

Edgar Filing: BOUNDLESS CORP - Form 10-Q

BOUNDLESS CORP
Form 10-Q
March 08, 2006

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 June 30, 2005

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.)

50 Engineers Lane Unit 2
Hauppauge, NY
(Address of principal executive offices)

11735
(Zip Code)

(631) 962-1500
(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 |X|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2)

Yes | | No |X|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes | | No |X|

As of February 28, 2006, the Registrant had approximately 6,705,613 shares of Common Stock, \$.01 par value per share outstanding.

1 of 24

BOUNDLESS CORPORATION AND SUBSIDIARIES

Edgar Filing: BOUNDLESS CORP - Form 10-Q

(Debtor and Debtors-in-Possession)

INDEX

Part I. Financial Information

- Item 1. Financial Statements
Consolidated Condensed Balance Sheets as of September 30, 2005 (Unaudited)
and December 31, 2004
Consolidated Condensed Statements of Operations for the three and nine months
ended September 30, 2005 and 2004 (Unaudited)
Consolidated Condensed Statements of Cash Flows for the nine months
ended September 30, 2005 and 2004 (Unaudited)
Notes to Consolidated Condensed Financial Statements (Unaudited)
- Item 2. Management's Discussion and Analysis of Financial Condition and Results
of Operations
- Item 3. Quantitative and Qualitative Disclosures About Market Risk
- Item 4. Controls and Procedures

Part II. Other Information

- Item 1. Legal Proceedings
- Item 6. Exhibits

Signature

2 of 24

BOUNDLESS CORPORATION AND SUBSIDIARIES
(DEBTOR AND DEBTORS-IN-POSSESSION)
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

| | June 30, 2005 | December 31, 2004* |
|---|----------------------|-----------------------|
| | ----- (unaudited) | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 0 | \$ 124 |
| Cash on deposit with lender | 0 | 271 |
| Trade accounts receivable, net | 1,018 | 1,150 |
| Affiliate receivables | 84 | 92 |
| Other receivables | 145 | 117 |
| Inventories (Note 3) | 845 | 1,094 |
| Prepaid expenses and other current assets | 204 | 59 |
| | ----- | ----- |
| Total current assets | 2,296 | 2,907 |
| Property and equipment, net (Note 4) | 120 | 103 |
| | ----- | ----- |

Edgar Filing: BOUNDLESS CORP - Form 10-Q

| | | |
|---|----------|----------|
| Total assets | \$ 2,416 | \$ 3,010 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Liabilities not subject to compromise | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 285 | \$ 350 |
| Accounts payable | 28 | 44 |
| Accrued salaries | 67 | 86 |
| Accrued legal fees | 1,179 | 1,029 |
| Purchase order commitments | 246 | 561 |
| Accrued payroll and sales tax payable | 28 | 30 |
| Accrued warranty | 30 | 18 |
| Other accrued liabilities | 166 | 157 |
| | ----- | ----- |
| Total current liabilities | 2,029 | 2,275 |
| | ----- | ----- |
| Long-term debt, less current maturities | 650 | 953 |
| Deferred credits | 84 | 65 |
| Items subject to compromise: | | |
| Mandatorily redeemable preferred stock | 1,652 | 1,652 |
| Liabilities subject to compromise (Note 5) | 12,976 | 12,970 |
| | ----- | ----- |
| Total liabilities | 17,391 | 17,915 |
| | ----- | ----- |
| COMMITMENTS AND CONTINGENCIES (Note 9) | | |
| Stockholders' deficit: (Note 6) | | |
| Common stock | 67 | 67 |
| Additional paid-in capital | 35,844 | 35,844 |
| Accumulated deficit | (50,886) | (50,816) |
| | ----- | ----- |
| Total stockholders' deficit | (14,975) | (14,905) |
| | ----- | ----- |
| Total liabilities and stockholders' deficit | \$ 2,416 | \$ 3,010 |
| | ===== | ===== |

* Condensed from audited financial statements

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3 of 24

BOUNDLESS CORPORATION AND SUBSIDIARIES
(DEBTOR AND DEBTORS-IN-POSSESSION)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | Three Months Ended June 30 | Six Months June 30 |
|--|-------------------------------|-----------------------|
| | ----- | ----- |
| | ----- | ----- |
| | 2005 | 2004 |
| | ----- | ----- |
| | 2005 | 2005 |
| | ----- | ----- |

