and other assets	1,632	1,304
	<u>103,504</u>	<u>106,362</u>
Total current assets	103,504	106,362
Equipment and leasehold improvements, net	6,198	7,463
Goodwill, net	8,374	12,104
Intangibles and other assets, net	3,230	9,632
Deferred income taxes	3,203	2,769
	<u>124,509</u>	<u>138,330</u>
Total assets	\$ 124,509	\$ 138,330
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 5,175	\$ 4,941
Accrued compensation and benefits	5,917	7,985
Deferred revenue	8,959	7,433
Other accrued liabilities	4,008	3,356
Current portion of note payable		527
	<u>24,059</u>	<u>24,242</u>
Total current liabilities	24,059	24,242
Deferred tax liability	1,366	3,301
Note payable, net of current portion		882
	<u>25,425</u>	<u>28,425</u>
Total liabilities	25,425	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; 31,907,848 and 31,746,067 shares outstanding, respectively, and additional paid-in capital	64,578	66,260
Retained earnings	34,990	44,173

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Accumulated other comprehensive loss	(484)	(528)
Total shareholders' equity	99,084	109,905
Total liabilities and shareholders' equity	\$ 124,509	\$ 138,330

See accompanying notes to unaudited condensed consolidated financial statements.

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(Unaudited)**

	Quarter ended June 30,		Six months ended June 30,	
	2002	2001 (as restated see Note 12)	2002	2001 (as restated see Note 12)
(in thousands, except per share data)				
Net sales	\$ 22,748	\$ 23,550	\$ 44,291	\$ 43,977
Cost of sales	8,184	9,026	16,348	16,375
Gross profit	14,564	14,524	27,943	27,602
Operating expenses:				
Research and development	2,749	4,113	5,447	7,503
Sales, general and administrative	12,970	15,100	25,452	30,435
Stock compensation	(410)		(614)	
Impairment of intangible assets	5,529		5,529	
Non-recurring charges			2,994	2,942
Total operating expenses	20,838	19,213	38,808	40,880
Operating loss	(6,274)	(4,689)	(10,865)	(13,278)
Other income, net	508	952	882	1,817
Loss before income taxes and cumulative effect of change in accounting principle	(5,766)	(3,737)	(9,983)	(11,461)
Income tax benefit	(2,018)	(1,310)	(3,495)	(4,011)
Loss before cumulative effect of change in accounting principle	(3,748)	(2,427)	(6,488)	(7,450)
Cumulative effect of change in accounting principle			(2,695)	
Net loss	\$ (3,748)	\$ (2,427)	\$ (9,183)	\$ (7,450)
Net loss per common share, basic and diluted:				
Prior to cumulative effect of change in accounting principle	\$ (0.12)	\$ (0.08)	\$ (0.20)	\$ (0.23)
Cumulative effect of change in accounting principle			(0.09)	
Net loss per common share, basic and diluted	\$ (0.12)	\$ (0.08)	\$ (0.29)	\$ (0.23)
Weighted average common shares outstanding, basic and diluted	31,890	32,104	31,858	32,168

See accompanying notes to unaudited condensed consolidated financial statements.

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(Unaudited)

	Six months ended June 30,	
	2002	2001 (as restated see Note 12)
	(in thousands)	
Cash flows from operating activities:		
Net loss	\$ (9,183)	\$ (7,450)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,859	3,669
Loss on disposal of assets	353	
Deferred income taxes	(2,369)	(3,028)
Stock compensation	(614)	
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	294	3,998
Inventories	(859)	607
Prepaid income taxes	569	
Prepaid expenses and other assets	(328)	(428)
Accounts payable	234	(2,070)