

Edgar Filing: BOUNDLESS CORP - Form 10-Q

BOUNDLESS CORP  
Form 10-Q  
November 14, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C.

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2002

Commission File Number 0-17977

BOUNDLESS CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other Jurisdiction of Incorporation or Organization)

13-3469637  
(I.R.S. Employer Identification No.)

100 Marcus Blvd.  
Hauppauge, NY  
(Address of principal executive offices)

11788  
(Zip Code)

(631) 342-7400  
(Registrant's telephone number, including area code)

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 ☐

As of September 30, 2002, the Registrant had approximately 6,705,613 shares of Common Stock, \$.01 par value per share outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets as of September 30, 2002 (unaudited) and December 31, 2001.....	3
Consolidated Statements of Operations (unaudited)	

# Edgar Filing: BOUNDLESS CORP - Form 10-Q

for the three and nine months ended September 30, 2002 and 2001.....	4
Consolidated Statements of Cash Flows (unaudited)	
for the nine months ended September 30, 2002 and 2001.....	5
Notes to Consolidated Financial Statements (unaudited).....	6

2 of 22

## BOUNDLESS CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands)

	September 30, 2002	December 31, 2002
	-----	-----
Current assets:	(unaudited)	
Cash and cash equivalents .....	\$ 177	\$ 25
Trade accounts receivable, net .....	3,815	10,053
Income tax refund .....	11	13
Inventories .....	3,108	8,073
Prepaid expenses and other		
Current assets .....	267	580
	-----	-----
Total current assets .....	7,378	18,744
Property and equipment, net .....	8,725	10,993
Goodwill, net .....	3,187	3,187
Other assets .....	614	291
	-----	-----
	\$ 19,904	\$ 33,215
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current portion of long-term debt .....	\$1,790	\$ 15,362
Accounts payable .....	7,042	15,355
Convertible notes payable .....	965	--
Accrued salaries .....	927	1,430
Accrued warranty .....	689	645
Accrued marketing programs .....	30	100
Other accrued current liabilities .....	2,113	2,015
Deferred revenue .....	250	310
	-----	-----
Total current liabilities .....	13,806	35,217
	-----	-----
Long-term liabilities:		
Long-term debt, less current maturities ...	9,181	833
Other .....	250	1,308
	-----	-----
Total long-term liabilities .....	9,431	2,141
	-----	-----
Total liabilities .....	23,237	37,358
	-----	-----
Mandatorily redeemable preferred stock .....	1,480	--
	-----	-----
Stockholders' deficit:		
Common stock .....	67	57
Additional paid-in capital .....	35,844	35,280

# Edgar Filing: BOUNDLESS CORP - Form 10-Q

Accumulated deficit .....	(40,712)	(39,339)
Accumulated other comprehensive loss .....	(12)	(141)
	-----	-----
Total stockholders' deficit .....	(4,813)	(4,143)
	-----	-----
	\$ 19,904	\$ 33,215
	=====	=====

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3 of 22

## BOUNDLESS CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (IN THOUSANDS, EXCEPT PER SHARE DATA)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2002	2001	2002	2001
	-----	-----	-----	-----
	(unaudited)		(unaudited)	
Revenue .....	\$ 21,930	\$ 45,960	\$ 5,186	\$ 18,074
Cost of revenue .....	21,749	40,901	5,211	15,605
	-----	-----	-----	-----
Gross margin (loss) .....	181	5,059	(25)	2,469
	-----	-----	-----	-----
Operating expenses:				
Sales and marketing .....	1,421	4,813	347	1,168
General and administrative .....	2,311	5,137	700	1,549
Research and development .....	815	1,080	264	327
Other (credits) charges .....	484	(2,097)	(64)	(332)
	-----	-----	-----	-----
Total operating expenses .....	5,031	8,933	1,247	2,712
	-----	-----	-----	-----
Operating (loss) .....	(4,850)	(3,874)	(1,272)	(243)
Interest expense, net .....	964	1,210	317	336
Net gain on the restructuring of payables .....	(4,515)	--	--	--
	-----	-----	-----	-----
Loss before income taxes .....	(1,299)	(5,084)	(1,589)	(579)
Income tax (credit) .....	--	(803)	--	(803)
Income (loss) before discontinued operations .....	(1,299)	(4,281)	(1,589)	224
	-----	-----	-----	-----
Loss from operations of discontinued subsidiary .....	--	(2,466)	--	--
Gain on disposal of subsidiary .....	--	316	--	316
	-----	-----	-----	-----
Gain (loss) from discontinued operations .....	--	(2,150)	--	316
	-----	-----	-----	-----
Net income (loss) .....	(1,299)	(6,431)	(1,589)	540
	-----	-----	-----	-----

# Edgar Filing: BOUNDLESS CORP - Form 10-Q

Accretion of preferred stock .....	74	--	74	--
Net income (loss) available				
to common stockholders .....	\$ (1,373)	\$ (6,431)	\$ (1,663)	\$ 540
	=====	=====	=====	=====
Weighted average common				
shares outstanding .....	6,365	5,022	6,488	5,087
	=====	=====	=====	=====
Basic net income (loss)				
per common share:				
Continuing operations .....	(0.22)	(0.85)	(0.26)	0.04
Discontinued operations .....	--	(0.43)	--	0.06
	=====	=====	=====	=====
Basic net income (loss)				
per common share .....	\$ (0.22)	\$ (1.28)	\$ (0.26)	\$ 0.10
	=====	=====	=====	=====
Weighted average dilutive				
shares outstanding .....	6,365	5,022	6,488	5,087
	=====	=====	=====	=====
Diluted net income				
(loss) per common share:				
Continuing operations .....	(0.22)	(0.85)	(0.26)	0.04
Discontinued operations - .....		(0.43)	--	0.06
	-----	-----	-----	-----
Diluted net income (loss)				
per common share .....	\$ (0.22)	\$ (1.28)	\$ (0.26)	\$ 0.10
	=====	=====	=====	=====

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4 OF 22

## BOUNDLESS CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands) For The Nine Months Ended September 30,

	2002 ----- (unaudited)	2001 ----- (unaudited)
Cash flows from operating activities:		
Net income (loss) .....	\$ (1,373)	\$ (6,431)
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
Loss from discontinued operations .....	--	2,150
Net (gain) on the restructuring of payables .....	(4,515)	--
Depreciation and amortization .....	1,332	2,708
Loss on the write down of debt financing costs .....	98	--
(Gain) loss on the disposition or writedown of assets .....	708	(1,475)
Deferred revenue .....	(60)	3
Provision for doubtful accounts .....	126	609
Provision (credit) for excess and obsolete inventory .....	(50)	97
Changes in assets and liabilities:		
Trade accounts receivable .....	6,113	(1,348)
Income tax refunds .....	2	7