Edgar Filing: BOUNDLESS CORP - Form 10-Q

| | | | |
|---|-----------|-----------|-----------|
| Revenue: | | | |
| Product sales | \$ 1,350 | \$ 1,575 | \$ 2,794 |
| Services | 186 | 236 | 357 |
| | ----- | ----- | ----- |
| Total revenue | 1,536 | 1,811 | 3,151 |
| | ----- | ----- | ----- |
| Cost of revenue | | | |
| Product sales | 1,137 | 1,242 | 2,262 |
| Services | 55 | 128 | 129 |
| | ----- | ----- | ----- |
| Total cost of revenue | 1,192 | 1,370 | 2,391 |
| | ----- | ----- | ----- |
| Gross margin | 344 | 441 | 760 |
| Other costs and expenses (income) | | | |
| Selling, general and administrative | 210 | 307 | 456 |
| Research and development | 47 | 43 | 103 |
| Interest expense (excluding contractual interest of \$17 and \$17 not recognized in 2005 and 2004, respectively) | 54 | 37 | 92 |
| Loss on reimbursement of employee services (net of reimbursement of \$20 and \$75) | 4 | 15 | 9 |
| Other costs (income) | (17) | 74 | (22) |
| | ----- | ----- | ----- |
| | 298 | 476 | 638 |
| | ----- | ----- | ----- |
| Income (loss) before reorganization items | 46 | (35) | 122 |
| Reorganization items (Note 7) | 96 | 76 | 192 |
| | ----- | ----- | ----- |
| Net loss | \$ (50) | \$ (111) | \$ (70) |
| | ===== | ===== | ===== |
| Basic and diluted loss per common share | \$ (0.01) | \$ (0.02) | \$ (0.01) |
| | ===== | ===== | ===== |
| Basic and diluted weighted average shares outstanding | 6,706 | 6,706 | 6,706 |
| | ===== | ===== | ===== |

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4 of 24

BOUNDLESS CORPORATION AND SUBSIDIARIES
(DEBTOR AND DEBTORS-IN-POSSESSION)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

Six months ended
June 30,

2005 2004

Edgar Filing: BOUNDLESS CORP - Form 10-Q

| | | |
|--|---------|--------|
| Cash flows from operating activities: | | |
| Income before reorganization items | 122 | 89 |
| Adjustments to reconcile income before reorganization items to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 1 | 41 |
| Change in deferred credits | 19 | (74) |
| Provision (credit) for doubtful accounts | 10 | (24) |
| Changes in assets and liabilities: | | |
| Cash on deposit with lender | 271 | 16 |
| Trade accounts receivable | 122 | (202) |
| Affiliate receivables | 8 | (202) |
| Other receivables | (28) | 60 |
| Inventories | 249 | 730 |
| Other assets | (145) | 39 |
| Accounts payable and accrued expenses | (324) | 82 |
| | ----- | ----- |
| Net cash provided by operating activities excluding reorganization items | 305 | 556 |
| | ----- | ----- |
| Cash flows from reorganization activities: | | |
| Reorganization items, net | (192) | (189) |
| Gain on disposition of property and equipment | -- | (23) |
| Proceeds from disposition of property | -- | 23 |
| Increase in liabilities, net | 150 | 27 |
| | ----- | ----- |
| Net cash used in reorganization activities | (42) | (162) |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Capital expenditures | (18) | (14) |
| | ----- | ----- |
| Net cash used in investing activities | (18) | (14) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Net proceeds from issuance of debt | 3,211 | -- |
| Payments on loans payable and capital leases | (3,580) | (645) |
| | ----- | ----- |
| Net cash used in financing activities | (369) | (645) |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (124) | (265) |
| Cash and cash equivalents at beginning of period | 124 | 373 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 0 | \$ 108 |
| | ===== | ===== |
| Cash paid for: | | |
| Interest | \$ 65 | \$ 51 |
| Taxes | -- | -- |

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5 of 24

BOUNDLESS CORPORATION AND SUBSIDIARIES
(DEBTOR AND DEBTORS-IN-POSSESSION)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)
(unaudited)

1. Voluntary Reorganization Under Chapter 11 of the Bankruptcy Code

Edgar Filing: BOUNDLESS CORP - Form 10-Q

The Company voluntarily petitioned for relief under Chapter 11 of the United States Bankruptcy Code on March 12, 2003, (the "Petition Date") in the United States Bankruptcy Court for the Eastern District of New York, Central Islip

The Debtor continues to operate its business as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure and applicable court orders. In general, as debtors-in-possession, the Debtor is authorized under Chapter 11 to continue to operate as an ongoing business, but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court.

In order to successfully exit Chapter 11, the Company will need to propose, and obtain confirmation by the Bankruptcy Court of, a plan of reorganization that satisfies the requirements of the Bankruptcy Code.

Financial Statement Presentation.

