

CAPTARIS INC
Form 10-Q
May 08, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

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)

10885 N.E. 4th Street, Suite 400
Bellevue, WA
(Address of Principal Executive Offices)

98004
(Zip Code)

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Registrant's telephone number, including area code: (425) 455-6000

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 ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

The number of outstanding shares of the registrant's common stock as of April 30, 2007 was 27,263,239.

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For the Quarter Ended March 31, 2007

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CAPTARIS, INC.

Forward-Looking Statements

This Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, plan, intend, anticipate, believe, estimate, predict, potential, continue, could, future, or similar terms or other terminology. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors that may cause our actual results to differ materially from any forward-looking statements. Factors that could affect Captaris's actual results include, without limitation:

Quarterly and seasonal fluctuations in operating results, which may negatively impact the trading price of our common stock.

Our inability to compete successfully against current and future competitors.

Our inability to meet technology and customer demands in a rapidly changing industry.

Our inability to integrate recent and future acquisitions.

Our inability to obtain fax processing circuit boards, a key component of our RightFax product, on acceptable terms, which may be affected by significant changes in technology, issues regarding quality performance, delays, interruptions or reductions in our supply, or unfavorable changes to price and delivery terms.

Our inability to maintain or expand our network of resellers, distributors and Information Technology (IT) service providers.

Our inability to establish and maintain Original Equipment Manufacturers (OEM) and strategic relationships.

Our inability to maintain and expand our international operations, which are subject to numerous risks, including, difficulty in adapting products to local languages and technologies, regulatory requirements, exchange rate fluctuations, restrictive governmental actions, import/export licensing requirements, limits on the repatriation of funds, longer receivables cycles, staffing/managing international operations, adverse tax consequences and changing local and international environments.

Our inability to affect and forestall potential declines in the average sales prices on our products which could cause our overall gross margins to decline.

Our inability to protect our proprietary rights or to operate without infringing the patents and proprietary rights of others.

Ongoing litigation matters and disputes, including litigation related to the Telephone Consumer Protection Act (as further described under Legal Proceedings in this report).

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Our inability to protect against security breaches and exposure of confidential data, which if breached could subject us to litigation, liability and decreased market acceptance of our products.

Our inability to attract and retain qualified employees.

More information about factors that potentially could affect Captaris' s financial results is included under Item 1A "Risk Factors" in our most recent Annual Report on Form 10-K and in other Quarterly Reports on Form 10-Q filed by us with the Securities and Exchange Commission ("SEC"). Readers are cautioned not to place undue reliance upon these forward-looking statements that speak only as to the date of this report. Except as required by law, Captaris undertakes no obligation to update any forward-looking or other statements in this report whether as a result of new information, future events or otherwise.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****CAPTARIS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except per share amounts)****(unaudited)**

	March 31,	December 31,
	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,389	\$ 10,695
Short-term investments, available-for-sale	5,448	7,084
Accounts receivable, net	19,881	21,347
Inventories, net	600	961
Prepaid expenses and other assets	3,370	2,971
Income tax receivable and deferred tax assets, net	2,600	3,052
Total current assets	39,288	46,110
Long-term investments, available-for-sale	46,066	41,584
Restricted cash	1,000	1,000
Other long-term assets	313	303
Equipment and leasehold improvements, net	5,412	4,340
Intangible assets, net	5,947	6,570
Goodwill	32,292	32,199
Deferred tax assets, net	4,721	3,842
Total assets	\$ 135,039	\$ 135,948
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,877	\$ 5,308
Accrued compensation and benefits	3,634	4,522
Other accrued liabilities	1,714	1,920
Income taxes payable	148	192
Deferred revenue	21,652	20,328
Total current liabilities	32,025	32,720
Accrued liabilities - noncurrent	624	307
Deferred revenue - noncurrent	6,146	5,544
Total liabilities	38,795	38,121
Commitments and contingencies		

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Shareholders' equity:

Preferred stock, par value \$0.01 per share, 2,000 shares authorized; none issued and outstanding

Common stock, par value \$0.01 per share, 120,000 shares authorized; 27,359 and 27,556 issued and outstanding, respectively