# Edgar Filing: BOUNDLESS CORP - Form 10-Q

Inventories .....	5,014	607
Other assets .....	300	185
Accounts payable and accrued expenses .....	(2,756)	3,390
Net change in assets and liabilities of discontinued operations	--	(5,155)
	-----	-----
Net cash provided by (used in) operating activities .....	4,939	(4,653)
	-----	-----
Cash flows from investing activities:		
Capital expenditures .....	(124)	(337)
Proceeds from the sale of assets .....	440	1,600
	-----	-----
Net cash provided by investing activities .....	316	1,263
	-----	-----
Cash flows from financing activities:		
Net proceeds from issuance of debt .....	860	738
Payments on loans payable and capital leases .....	(6,199)	(2,208)
Proceeds from issuance of common stock .....	162	1,189
	-----	-----
Net cash (used in) financing activities .....	(5,177)	(281)
	-----	-----
Net increase (decrease) in cash and cash equivalents .....	78	(3,671)
Cash and cash equivalents at beginning of year .....	25	3,697
	-----	-----
Cash and cash equivalents at end of period .....	\$ 103	\$ 26
	=====	=====
Non-cash transactions:		
Equipment acquisitions funded through debt .....	\$ 16	\$ 267
Common stock issued in exchange for debt .....	412	
Manditorily redeemable preferred stock issued in exchange for debt	1,406	
Cash paid for:		
Interest .....	739	1,045
Taxes .....	5	16

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5 of 22

## BOUNDLESS CORPORATION AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in thousands) (unaudited)

### 1. Condensed Consolidated Financial Statements

#### Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information refer to the consolidated financial statements and footnotes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. These financial

## Edgar Filing: BOUNDLESS CORP - Form 10-Q

statements have been prepared assuming that the Company will continue as a going concern and, accordingly, do not include any adjustments that might result from the outcome of the uncertainties described herein. The audit opinion included in the December 31, 2001 Form 10-K annual report contained an explanatory paragraph regarding the Company's ability to continue as a going concern.

### 2. Background

Boundless Corporation (the "Company") was incorporated in 1988 under the laws of the State of Delaware. The Company through its subsidiaries- Boundless Technologies, Inc. ("Boundless Technologies") and Boundless Manufacturing Services, Inc. ("Boundless Manufacturing") - is a provider of text terminals and manufacturing services.

Boundless Technologies, a wholly-owned subsidiary, is engaged in supplying computer terminals for commercial use. The Company's general strategy is to provide fast, easy-to-use, and cost-effective products that enable access to applications and data in commercial environments, including Windows-based applications, as well as older "legacy" applications, running on mainframes, mid-range, and Unix systems.

Boundless Technologies principally designs, sells and supports desktop computer display terminals, which generally do not have graphics capabilities, ("General Display Terminals and other products that are used in multi-user computing environments. Boundless Technologies offers standard and custom models of its General Display Terminals primarily to retail, financial, telecommunications and wholesale distribution businesses requiring them for data entry and point of sale activities.

Boundless Manufacturing is pursuing opportunities in the electronic manufacturing services ("EMS") marketplace. As of September 30, 2002, the Company owned approximately 75% of the outstanding shares of common stock of this subsidiary. Boundless Manufacturing is utilizing the Company's state-of-the-art ISO 9002 certified manufacturing facilities in Hauppauge, NY, and may acquire additional manufacturing facilities as the business expands. Services include supply chain optimization, global supply base management, PCBA assembly and test, systems assembly and test, distribution and logistics, repair centers and end-of-life management. Boundless Manufacturing also offers in-house engineering expertise- product design, test development, product development- to significantly reduce time-to-market for original equipment manufacturers ("OEM") customers. Boundless Manufacturing provides a complete supply chain that is designed and built to each customer's specifications. Boundless Manufacturing also has post-manufacturing support capability in Chicago, Atlanta, Los Angeles and The Netherlands.

Boundless Manufacturing is focused on delivering a level of service and commitment, to both middle-market OEMs, and start-up companies, that is currently only available to top tier customers from the larger EMS companies. Boundless Manufacturing will develop relationships with those OEMs and original design manufacturers ("ODMs") whose supply chains can be completed or complemented by the company's unique capabilities, and diversify revenue risk by winning customers in several vertical markets including data storage, public and premise telco, office technology products, industrial controls and custom or embedded "PC" applications.

On May 11, 2001, management decided to discontinue Merinta, Inc. ("Merinta"), a subsidiary that provided software for the Internet appliances market. See Note 10.

## Edgar Filing: BOUNDLESS CORP - Form 10-Q

### 3. Going Concern Considerations and Management's Plans

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has incurred significant losses from operations, has a working capital deficit totaling approximately \$6 million and it requires new financing to meet its current cash requirements. These factors raise substantial doubt about the Company's ability to continue as a going concern, unless management's plans are affected in a timely manner. Management believes that the following actions, in addition to profitable growth of the Company's operating subsidiaries, will afford the Company the ability to fund its daily operations and service its remaining debt obligations. No adjustments have been made to the carrying value of assets or liabilities as a result of the uncertainty about obtaining the cash required.

The primary issues management will focus on in the immediate future to address this matter include:

- o The continual negotiation of material contracts for the sale of its manufacturing services to customers which management believes will provide additional liquidity for operations. There can be no assurances that these contracts will materialize.
- o The reduction of operating expenses associated with the Company's Hauppauge manufacturing facility. The Company has entered into an agreement with a real estate firm to assist the company to either lease excess space in this facility or arrange a transaction involving the sale or sale/leaseback of the facility.
- o Continue negotiating with the Company's unsecured creditors a restructuring of the Company's debt to settle our debt to each of them in one of three ways: (1) creditors who meet certain investor eligibility requirements can receive shares of our convertible preferred stock with a stated value equal to the face amount of the debt, or (2) any creditor can receive cash payment of a percentage of the amount of the debt, with payment over a 120-day period, or (3) creditors who are owed \$10 or less (and those who voluntarily reduce their claim to \$10) can receive an amount equal to a certain higher percentage of their claim. There are no assurances that management will be successful in negotiating with its remaining creditors or raising sufficient capital to continue as a going concern. The Company reached agreement with its unsecured creditors representing approximately \$10,235 of debt which requires the Company to make cash payments totaling approximately \$2,881 and to issue shares of Preferred Stock with a stated value of approximately \$3,115. The cash payments are scheduled as follows: during calendar year 2002 - \$1,439; 2003 - \$585; 2004 - \$644; 2005 - \$143; and 2006 - \$70.
- o As of June 27, 2002, the Company had entered into a new secured revolving credit facility (the "CIT Credit Line") with The CIT Group/Business Credit, Inc., as a replacement of its then existing revolving credit facility (which the Company had been calling the Chase Credit Line). The terms of the CIT Credit Line require the Company to obtain additional cash equity capital and/or additional subordinated debt in an amount not less than two million dollars (\$2,000) not later than the end of the nine month anniversary of the closing date. The Company is evaluating various alternatives to meeting this requirement; however, there can be no assurance the Company will be successful in raising additional cash.

### 4. Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a

## Edgar Filing: BOUNDLESS CORP - Form 10-Q

first-in first-out basis. The major components of inventories are as follows:

	September, 30 2002	December 31, 2001
	-----	-----
Raw materials and purchased components .....	\$ 2,168	\$ 6,329
Finished goods .....	123	952
Service parts .....	817	792
	-----	-----
Total inventories .....	\$ 3,108	\$ 8,073
	=====	=====

### 5. Mandatorily Redeemable Preferred Stock

During the second quarter ended June 30, 2002, the Company issued mandatorily redeemable convertible preferred stock (the "Preferred Stock"), in the face amount of \$4,365, as

7 of 22

partial payment to our former lenders for removing the lien on our assets and to certain vendors as settlement against the Company's trade payables. The Company retained the services of an independent firm to determine the fair value of the Preferred Stock for purposes of recording the transactions on the Company's book of records.

The convertible preferred stock was valued as a combination of an unsecured fixed income like security ("Debt Portion") and a warrant. The warrant was valued at \$329 using the Black-Scholes option pricing model, including the following assumptions:

Exercise price	\$3.00
Fair market value of common stock	\$0.34
Option Life	10 years
Volatility rate	95%
Risk-free Rate	4.84%
Dividend Rate	0%

The Debt Portion was valued at \$1,078 using the discounted future cash flow method. The future cash flow from the debt portion is equal to the redemption value of the face amount of the Preferred Stock, \$4,365 in June 2012, discounted at a discount rate of 15%.

The combination of the Debt Portion and warrant provided for an estimated value of the Preferred Stock of \$1,406, resulting in the Company's recognizing a gain on the settlement of troubled debt of \$2,960 in the second quarter ended June 30, 2002. Assuming none of the holders of the Preferred Stock convert to Common Stock of Boundless Corporation, the Company will be required to record a charge to earnings available to common stockholders over the ten-year redemption period such that the carrying value of the Preferred Stock equals its face value at the time of redemption. The difference between the carrying value of the preferred



## Edgar Filing: BOUNDLESS CORP - Form 10-Q

stock and its face value will be accreted, treated as a dividend and charged to earnings available to common stockholders over the ten-year redemption period unless conversion occurs, in which case accretion terminates at that point.

As of September 30, 2002, \$74 was accreted and charged to earnings available to common stockholders.

### 6. Stockholders' Deficit

At September 30, 2002 and December 31, 2001 stockholders' deficit consisted of the following:

	September, 30 2002 -----	December 31, 2001 -----
Common stock, \$0.01 par value, 25,000,000 shares authorized, 6,705,613 and 5,688,037 shares issued at September 30, 2002 and December 31, 2001, respectively .....	\$ 67	\$ 57
Additional paid-in capital .....	35,844	35,280
Accumulated deficit .....	(40,712)	(39,339)
Accumulated other comprehensive loss .....	(12)	(141)
	-----	-----
Total stockholders' deficit .....	\$ (4,813) =====	\$ (4,143) =====

### 7. Major Customers

The Company markets its terminal products through OEMs and reseller distribution channels. Customers can buy the Company's products from an international network of value-added resellers (VARs) and regional distributors. Through its sales force, the Company sells directly to large VARs and regional distributors and also sells to major national and international distributors. For the third quarter ended September 30, 2002 and 2001, sales to three major OEMs as a percentage of total revenues were 39% and 63%, respectively.

### 8. Business Segments

The Company's manufacturing is conducted at its New York facility and its sales force operates from five geographically dispersed locations in the United States and the United Kingdom.

Operating segments are identified as components of an enterprise about which separate

8 of 22

financial information is available for evaluation by its decision making group. In line with the formation of its two new subsidiaries, effective in 2000 the Company began managing its operations and reporting its financial results as three business segments. However, due to the decision to discontinue Merinta (see Note 10), only two continuing business segments remain. The results of the reportable segments are derived from Boundless' management reporting system. These results are based on the Company's method of internal reporting and are not necessarily in conformity with generally accepted accounting principles.

## Edgar Filing: BOUNDLESS CORP - Form 10-Q

These results are used to evaluate the performance of each segment and determine the appropriate resource allocation mix.

Information for the current and prior year by business segment is presented below (in thousands):

9 of 22

Three Months Ended September 30, 2002	Total	Eliminations	Boundless Technologies/ Corp.
-----	-----	-----	-----
Customer Revenue .....	\$ 5,186		\$ 3,241
Intercompany Revenue .....		\$ (2,129)	
	-----	-----	-----
Total Revenue .....	\$ 5,186	\$ (2,129)	\$ 3,241
	=====	=====	=====
Gross Margin (loss) .....	\$ (25)	\$ (23)	\$ 903
	=====	=====	=====
Gross Margin percent .....	-0.5%		27.9%
	-----		-----
Operating income (loss) .....	\$ (1,272)		\$ 394
	=====		=====
Three Months Ended September 30, 2001	Total	Eliminations	Boundless Technologies/ Corp.
-----	-----	-----	-----
Customer Revenue .....	\$ 18,074		\$ 7,384
Intercompany Revenue .....		\$ (5,292)	
	-----	-----	-----
Total Revenue .....	\$ 18,074	\$ (5,292)	\$ 7,384
	=====	=====	=====
Gross Margin (loss) .....	\$ 2,469	\$ (187)	\$ 2,131
	=====	=====	=====
Gross Margin percent .....	13.7%		28.9%
	-----		-----
Operating income (loss) .....	\$ (243)		\$ 756
	=====		=====
Nine Months Ended September 30, 2002	Total	Eliminations	Boundless Technologies/ Corp.
-----	-----	-----	-----
Customer Revenue .....	\$ 21,930		\$ 13,549
Intercompany Revenue .....		\$ (9,485)	
	-----	-----	-----
Total Revenue .....	\$ 21,930	\$ (9,485)	\$ 13,549
	=====	=====	=====
Gross Margin (loss) .....	\$ 181	\$ (355)	\$ 3,500
	=====	=====	=====
Gross Margin percent .....	0.8%		25.8%
	-----		-----
Operating income (loss) .....	\$ (4,850)		\$ 1,379
	=====		=====