The unaudited condensed consolidated interim financial statements, and accompanying notes included herein, have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and reflect all adjustments which are of a normal recurring nature and which, in the opinion of management, are necessary for the fair statement of the results of the three and six months ended June 30, 2005 and 2004. Certain information and footnote disclosures have been condensed or omitted pursuant to such regulations. The results for the current interim periods are not necessarily indicative of the results for the full year. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Company's latest annual report filed with the SEC on Form 10-K for the year ended December 31, 2004. The accompanying financial statements include the accounts of the Company and its subsidiaries on a consolidated basis. All significant inter-company accounts and transactions have been eliminated.

The accompanying consolidated financial statements have been prepared in accordance with American Institute of Certified Public Accountants' Statement of Position 90-7 ("SOP 90-7"), "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," and on a going-concern basis, which contemplates continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business.

SOP 90-7 requires that the financial statements for periods subsequent to the Chapter 11 filing petition distinguish transactions and events that are directly associated with the reorganization from the operations of the business. Accordingly, revenues, expenses (including professional fees), realized gains and losses, and provisions for losses directly associated with the reorganization and restructuring of the business are reported separately in the financial statements. The Consolidated Balance Sheet distinguishes pre-petition liabilities and other items subject to compromise from both those pre-petition liabilities that are not subject to compromise and from post-petition liabilities. Liabilities and other items subject to compromise are reported at the amounts expected to be allowed, even if they may be settled for lesser amounts.

In addition, as a result of the Chapter 11 filing, the realization of assets and satisfaction of liabilities, without substantial adjustments or changes in ownership, are subject to uncertainty. Given this uncertainty, there is substantial doubt about the Company's ability to continue as a going concern. While operating as debtors-in-possession under the protection of Chapter 11 of the Bankruptcy Code and subject to approval of the

Edgar Filing: BOUNDLESS CORP - Form 10-Q

Bankruptcy Court or otherwise as permitted in the ordinary course of business, the Debtors, or some of them, may sell or otherwise dispose of assets and liquidate or settle liabilities for some amounts other than those reflected in the consolidated financial statements. Further, a plan of reorganization could materially change the amounts and classifications in the historical consolidated financial statements.

The primary issues management will focus on immediately following confirmation of the Company's Plan of Reorganization include:

- o Working with its secured lender on a restructuring of the terms of the DIP debt which it holds, thereby reducing the Company's cost of borrowing.
- o Initiating negotiations with suppliers to secure trade financing of working capital of approximately \$1-2 million under terms and conditions to be agreed upon. There can be no assurance that such financing will materialize.
- 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 ability of the Company to generate cash from operations and to maintain adequate cash on hand; and
- o The ability of the Company to achieve profitability.

The Company believes that positive operating cash flows and profitability will not come from the general purpose text terminal marketplace. The Company has been and will continue to focus on the current business from the current customers in order to provide a reliable cash flow with which to execute growth plans. The paths to growth that the Company has developed include:

1. Repositioning the Company's business from a text terminal company to a Point-of-Service/Point-of-Sale ("POS") technology company, and build upon the Company's historical success in POS to establish a strong link between the Company's and POS' applications. A key activity in support of the POS initiative includes leveraging the Company's existing technology platforms

2. Gaining access to a more modern and growing market through new product offerings including Web terminals and terminals utilizing the Linux operating system which provide high security, high levels of productivity and high reliability.

3. Enter the Radio Frequency Identification ("RFID") market place with a high value-to-cost offering. Position the company as a RFID provider to POS integrators and OEMs. RFID Controllers - read/write RFID modules for both 13.56 mhz and 900 mhz- will be embedded into the Company's technology platforms.

4. Applying its robust Build-to-Order ("BTO") processes to growth products and markets.

There is no assurance that the Company will be successful in obtaining confirmation of their Plan of Reorganization. If it is not, liquidation of the Company's assets would most likely ensue. If the Company does emerge from Chapter 11, there is no assurance that our operations will be profitable and cash flow positive; in the alternative, the scope of operations could be

Edgar Filing: BOUNDLESS CORP - Form 10-Q

severely curtailed or discontinued entirely. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

2. Summary of Certain Accounting Policies

These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2004 included in the Company's Annual Report on Form 10-K. The accounting policies used in preparing these consolidated financial statements are the same as those described in the December 31, 2004 consolidated financial statements.

Cash and Cash Equivalents

All highly liquid investments with maturities at purchase of three months or less are considered cash equivalents. We had \$271 classified as "cash on deposit with lender" at December 31, 2004, representing cash on-hand in a lockbox account under the control of the Company's DIP lender.