	273	275
Additional paid-in capital	45,306	46,614
Retained earnings	49,472	49,790
Accumulated other comprehensive income	1,193	1,148

Total shareholders' equity	96,244	97,827
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Total liabilities and shareholders' equity	\$ 135,039	\$ 135,948
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See the accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**CAPTARIS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share amounts)****(unaudited)**

	Quarter Ended	
	March 31,	
	2007	2006
Net revenue	\$ 20,513	\$ 19,573
Cost of revenue	6,258	5,653
Gross profit	14,255	13,920
Operating expenses:		
Research and development	3,186	3,169
Selling and marketing	8,278	7,297
General and administrative	4,716	4,308
Amortization of intangible assets	141	354
Gain on sale of discontinued product line CallXpress	(1,000)	(1,000)
Total operating expenses	15,321	14,128
Operating loss	(1,066)	(208)
Other income (expense):		
Interest income	575	472
Other income (expense), net	144	(22)
Other income	719	450
Income (loss) from continuing operations before income tax expense (benefit)	(347)	242
Income tax expense (benefit)	(84)	209
Income (loss) from continuing operations	(263)	33
Discontinued operations:		
Gain (loss) on sale of MediaTel assets, net of income tax expense (benefit) of (\$1) and \$31, respectively	(2)	48
Income (loss) from discontinued operations	(2)	48
Net income (loss)	\$ (265)	\$ 81
Basic net income (loss) per common share:		
Income (loss) from continuing operations	\$ (0.01)	\$ 0.00
Income (loss) from discontinued operations	(0.00)	0.00
Basic net income (loss)	\$ (0.01)	\$ 0.00

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Diluted net income (loss) per common share:

Income (loss) from continuing operations	\$ (0.01)	\$ 0.00
Income (loss) from discontinued operations	(0.00)	0.00

Diluted net income (loss)	\$ (0.01)	\$ 0.00
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Weighted average shares used in computation of:

Basic net income (loss) per share	27,476	28,347
Diluted net income (loss) per share	27,476	28,580

See the accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**CAPTARIS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	Three Months Ended	
	March 31,	
	2007	2006
Cash flows from operating activities:		
Net income (loss)	\$ (265)	\$ 81
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	726	847
Amortization	622	835
Stock-based compensation expense	195	91
Provision for doubtful accounts	49	59
(Gain) loss on disposition of assets	(46)	9
Changes in assets and liabilities:		
Accounts receivable, net	1,352	4,453
Inventories, net	362	(382)
Prepaid expenses and other assets	(401)	(426)
Income taxes receivable and deferred tax assets, net	(427)	254
Accounts payable	(778)	(298)
Accrued compensation and benefits	(882)	(907)
Other accrued liabilities	(243)	(169)
Income taxes payable	(39)	(339)
Deferred revenue	1,914	449
Net cash provided by operating activities	2,139	4,557
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements	(1,149)	(66)
Purchase of investments	(10,171)	(9,787)
Proceeds from disposals of assets	55	
Proceeds from sales and maturities of investments	7,328	8,632
Net cash used in investing activities	(3,937)	(1,221)
Cash flows from financing activities:		
Proceeds from exercise of common stock options	1,009	328
Repurchase of common stock	(2,649)	(884)
Excess tax benefits from stock-based compensation	135	215
Net cash used in financing activities	(1,505)	(341)
Net increase (decrease) in cash	(3,303)	2,995
Effect of exchange rate changes on cash	(3)	(15)
Cash and cash equivalents at beginning of period	10,695	6,420

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Cash and cash equivalents at end of period	\$ 7,389	\$ 9,400
Supplemental disclosures:		
Cash paid during the period for income taxes	\$ 199	\$ 74
Software acquired with three year payment terms:		
Fair value of software acquired	\$ 935	\$
Cash paid for the software	(301)	
Liabilities assumed	\$ 634	\$

See the accompanying notes to unaudited condensed consolidated financial statements.

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CAPTARIS, INC.

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(in thousands, except share amounts)

(unaudited)

	Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity	Total Comprehensive Income(loss)
Balance at December 31, 2006	27,555,847	\$ 275					