# Edgar Filing: BOUNDLESS CORP - Form 10-Q

		=====	=====
Total assets by business segment .....	\$ 19,904		\$ 12,867
		=====	=====
Nine Months Ended September 30, 2001	Total	Eliminations	Boundless Technologies/ Corp.
-----	-----	-----	-----
Customer Revenue .....	\$ 45,960		\$ 25,657
Intercompany Revenue .....	--	\$ (18,586)	
	-----	-----	-----
Total Revenue .....	\$ 45,960	\$ (18,586)	\$ 25,657
	=====	=====	=====
Gross Margin .....	\$ 5,059	\$ (886)	\$ 5,870
	=====	=====	=====
Gross Margin percent .....	11.0%		22.9%
	-----		-----
Operating income (loss) .....	\$ (3,874)		\$ 785
	=====		=====
Total assets by business segment .....	\$ 36,525		\$ 14,564
	=====		=====

Pertinent financial data by major geographic segments for the third quarter ended September 30, 2002 and 2001 are:

10 OF 22

	September, 30 2002	September, 30 2001
	-----	-----
Net sales to unaffiliated customers:		
United States .....	\$ 4,038	\$ 15,301
United Kingdom .....	183	1,217
Other European countries.....	903	1,314
Other foreign countries.....	62	242
	-----	-----
Total sales .....	\$ 5,186	\$ 18,074
	=====	=====

## 9. Comprehensive Income

Effective January 1, 2001, the Company adopted FAS 133 which requires that all derivative instruments, such as interest rate swap contracts, be recognized in the financial statements and measured at their fair market value.

The Company uses interest rate swaps to hedge a portion of total debt that is subject to variable interest rates and designates these instruments as cash flow hedges. These contracts are considered to be a hedge against changes in the amount of future cash flows associated with the interest payments on variable-rate debt obligations. Accordingly, the interest rate swaps are reflected at fair value in the Consolidated Balance Sheet and the related gains or losses on these contracts, net of related income tax effect, are recorded as a component of accumulated other comprehensive income (loss). The Company does

## Edgar Filing: BOUNDLESS CORP - Form 10-Q

not enter into such contracts for speculative purposes and currently these are the only derivative instruments held by the Company as of September 30, 2002. The fair value of interest rate swap contracts are determined based on the discounted estimated cash flows derived from the forward yield curve at the inception of the swap versus the forward yield curve at the end of the reporting period.

To the extent that any of these swaps are not completely effective in offsetting the change in interest cash flows being hedged, the ineffective portion is immediately recognized in interest expenses. Effectiveness is measured on a quarterly basis using the cash flow method. No other cash payments are made unless the contract is terminated prior to maturity, in which case, the amount paid or received in settlement is established by agreement at the time of termination.

The adoption of FAS 133 at January 1, 2001, resulted in recording \$30 in accumulated other comprehensive loss for the cumulative effect of the accounting change. As of September 30, 2002, the Company had one interest rate swap contract remaining, having a nominal principal amount of \$916 with a maturity date of March 2003. The aggregate fair market value of all interest rate swap contracts was (\$12) on September 30, 2002 and is included in accrued expenses and other current liabilities on the Consolidated Balance Sheet.

The Company's comprehensive income (loss) for the third quarter and first nine months of 2002 and 2001 is as follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2002	2001	2002	2001
Net income (loss) .....	\$ (1,299)	\$ (6,431)	\$ (1,589)	\$ 540
Other comprehensive income (loss):				
Cumulative effect of adoption				
of FAS 133 .....	--	(30)	--	--
Cash flow hedges .....	129	(98)	11	(21)
	-----	-----	-----	-----
Other comprehensive income (loss): ..	129	(128)	11	(21)
	-----	-----	-----	-----
Total comprehensive income (loss) .....	\$ (1,170)	\$ (6,559)	\$ (1,578)	\$ 519
	=====	=====	=====	=====

### 10. Discontinued Operations

On May 11, 2001, the Board of Directors of the Company formally approved a plan to discontinue the operations of Merinta. Since November 2000, following an investment by National Semiconductor in Merinta, the Company was prohibited, under its then existing credit facility, from contributing cash to the subsidiary. As a result, Merinta was required to fund its working capital needs from the proceeds of the National Semiconductor investment, cash generated from operations, and proceeds from any additional investments. However, the cash generated from operations was not sufficient to cover its operating needs and the Company was not successful in raising additional equity investments to supplement the proceeds from National Semiconductor. The loss from discontinued operations for the period January 1 through September 30, 2001 was \$2,150.

# Edgar Filing: BOUNDLESS CORP - Form 10-Q

11 of 22

## 11. Sale of Product Line

On June 29, 2001 the Company completed the sale of its thin client business to Neoware Systems, Inc. ("Neoware"). The sale included the Company's Cpio(R) product line, SAM Remote Administrator Software, associated intellectual properties and access to the existing thin client distribution and customer databases. The sale also included an outsourcing arrangement to continue to produce, service, and support the Cpio family of products for Neoware.

## 12. Recent Accounting Pronouncements

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" in the first quarter of 2002. Effective January 1, 2002, the Company ceased amortization of goodwill resulting in a decrease of \$1,398 in amortization for the nine months ended September 30, 2002, compared to the same period in 2001. Instead of amortizing goodwill over a fixed period of time, the Company will measure the fair value of the acquired business at least annually to determine if goodwill has been impaired. The Company has completed the first step of the goodwill impairment test, having determined the fair value of the reporting unit, as defined by SFAS 142, and compared it to the carrying value of its allocated net assets. The Company used the present value of projected future cash flows to estimate the fair value of the assets. The Company has determined there had been no goodwill impairment as of January 1, 2002 or as of September 30, 2002.