7 of 24

Minority Interest

In the absence of a commitment by minority shareholders to fund losses in excess of their equity, such losses have been attributed to the Company.

Revenue Recognition

The Company recognizes revenue from product sales upon shipment to the customer or passage of title and assumption of risk. The Company monitors product returns generally, which are for stock rotation with the coinciding replacement order, and records provisions for estimated future returns and potential warranty liability at the time revenue is recorded. Service revenue is recognized when service is performed and billable. Revenue from maintenance and extended warranty agreements is deferred and recognized ratably over the term of the agreement.

Supplier Concentration

The Company purchases subassemblies and components for its products from more than 40 domestic and Far East suppliers. For the quarter ended June 30, 2005, purchases from Radiance Electronics and Ansen Corporation accounted for approximately 29% and 24%, respectively, of total purchases. During the second quarter of 2004 purchases from Radiance Electronics, Ansen Corporation, and Video Display Corporation accounted for 23%, 20%, and 12%, respectively, of the Company's total purchases of material.

The balance due Ansen was approximately \$246 and \$561 at June 30, 2005 and December 31, 2004, respectively; and such balance is included in "Purchase order commitments" on the balance sheets.

Advertising

Advertising costs are expensed as incurred. The amount charged to advertising expense was immaterial for the three and six months ended June 30, 2005 and 2004, respectively.

Net Loss Per Common Share

Net loss attributable to common stockholders includes the accretion of

Edgar Filing: BOUNDLESS CORP - Form 10-Q

mandatorily redeemable preferred stock.

SFAS No. 128, "Earnings Per Share," requires a reconciliation of the numerator and denominator of the basic net income (loss) per share computation to the numerator and denominator of the diluted net income (loss) per share computation.

Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs--An Amendment of ARB No. 43, Chapter 4" ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005 and is required to be adopted by

8 of 24

Boundless in the first quarter of fiscal 2006, beginning on January 1, 2006. Boundless is currently evaluating the effect that the adoption of SFAS 151 will have on its consolidated results of operations and financial condition but does not expect SFAS 151 to have a material impact.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. As amended by an SEC pronouncement, SFAS 123R is effective with the first annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123, no longer will be an alternative to financial statement recognition. We are required to adopt SFAS 123R in the first quarter of fiscal 2006, beginning January 1, 2006. Under SFAS 123R, we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive options, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive methods would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. We are evaluating the requirements of SFAS 123R and we expect that the adoption of SFAS 123R will not have a material

Edgar Filing: BOUNDLESS CORP - Form 10-Q

impact on the Company's consolidated results of operations and earnings per share. We have not yet determined the method of adoption or the effect of adopting SFAS 123R, and we have not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets--An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions" ("SFAS 153"). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005 and is required to be adopted by Boundless in the third quarter of fiscal 2005, beginning on July 1, 2005. Boundless is currently evaluating the effect that the adoption of SFAS 153 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

In March 2005, the FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143" ("FIN 47"), which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 is effective for fiscal years ending after December 15, 2005 and is required to be adopted by Boundless in the first quarter of fiscal 2006. Boundless is currently evaluating the effect that the adoption of FIN 47 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154") which replaces Accounting Principles Board Opinion No. 20 "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements--An Amendment of APB Opinion No. 28." SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and is required to be adopted by Boundless in the first quarter of fiscal 2006. Boundless is currently evaluating the effect that the adoption of SFAS 154 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

9 of 24

In June 2005, the FASB issued FSP FAS 143-1, "Accounting for Electronic Equipment Waste Obligations" ("FSP 143-1"), which provides guidance on the accounting for certain obligations associated with the Directive on Waste Electrical and Electronic Equipment (the "Directive"), which was adopted by the European Union ("EU"). Under the Directive, the waste management obligation for historical equipment (products put on the market on or prior to August 13, 2005) remains with the commercial user until the equipment is replaced. FSP 143-1 is required to be applied to the later of the first reporting period ending after June 8, 2005 or the date of the Directive's adoption into law by the applicable EU member countries in which we have significant operations. Boundless is currently evaluating the effect that the adoption of FSP 143-1 will have on its consolidated results of operations and financial condition. Such effects will depend on the respective laws adopted by the EU member countries.

Edgar Filing: BOUNDLESS CORP - Form 10-Q

3. Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a first-in first-out basis. On a quarterly basis the Company reviews quantities on hand and on order and records a provision for excess and obsolete inventory based on forecasted demand. Should this analysis indicate that the demand for product has increased from previous estimates, a decrease in the reserves would be effected through a credit to the statement of operations.