The following schedule presents net income, basic earnings per share and diluted earnings per share, exclusive of goodwill amortization expense for the periods in which the standard had not been adopted.

	Nine Months Ended September 30, 2001	Three Months Ended September 30, 2001
	-----	-----
Reported net loss .....	\$ (6,431)	\$ 540
add back: goodwill amortization .....	1,398	466
	-----	-----
Adjusted net loss .....	\$ (5,033)	\$ 1,006
	=====	=====
Basic earnings per share:		
Reported net loss .....	\$ (1.28)	\$ 0.10
Goodwill amortization .....	0.28	0.07
	-----	-----
Adjusted net loss per common share .....	\$ (1.00)	\$ 0.17
	=====	=====
Diluted earnings per share:		
Reported net loss .....	\$ (1.28)	\$ 0.10
Goodwill amortization .....	0.28	0.07
	-----	-----
Adjusted diluted net loss per common share	\$ (1.00)	\$ 0.17
	=====	=====

In October 2001 the Financial Accounting Standards Board issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", effective for fiscal years beginning after December 15, 2001. In June 2002, the Company

## Edgar Filing: BOUNDLESS CORP - Form 10-Q

recorded an expense of \$778 for the impairment of the carrying value of machinery and equipment, which was sold in July 2002, upon closing of the Florida manufacturing facility. The actual loss incurred upon disposal in July was \$708, resulting in a third quarter recovery of \$70.

On April 30, 2002 the Financial Accounting Standards Board issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". Among other provisions, SFAS 145 rescinds SFAS 4 "Reporting Gains and Losses from Extinguishment of Debt." Accordingly, gains or losses from extinguishment of debt shall not be reported as extraordinary items unless the extinguishment qualifies as an extraordinary item under the criteria of Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." Gains or losses from extinguishment of debt that do not meet the criteria of APB 30 should be reclassified to income from continuing operations in all prior periods presented. The applicable provisions of SFAS 145 are not effective until the Company's fiscal year end 2003. However, the Company has elected early adoption, and therefore, has reclassified gains on early extinguishment of debt and the related taxes to other income.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 will spread out the reporting of expenses related to

12 of 22

restructurings initiated after 2002, since commitment to a plan to exit an activity or dispose of long-lived assets will no longer be enough to record a liability for the anticipated costs. Instead, companies will record exit and disposal costs when they are "incurred" and can be measured at fair value, and they will subsequently adjust the recorded liability for changes in estimated cash flows. The provisions of SFAS 146 are effective for exit and disposal activities that are initiated after December 31, 2002. The Company does not believe that the adoption of this statement will have any impact on the Company's consolidated financial statements as no planned restructuring charges currently exist.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Results of Operations

The numbers and percentages contained in this Item 2 are approximate. Dollar amounts are stated in thousands.

For the Three and Nine Month Periods Ending September 30, 2002

Revenue - Revenue for the quarter ended September 30, 2002, was \$5,186 as compared to \$18,074 for the quarter ended September 30, 2001. Revenue for the nine months ended September 30, 2002 was \$21,930 versus \$45,960 for 2001.

Sales of the Company's General Display Terminals declined 58% to \$3,212 for the quarter ended September 30, 2002 from \$7,636 for the quarter ended September 30, 2001. On a year-to-year basis, revenue for General Display Terminals declined 40% to \$13,470 from \$22,474 in year 2001. The Company believes demand for General Display Terminals will continue to decline at a rate of approximately 30% annually. The larger decline experienced by the Company in the current quarter is a result of material shortages resulting from the Company's tight cash position. Backlog for the Company's General Display Terminals as of

## Edgar Filing: BOUNDLESS CORP - Form 10-Q

September 30, 2002, was approximately \$4,000.

Revenues for the quarter ended September 30, 2002, from Boundless Manufacturing were \$1,945, excluding intercompany revenue, as compared to \$10,690 for the quarter ended September 30, 2001. Revenue for the nine-month period for Boundless Manufacturing was \$8,381 in 2002 versus \$20,303 for the comparable period in 2001. Sales to Comdial Corporation were \$1,119 in the quarter ended September 30, 2002, as compared to sales of \$7,239 in the quarter ended September 30, 2001. To diversify its risk, Boundless began to sub-contract Comdial's production requirements during the third quarter. Since the sub-contract model implemented by Boundless was effective, and in consideration of Comdial's business decline and both companies' financial position, Boundless and Comdial have worked together to move Comdial's business from Boundless directly to these second-source manufacturing relationships. This will eliminate the need for Boundless to fund the Comdial supply chain for which the cash cycle had become quite extended over the past year. Boundless' revenue from Comdial will end during the fourth quarter of 2002 as the relationship is transitioned. At its current levels, the Comdial business was not contributing profit to the Company.

In addition, the revenue decline for the third quarter was impacted by the shutdown of the Boca Raton facility in July 2002, which caused a disruption of printed circuit board assembly as it transitioned to the New York facility. Some revenue decline is also attributable to the effects of the economic downturn, particularly with respect to its impact on the telecommunications industry, an industry segment from which the Company had previously recorded a substantial portion of its revenue.

Net revenue from the Company's repairs and spare parts business for the quarter ended September 30, 2002 was \$435 as compared to \$499 for the quarter ended September 30, 2001.

Comdial and Hewlett Packard were the most significant customers for the Company's products, accounting for 22% and 16% of revenue respectively, for the quarter ended September 30, 2002.

Gross Margin - Gross margin for the three and nine months ended September 30, 2002 were \$(25) and \$181 respectively, as compared to gross margins of \$2,469 and \$5,059 for the comparable periods in 2001. The decrease in gross margin is primarily attributable to the decline in the General Display Terminals revenue, which yields higher profit margins than Boundless Manufacturing. In addition, excess capacity at the Company's manufacturing

13 of 22

facilities resulted in under-absorbed overhead expenses of \$2,535, or 12% of revenue for the first nine months of 2002. For the quarter ended September 30, 2002, under-absorbed overhead expenses were \$1,078.

In a continuing effort to maintain and improve margins in an industry otherwise characterized by commodity pricing, management has focused on quality, flexibility, and product cost reductions. From time-to-time margins are adversely affected by industry shortages of key components. The Company emphasizes product cost reductions in its research and development activities and frequently reviews its supplier relationships with the view to obtaining the best component prices available.