The major components of inventories are as follows:

| | June 30, | December 31, |
|--|----------|--------------|
| | 2005 | 2004 |
| Raw materials and purchased components | \$ 1,204 | \$ 1,584 |
| Finished goods | 156 | 126 |
| Manufacturing inventory reserves | (837) | (935) |
| Service parts | 322 | 319 |
| | \$ 845 | \$ 1,094 |
| | ===== | ===== |

4. Property and equipment

Property and equipment consists of the following:

| | June 30, | December 31, |
|--|----------|--------------|
| | 2005 | 2004 |
| Buildings and improvements | \$ 17 | \$ 14 |
| Machinery and equipment | 6,520 | 6,505 |
| | 6,537 | 6,519 |
| Less accumulated depreciation and amortization | 6,417 | 6,416 |
| | \$ 120 | \$ 103 |
| | ===== | ===== |

Depreciation expense for the six months ended June 30, 2005 and 2004 was \$1 and \$41, respectively. The Company recorded repairs and maintenance expenses of \$2 and \$2 for the six months ended June 30, 2005 and 2004.

The Company discontinued recording depreciation expense on its machinery and equipment in the first quarter of 2005 as those assets had reached their estimated salvage value.

5. Liabilities and Other Items Subject to Compromise

10 of 24

Liabilities and other items subject to compromise refers to liabilities incurred and the issuance of preferred stock prior to the commencement of the Chapter 11 Cases. These amounts represent the Company's estimate of known or potential pre-petition claims to be resolved in connection with the Chapter 11 Cases. Such claims remain subject to future adjustments. Adjustments may result from negotiations, actions of the Bankruptcy Court, the determination as to the value of any collateral securing claims, proofs of claim or other events. It is anticipated that such adjustments may be material. Payment terms for these

Edgar Filing: BOUNDLESS CORP - Form 10-Q

amounts will be established in connection with the Chapter 11 Cases.

At June 30, 2005 and December 31, 2004, the Company had liabilities and other items subject to compromise of approximately \$14,628 and \$14,622 which consisted of the following:

| | June 30, 2005 | December 31, 2004 |
|--|------------------|----------------------|
| Liabilities: | | |
| Accounts payable | \$ 10,954 | \$ 10,948 |
| Convertible notes payable, principally related to prior separation agreements | 965 | 965 |
| Accrued salaries | 397 | 397 |
| Accrued warranty | 222 | 222 |
| Capital lease obligations | 438 | 438 |
| | 12,976 | 12,970 |
| Other: | | |
| Mandatorily redeemable preferred stock | 1,652 | 1,652 |
| | \$ 14,628 | \$ 14,622 |

The mandatorily redeemable preferred stock is convertible into shares of common stock of the Company at a conversion price of \$3 per share. The Plan of Reorganization contemplates that all equity instruments of the Company will be cancelled on the Effective Date. As a result, the conversion of the preferred stock to shares of common stock is doubtful and therefore the mandatorily preferred stock is included with other items subject to compromise.

6. Stockholders' Deficit

At June 30, 2005 and December 31, 2004 stockholders' deficit consisted of the following:

| | June 30, 2005 | December 31, 2004 |
|--|------------------|----------------------|
| Preferred stock, \$0.01 par value, 1,000,000 shares authorized, none issued | \$ -- | \$ -- |
| Common stock, \$0.01 par value, 25,000,000 shares authorized, 6,705,613 shares issued and outstanding | 67 | 67 |
| Additional paid-in capital | 35,844 | 35,844 |
| Accumulated deficit | (50,886) | (50,816) |
| Accumulated other comprehensive loss | -- | -- |
| | (14,975) | (14,905) |
| Total stockholders' deficit | \$ (14,975) | \$ (14,905) |

7. Reorganization Expenses

Edgar Filing: BOUNDLESS CORP - Form 10-Q

Reorganization expenses were as follows:

11 of 24

| | Six months ended June 30, | |
|--------------------------------------|------------------------------|--------|
| | 2005 | 2004 |
| Professional fees | \$ 150 | \$ 28 |
| United States District Court fees | 14 | 16 |
| Facility relocation expenses | 20 | 168 |
| Other expenses | 8 | -- |
| Gain on the disposition of equipment | -- | (23) |
| | ----- | ----- |
| | \$ 192 | \$ 189 |
| | ===== | ===== |

8. 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. Ingram Micro and CDG Management, LLC contributed approximately 17% and 13%, respectively, of revenues for the three months ended June 30, 2005. Ingram Micro contributed 21% of revenues for the six months ended June 30, 2005. For the quarter ended June 30, 2004, the Company had two customers representing 12% and 10%, respectively, of revenue.