Total Operating Expenses - For the quarter ended September 30, 2002, operating expenses decreased 54% to \$1,247 (24% of revenue), compared to expenses for the third quarter of 2001 of \$2,712 (15% of revenue). For the nine months ended

## Edgar Filing: BOUNDLESS CORP - Form 10-Q

September 30, 2002, operating expenses were \$5,031 compared to expenses in the comparable period in 2001 of \$ 8,933. This decrease is attributable to the Company's aggressive efforts to align sales, marketing and administrative expenses with the revenue decline as well as the need for lower expenditures in these areas for the emerging Boundless Manufacturing business. Specific decreases are further explained below.

**Sales and Marketing Expenses** - The Company promotes its products and services using direct sales, media advertising, direct mail, telemarketing, public relations and cooperative channel marketing programs. Sales and marketing expenses decreased 70% to \$347 (7% of revenue) for the quarter ended September 30, 2002 from \$1,168 (6% of revenue) for the quarter ended September 30, 2001. Expenses for the first nine months were \$1,421 in 2002 versus \$4,813 in 2001. This decrease was mainly due to a significant reduction in expenditures, including personnel, for marketing programs related to the Capio product line, which was sold in June 2001. In addition, improvement in customer accounts receivable collections resulted in a year-to-year reduction in allowances for doubtful accounts of \$299.

**General and Administrative Expenses** - General and administrative expenses decreased to \$700 (13% of revenue), from \$1,549 (9% of revenue) for the three months ended September 30, 2002 and 2001, respectively. Expenses for the nine-month period ended September 30, 2002, were \$2,311 versus \$5,137 in 2001. The elimination of goodwill amortization in accordance with SFAS 142 accounted for \$1,398 of the decrease from the nine-month period in 2001. Employee compensation and travel reductions accounted for \$1,220 of the year-to-year reductions.

**Research and Development Expenses** - Research and development expenses for the third quarter decreased to \$264 in 2002 from \$327 in 2001. For the nine-month period ended September 30, 2002 expenses were \$815 compared to \$1,080 in 2001. Research and development efforts relate primarily to customer support and cost reduction activity associated with the Company's General Display Terminals and to product design activities for customers of Boundless Manufacturing.

**Interest Expense, net** - Interest expense, net for the quarter ended September 30, 2002 was \$317 compared to \$336 for the comparable period in 2001. Interest expense, net for the nine months was \$964 in 2002 versus \$1,210 in 2001. This year-to-year decline is due to reductions in outstanding debt under its credit facility.

**Net gain on the restructuring of payables** - In the second quarter of 2002, the Company recorded a credit of \$4,515 for gains on the restructuring of troubled debt.

**Loss From Discontinued Operations**- During the first quarter, 2001 the Company recorded a loss of \$2,466, relating to the Company's decision to discontinue the operations of Merinta. In the third quarter of 2001, a gain on disposal of \$316 was recorded, resulting in a net loss from discontinued operations of \$2,150.

**Income Tax Expense** - For the third quarter of 2002, the Company did not record an income tax credit against the recorded loss before income taxes of \$1,589. As of September 30, 2002, the Company had not utilized all its available net operating losses. As a result of uncertainties as to whether the related future tax benefits will be realized, the Company has provided for a 100% valuation allowance against the deferred tax assets attributable to these losses.

**Net Income (Loss)**- For the quarter ended September 30, 2002, the Company recorded a net loss of \$1,589, compared to net income of \$540 for the quarter ended September 30, 2001.

### LIQUIDITY AND CAPITAL RESOURCES



## Edgar Filing: BOUNDLESS CORP - Form 10-Q

The discussion below regarding liquidity and capital resources should be read together with the information included in the Notes to Consolidated Financial Statements.

14 of 22

As of September 30, 2002 the Company had a working capital deficiency of \$6,428 as compared to a deficiency of \$16,473 at December 31, 2001. Historically, the Company has relied on cash flow from operations, bank borrowings and sales of its common stock to finance its working capital, capital expenditures and acquisitions.

As of June 27, 2002, we entered into agreements with our then secured lenders (the "Prior Lenders") to terminate our revolving credit facility (which we have been calling our Chase Credit Line) and to release their liens on our personal property. At the same time, we entered into another secured revolving credit facility (the "CIT Credit Line") with The CIT Group/Business Credit, Inc. ("CIT") pursuant to which CIT was granted a lien on all of our personal property and was pledged substantially all of the outstanding capital stock of our subsidiaries.

In general, the CIT Credit Line permits us to borrow up to (a) 85% of our eligible accounts receivable, plus (b) the lesser of (i) 10% of our eligible inventory, (ii) 85% of our appraised inventory liquidation value or (iii) \$2,000 less (c) \$880 (which amount was subsequently reduced to \$500 upon completing, during July 2002, the sale of the Company's machinery and equipment located in its Boca Raton facility). Under the CIT Credit Line, the annual interest rate is 1-1/2% above the prime rate announced by JPMorgan Chase Bank and we are required to pay interest on a minimum of \$2,000 even though our actual borrowings may be less than \$2,000. We are responsible for certain fees for unused credit and early termination of the facility. The maximum availability under the CIT Credit Line is \$8,500 and the term of the facility is three years, subject to annual renewals thereafter.

The Company is highly leveraged. As of September 30, 2002, the Company had negative tangible net worth of \$8,574 and total liabilities of \$23,237. The Company's liabilities at September 30, 2002 included the CIT Credit Line in the amount of \$588 plus interest maturing June 26, 2006, a ten-year promissory note in the amount of \$5,843 which requires monthly principal and interest payments through July 1, 2009, term notes ("Term Notes") totaling \$2,570, capital leases in the amount of \$1,219 which require monthly payments plus interest through February 2006 and short-term promissory notes in the amount of \$750.

Only payments for interest, at the rate of 5% per annum, are required to be made on the Term Notes until the earlier of April 1, 2003 or the date on which we receive equity capital investments of at least \$2,000. Thereafter, we are required to pay off the Term Notes by making 51 consecutive monthly payments of principal and interest based on a 60-month amortization schedule, except that the 51st payment will include the balance due on the Term Notes.

Boundless Technologies has an agreement with a commercial lender for a loan secured by a mortgage on the Boundless facility located in Hauppauge, NY. The loan, which is in the principal amount of \$5,843 and carries a fixed interest rate of 7.75%, is being amortized over a 25-year period with a balloon payment due on July 1, 2009. The monthly payments are approximately \$50. To induce the lender to make the loan, the Company executed and delivered a guaranty of Boundless' obligations to the lender.