9. Litigation and Contingencies

The Company is subject to lawsuits and claims that arose in the normal course of business. Management is of the opinion that all such matters are without merit, or are of such kind, or involve such amounts, as would not have a significant effect on the financial position, results of operations or cash flows of the Company if disposed unfavorably. See Part II - Other Information, Item 1. Legal Matters.

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.

Three and Six Months Ended June 30, 2005 and 2004.

Revenue - Revenue for the quarter ended June 30, 2005 was \$1,536 as compared to \$1,811 for the quarter ended June 30, 2004. For the six months ended June 30, 2005, the Company recorded revenue of \$3,151 versus revenue of \$3,994 for the six months ended June 30, 2004.

Sales of the Company's General Display Terminals were \$1,344 and \$2,788, respectively, for the three and six months ended June 30, 2005. During 2004, General Display Terminal Revenue was \$1,575 and \$3,560, respectively, for the three and six months ended June 30. During 2003, Hewlett Packard announced the discontinuation of sales of its General Display Terminal, sourced from the

Edgar Filing: BOUNDLESS CORP - Form 10-Q

Company, in favor of technologically newer desktop terminal devices. As a result of this transition, Hewlett Packard's purchases during the first quarter of 2004 included the acquisition of product quantities sufficient to meet its then current needs, as well as its near-term projected needs during the product transition period. For the first quarter of 2004, purchases from Hewlett Packard amounted to

12 of 24

approximately \$748 as compared to purchases of approximately \$143 for the first quarter of 2005. Sales to HP in the second quarter of 2005 amounted to \$94 versus \$166 in 2004.

Text revenue includes sales of the Company's general-purpose display terminals. The Company's product family falls into two general classes: ANSI or ASCII display terminals. The general purpose segment of the Text market, whether ANSI or ASCII, is primarily characterized as a "replacement sale" market. Text terminal customer purchasing criteria are based on quality, customization, compatibility with other terminals, price and, as a result of the markets replacement characterization, lead-times. Historically, the Company has been a leader in these categories.

The Company anticipates sales of its General Display Terminals will continue to decline as customers transition to newer technologies with graphical capabilities.

Net revenue from EMS activities, primarily logistics services sold to Unique Co-operative Solutions, Inc. ("UCSI"), were \$11 for the six months ended June 30, 2005, as compared to \$82 in the comparable period of 2004. UCSI is wholly owned by Mr. Oscar Smith, who also is the majority shareholder of Vision Technologies, Inc. ("Vision"). The Company's Plan of Reorganization, assuming approval by the Bankruptcy Court, contemplates that Vision will own 100% of the Company, and will receive this ownership in settlement of the \$650 note payable due to him plus accrued interest of \$118. Mr. Smith currently owns approximately 15% of the outstanding common stock of the Company.

Net revenue from the Company's repairs and spare parts business for the quarter ended June 30, 2005 was \$180 as compared to \$173 for the quarter ended June 30, 2004. This revenue includes the sale of spare parts, repair of product outside of the warranty period, and the sale of multi-year warranty contracts. Year-to-date revenue in 2005 was \$347 versus \$352 in 2004. Historically, customer service revenue has been driven from the sales of the Company's text terminal products.

The Company's engineering efforts have focused on cost reduction and reliability improvements. These efforts have decreased the average failure rate of the Company's text terminals and extended the average useful life of the text terminal. These improvements have reduced the Company's ability to generate revenue from spare parts sales and repair activities. In addition, a substantial market has evolved around the sale of used equipment, as customers trade in text terminals when they switch to alternative technologies, thereby reducing the Company's opportunity to sell new equipment.

During the second quarter of 2005, Ingram Micro contributed 17%, and CDG Management, LLC contributed 13%, of total revenues.

Gross Margin - The Company recorded gross margin for the three months ended June 30, 2005 of \$344 (22.4% of revenue) compared to gross margin of \$441 (24.4% of revenue) for the second quarter of 2004. On a year-to-date basis, gross margin decline by \$325, or 30%, from \$1,085 in 2004 to \$760 in 2005. The decrease in

Edgar Filing: BOUNDLESS CORP - Form 10-Q

total gross margin as a percentage of revenue for the second quarter of 2005 as compared to the second quarter of 2004 is attributable to the reduction in the Company's revenue without a corresponding reduction in the Company's manufacturing overhead expenses, which expenses include fixed costs such as rent for the manufacturing facility. Manufacturing overhead expenses in the second quarter of 2005 were \$256, or 17% of revenue, as compared to \$277, or 15% of revenue, for the second quarter of 2004.

Total Operating Expenses - For the quarter ended June 30, 2005, operating expenses, excluding interest expense and reorganization expenses associated with the Company's bankruptcy filing, decreased 27% to \$257 (17% of revenue), compared to expenses for the second quarter of 2004 of \$350 (19% of revenue). Year-to-date operating expenses decreased \$304, or 35%, from \$863 in 2004 to \$559 in 2005.

The decrease in total operating expenses is attributable to layoffs and other expense control activities implemented by the Company in order to align its expense structure with its revenue. These layoffs included the elimination of senior management, including the

13 of 24

Company's chief executive officer, and a restructuring of the Company's sales group.

The Company reviews its account receivable balances monthly to assess its estimate of the collectability of such accounts. The Company utilizes ratios based on its historical experience, as well as management's judgment, in its assessment. For the second quarter of 2005 the Company recorded bad debt reserves against its receivables in an amount of approximately \$10. No reserve or accrual was recorded during the second quarter of 2004.

Loss on reimbursement of employee services - Beginning in the first quarter of 2004 the Company agreed to provide UCSI resources, primarily Company employees, to allow UCSI to pursue programs critical to their continued development of the thin client market. UCSI is wholly-owned by Mr. Oscar Smith. Mr. Smith is also the majority owner of Vision Technologies, Inc., the entity which will own 100% of the Company upon confirmation of the Company's plan of reorganization. A monthly charge to UCSI was agreed to based upon the Company's estimate of the percentage of time its employees would be devoted to UCSI projects. During the second quarter of 2005 the Company charged UCSI \$20 and incurred expenses of \$24, resulting in a loss on reimbursement of \$4. For the quarter ended June 30, 2004, the Company charged UCSI \$75 and incurred estimated expenses of \$90, resulting in a loss on reimbursement of employee services of \$15. For the six months ended June 30, 2005 and 2004 the loss on reimbursement of employee services was \$9 and \$30, respectively.

Other costs/income - Other income for the quarter ended June 30, 2005 was \$17 compared to other costs of \$74 for the period ended June 30, 2004. Other income recorded in 2005 includes \$20 relating to refunds of prior years' personnel property tax assessments against the Company's former manufacturing facility in Boca Raton, Florida. Other costs in the second quarter of 2004 include accruals of approximately \$58 associated with the Company's decision to shut down its depot repair center in Illinois. For the six months ended June 30, 2005, other income was \$22. For the six months ended June 30, 2004, other costs were \$25.

Interest Expense - Interest expense for the three and six months ended June 30, 2005, was \$54 and \$92, respectively. Interest expense was \$37 for the quarter ended June 30, 2004 and \$78 for the six months ended June 30, 2004. In connection with the bankruptcy filing, during the quarter ended March 31, 2003,

Edgar Filing: BOUNDLESS CORP - Form 10-Q

the Company obtained debtor-in-possession ("DIP") financing with Valtec Capital, LLC. At June 30, 2004, the balance owed Valtec was approximately \$1,125, and carried an interest rate of 8% per annum. In January 2005, the Company replaced the Valtec Capital DIP financing with DIP financing provided by Entrepreneur Growth Capital, LLC ("EGC"). At June 30, 2005, the balance due EGC was \$285, and carried an interest rate of the prime rate plus 6%. In addition, in June 2003 the Bankruptcy Court authorized the Company to secure \$650 of junior secured DIP financing from Vision. The Vision DIP financing carries interest at 8% per annum.

Reorganization Expenses- During the second quarter of 2005 the Company recorded reorganization expenses of \$96, primarily for legal fees incurred in the bankruptcy. For the quarter ended June 30, 2004, reorganization expenses were \$76. For the six months ended June 30, 2005, reorganization expenses were \$192, compared to \$189 for the comparable period in 2004. The 2004 year-to-date amount includes approximately \$168 related to expenses associated with the Company's relocating its manufacturing operations to Farmingdale, New York, and a credit of \$23 from the sale of excess assets.

Income Tax Expense/Credit - For the second quarter of 2005 and 2004 the Company did not record income tax expense or credit against the recorded results. The Company recorded no income tax benefit for the respective quarters based on the Company's estimate of its annual effective income tax rate to be zero. For annual reporting purposes, the Company has provided a 100% valuation allowance for its net deferred tax assets.

Net Loss - For the quarter ended June 30, 2005, the Company recorded a net loss of \$50, compared to a net loss of \$111 for the quarter ended June 30, 2004. On a year-to-date basis the net loss was \$70 in 2005 compared to \$100 in 2004.