In the event there is a further decline in the Company's sales and earnings

## Edgar Filing: BOUNDLESS CORP - Form 10-Q

and/or a decrease in availability under the credit line, the Company's cash flow would be adversely affected. Accordingly, the Company may not have the necessary cash to fund all of its obligations or execute its business plan.

Net cash provided by operating activities for the nine months ended September 30, 2002 was \$5,013 attributable to a gain on debt settlements of \$1,555, a gain on preferred stock of \$2,960, non-cash expenses of \$1,899, a reduction in accounts receivable of \$6,113, a reduction of inventories of \$5,014 and a reduction of other assets of \$300. This increase in cash was offset by a reduction of accounts payable and accrued liabilities of \$2,756. Net cash provided by investing activities was comprised of capital expenditures of \$124 and proceeds from the sale of assets of \$440. Net cash used in financing activities included repayment on the Company's revolving loans in the amount of \$5,557 and payments on other loans in the amount of \$642.

Impact of Inflation - The Company has not been adversely affected by inflation because technological advances and competition within the microcomputer industry have generally caused prices of products sold by the Company to decline. The Company has flexibility in its pricing and could, if necessary, pass along price changes to most of its customers.

### Factors That Could Affect Future Results

Competition. The Company encounters aggressive competition in all areas of its business. The Company has numerous competitors, ranging from some of the world's largest corporations to many relatively small and highly specialized firms. The Company competes

15 of 22

primarily on the basis of technology, performance, price, quality, reliability, distribution and customer service and support. The EMS business in particular, has become increasingly price competitive with an increasing proportion of the market moving to low-cost production in areas such as Mexico and Mainland China. As the revenue mix switches from General Display Terminals to EMS and considering the margin pressure within the EMS market, there can be no assurance the Company can sustain a competitive price position.

New Products and Technological Change. Computer and technology industries are characterized by a rapid rate of product improvement, technological change and product obsolescence. Inventory management is critical to decreasing the risk of being adversely affected by obsolescence and there is no assurance that the Company's inventory management and flexible manufacturing systems will adequately protect against this risk.

Reliance on Third Party Distribution Channels and Inventory Management. The Company uses third-party distributors to sell its products. As a result, the financial soundness of its wholesale and retail distributors, and its continuing relationships with these distributors, are important to the Company's success. Some of these distributors may have insufficient financial resources and may not be able to withstand changes in business conditions. The Company's revenue and earnings could suffer if its distributors' financial condition or operations weaken or if its relationship with them deteriorates. Additionally, inventory management becomes increasingly complex as the Company continues to sell a significant mix of products through distributors. Third party distributors constantly adjust their product orders from the Company in response to:

- o The supply of the Company's and its competitors' products available to the distributor, and

## Edgar Filing: BOUNDLESS CORP - Form 10-Q

- o The timing of new product introductions and relative features of the products.

Distributors may increase orders during times of product shortages, cancel orders if their inventory is too high or delay orders in anticipation of new products. If the Company has excess inventory, the Company may have to reduce its prices and write down inventory, which in turn could result in lower gross margins.

Intellectual Property. The Company generally relies upon patent, copyright, trademark and trade secret laws in the United States and in certain other countries, and agreements with its employees, customers and partners, to establish and maintain its proprietary rights in its technology and products. However, any of the Company's intellectual proprietary rights could be challenged, invalidated or circumvented. The Company's intellectual property may not necessarily provide significant competitive advantages. Also, because of the rapid pace of technological change in the information technology industry, many of the Company's products rely on key technologies developed by third parties, and the Company may not be able to continue to obtain licenses from these third parties. Third parties may claim that the Company is infringing their intellectual property. Even if the Company does not believe that its products are infringing third parties' intellectual property rights, the claims can be time-consuming and costly to defend and divert management's attention and resources away from its business. Claims of intellectual property infringement might also require the Company to enter into costly royalty or license agreements. If the Company cannot or does not license the infringed technology or substitute similar technology from another source, its business could suffer.

Reliance on Suppliers. The Company's manufacturing operations depend on its suppliers' ability to deliver quality components and products in time for it to meet critical manufacturing and distribution schedules. The Company sometimes experiences a short supply of certain component parts as a result of strong demand in the industry for those parts. If shortages or delays persist, its operating results could suffer until other sources can be developed. In order to secure components for the production of new products, at times the Company makes advance payments to suppliers, or the Company may enter into non-cancelable purchase commitments with vendors. If the prices of these component parts then decrease after the Company has entered into binding price agreements, its earnings could suffer. Further, the Company may not be able to secure enough components at reasonable prices to build new products in a timely manner in the quantities and configurations needed. Conversely, a temporary oversupply of these parts could also affect its operating results.

International. Sales outside the United States make up more than 10% of the Company's revenues. In addition, key suppliers are also located outside of the United States. The Company's future earnings or financial position could be adversely affected by a variety of international factors, including:

16 of 22

- o Changes in a country or region's political or economic conditions,
- o Trade protection measures,
- o Import or export licensing requirements,
- o The overlap of different tax structures,
- o Unexpected changes in regulatory requirements,

## Edgar Filing: BOUNDLESS CORP - Form 10-Q

- o Differing technology standards,
- o Problems caused by the conversion of various European currencies to the Euro (see "Adoption of the Euro" section below), and
- o Natural disasters.

Market Risk. The Company is exposed to foreign currency exchange rate risk inherent in the Company's sales commitments, anticipated sales and assets and liabilities denominated in currencies other than the U.S. dollar. The Company is also exposed to interest rate risk inherent in its debt and investment portfolios. The Company's risk management strategy uses derivative financial instruments, primarily interest rate swaps, to hedge certain interest rate exposures. The Company's intent is to offset gains and losses that occur on the underlying exposures, with gains and losses on the derivative contracts hedging these exposures. The Company does not use foreign currency forward exchange contracts or purchased currency options to hedge local currency cash flows; however, foreign currency transaction gains or losses have not been material to the Company's results of operations. The Company does not enter into derivatives for trading purposes.

Acquisitions, Strategic Alliances, Joint Ventures and Divestitures. In the normal course of business, the Company frequently engages in discussions with third parties relating to possible acquisitions, strategic alliances, joint ventures and divestitures. The completion of any one transaction may have a material effect on the Company's financial position, results of operations or cash flows taken as a whole. Divestiture of a part of the Company's business may result in the cancellation of orders and charges to earnings. Acquisitions and strategic alliances may require the Company to integrate with a different company culture, management team and business infrastructure. The Company may also have to develop, manufacture and market products with its products in a way that enhances the performance of the combined business or product line. Depending on the size and complexity of an acquisition, the Company's successful integration of the entity into Boundless depends on a variety of factors, including:

- o The hiring and retention of key employees,
- o Management of facilities in separate geographic areas, and
- o The integration or coordination of different research and development and product manufacturing facilities.

All of these efforts require varying levels of management resources, which may divert the Company's attention from other business operations.

Environmental. Some of the Company's operations use substances regulated under various federal and state laws governing the environment. It is the Company's policy to apply strict standards for environmental protection to sites inside and outside the U.S., even when not subject to local government regulations. The Company records a liability for environmental remediation and related costs when the Company considers the costs to be probable and the amount of the costs can be reasonably estimated. Environmental costs are presently not material to the Company's results of operations or financial position.

Profit Margin. The Company's profit margins vary somewhat among its products, customer groups and geographic markets. Consequently, the Company's overall profitability in any given period is partially dependent on the product, customer and geographic mix reflected in that period's net revenue.

Stock Price. Boundless' stock price, like that of other technology companies, can be volatile. Some of the factors that can affect its stock price are:

## Edgar Filing: BOUNDLESS CORP - Form 10-Q

- o The Company's, or a competitor's, announcement of new products, services or technological innovations,
- o Changes in the Company's working capital position,

17 of 22

- o Quarterly increases or decreases in the Company's earnings,
- o Changes in revenue or earnings estimates by the investment community, and
- o Speculation in the press or investment community.

General market conditions and domestic or international macroeconomic factors unrelated to the Company's performance may also affect Boundless' stock price. For these reasons, investors should not rely on recent trends to predict future stock prices or financial results. In addition, following periods of volatility in a company's securities, securities class action litigation against a company is sometimes instituted. This type of litigation could result in substantial costs and the diversion of management time and resources.

Earnings Fluctuations. Although the Company believes that it has the products and resources needed for continuing success, the Company cannot reliably predict future revenue and margin trends. Actual trends may cause the Company to adjust its operations, which could cause period-to-period fluctuations in its earnings.

### Forward-looking Information May Prove Inaccurate

This Form 10-Q contains forward-looking statements and information that are based on management's beliefs as well as assumptions made by and information currently available to management. When used in this document, the words "anticipate," "believe," "estimate," "expect," and, depending on the context, "will," and similar expressions are intended to identify forward-looking statements. Such statements reflect the Company's current views with respect to future events and are subject to certain risks, uncertainties and assumptions, including the specific risk factors described in the Company's Form 10-K for the year ended December 31, 2001. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated or expected. The Company does not intend to update these forward-looking statements and information.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's revolving credit facility and long-term debt obligations. The Company manages this risk through utilization of interest rate swap agreements in amounts not exceeding the principal amount of its outstanding obligations. At September 30, 2002 the Company had in place an interest rate swap agreement in the amount of \$916,000 at an effective interest rate of 8.6%. The swap agreement is intended as an effective hedge to interest rate changes against the outstanding balance of the Company's Revolving Loan.

The Company places its investments with high credit quality issuers and, by policy, is averse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of September 30, 2002 the Company's investments consisted of cash balances maintained in its corporate account with the Chase Manhattan Bank.

## Edgar Filing: BOUNDLESS CORP - Form 10-Q

All sales arrangements with international customers are denominated in U.S. dollars. These customers are permitted to elect payment of their next month's orders in local currency based on an exchange rate provided one month in advance from the Company. The Company does not use foreign currency forward exchange contracts or purchased currency options to hedge local currency cash flows or for trading purposes. Foreign currency transaction gains or losses have not been material to the Company's results of operations.

### Item 4. Controls and Procedures

Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our President and Chief Executive Officer and our Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC filings and that information required to be disclosed by us in these periodic filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no significant changes in our internal controls or in other

18 of 22

factors that could significantly affect internal controls subsequent to the date we carried out this evaluation.

19 of 22

## PART II - OTHER INFORMATION

### Item 2. Changes in Securities and Use of Proceeds

During the quarter ended September 30, 2002, the Company sold to nine individuals (the "Subscribers") 267,367 shares of unregistered Common Stock of the Company for proceeds of \$162. Proceeds of the offering were used for general working capital purposes. The purchase price was calculated by taking the average closing price of the Common Stock on the American Stock Exchange during the five (5) consecutive trading days ending on the trading date immediately preceding the purchase date. In connection with this sale, the Company granted to the Subscribers warrants to purchase 267,367 shares of the Company's Common Stock. The warrants are exercisable at between \$0.47 and \$0.70 per share of Common Stock and expire on the fifth anniversary from the date of issuance.

The Company believes that the issuances of the securities described above were exempt from registration under Section 4 (2) of the Securities Act of 1933 as amended.

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

Exhibit 11: Statement Concerning Computation of Per Share Earnings is hereby incorporated by reference to "Condensed Consolidated Statements of Operations" of Part I-Financial Information, Item 1 - Financial Statements, contained in this Form 10-Q.

## Edgar Filing: BOUNDLESS CORP - Form 10-Q

99.1: Certificate of Boundless Corporation Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

### (b) Reports on Form 8-K

On July 10, 2002, the Company filed with the Securities and Exchange Commission a Current Report on Form 8-K disclosing that the Company had, on June 27, 2002, entered into with its then secured lenders an agreement to terminate its revolving credit facility and to release their liens on the Company's personal property. At the same time, the Company entered into another secured revolving credit facility (the "CIT Credit Line") with The CIT Group/Business Credit, Inc. ("CIT") pursuant to which CIT was granted a lien on all of our personal property and was pledged substantially all of the outstanding capital stock of our subsidiaries.

20 of 22

### SIGNATURES

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

Dated: November 14, 2002

Boundless Corporation

By: /s/Joseph Gardner

-----

Joseph Gardner

Vice President and Chief Financial Officer

(Principal Accounting and Financial Officer)

### CERTIFICATIONS

I, Joseph V. Joy, Jr., President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Boundless Corporation;

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

## Edgar Filing: BOUNDLESS CORP - Form 10-Q

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 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 internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

21 of 22

Date: November 14, 2002

/s/ Joseph V. Joy, Jr.

-----

President and Chief Executive Officer

I, Joseph Gardner, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Boundless Corporation;

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



## Edgar Filing: BOUNDLESS CORP - Form 10-Q

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 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 internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Joseph Gardner

-----  
Chief Financial Officer