LIQUIDITY AND CAPITAL RESOURCES

14 of 24

The matters described in "Liquidity and Capital Resources," to the extent that they relate to future events or expectations, may be significantly affected by the Chapter 11 process. Those proceedings involve, or may result in, various restrictions on the Company's activities, limitations on financing, the need to obtain Bankruptcy Court and Creditors' Committee approval for various matters and uncertainty as to relationships with vendors, suppliers, customers and others with whom we may conduct or seek to conduct business.

Generally, under the Bankruptcy Code, most of a debtor's liabilities must be satisfied in full before the debtor's stockholders can receive any distribution on account of such shares. The rights and claims of various creditors and security holders will be determined by the confirmed plan of reorganization. Further, it is also likely that pre-petition unsecured claims against the Company will be substantially impaired in connection with the Company's reorganization. At this time we can make no prediction concerning how each of these claims will be valued in the bankruptcy proceedings. We believe that the Company's presently outstanding equity securities will have no value and it is expected that those securities will be canceled under any plan of reorganization that we propose. For this reason, we urge that caution be exercised with respect to existing and future claims or investments in any Boundless security.

The Company is highly leveraged. As of December 31, 2004, the Company had a tangible net worth deficit of \$14,905 and total liabilities of \$17,915. As of June 30, 2005, the Company had a tangible net worth deficit of \$14,975 and total liabilities of \$17,391. The Company had a working capital deficit, inclusive of liabilities and other items subject to compromise, of approximately \$14,361 as

Edgar Filing: BOUNDLESS CORP - Form 10-Q

of June 30, 2005, compared to working capital deficit of \$13,990 as of December 31, 2004. 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.

On the Effective Date, the Company shall issue, or cause to be issued for Vision's benefit, and in its name, shares of Boundless Common Stock sufficient to provide Vision with 100% of the Boundless Common Stock issued and outstanding, or to be issued and outstanding, under the Plan (the "Vision Shares"). Such issuance of the Vision Shares shall be deemed to be in full satisfaction of the Vision Claim, which claim was \$768, including accrued interest, at June 30, 2005.

The Company's Plan of Reorganization contemplates an annual payment of cash to holders of allowed unsecured claims (the "Claims"). The Company believes that these Claims aggregate approximately \$14,586 at December 31, 2005. Holders of Claims shall receive their Pro Rata share of cash payments in an amount equal to 2% of annual revenues up to and including \$7 million, on each of the first, second and third anniversary dates of the Effective Date; and cash payments in an amount equal to 4% of annual revenues exceeding \$7 million, on each of the first, second and third anniversary dates of the Effective Date.

Payments of Claims shall be escrowed on a monthly basis, and the Company must forward monthly sales reports and confirmation of the escrow to Committee Counsel. Each of the annual payments to be distributed to holders of the Claims shall be: (i) not less than \$150 on each of the first and second anniversary dates; and (ii) not less than \$200 on the third anniversary dates. The total amount to be distributed to holders of the Claims shall be not less than \$500 (the "Minimum Distribution").

If the Company merges with another entity or is acquired by another entity prior to the payments of all amounts due and owing pursuant to the payment plan, the remaining entity must assume the Company's obligations contained herein. Annual revenues shall include only those revenues generated from sales of the Company's product line existing prior to any merger or acquisition.

At June 30, 2005, the Company had accrued approximately \$1,179 for legal assistance throughout the bankruptcy period. As of December, 2005, outstanding professional fees, inclusive of legal fees, are estimated to approximate \$1,430 as of the Effective Date. Upon application for payment pursuant to Sections 330, 331 and 503(a) of the Bankruptcy Code and approval by the Bankruptcy Court, any and all professional fees not paid on or before the

15 of 24

Effective Date shall be paid by the Company on such terms as the parties shall agree. Interest shall accrue on any unpaid professional fees from the Effective Date at a rate of eight (8%) percent per annum.

Since it is anticipated that professional fees shall not be paid in full on the Effective Date, the Professionals (other than auditors) shall be granted a security interest upon all of the Company's assets, junior to the security interest thereon of EGC, but pari passu with the Vision security interest, if any. When the Professionals shall have been paid in full, the security interest in their favor shall be cancelled and be of no further force and effect.

The Company's liquidity is affected by many factors, some of which are based on the normal ongoing operations of our businesses and some of which arise from uncertainties related to global economies. In the event there is a decline in the Company's sales and earnings and/or a decrease in availability under the

Edgar Filing: BOUNDLESS CORP - Form 10-Q

credit line, the Company's cash flow would be further adversely affected. Accordingly, the Company may not have the necessary cash to fund all of its obligations.

Net cash provided by operating activities during the six months ended June 30, 2005 was \$305, principally related to net income before reorganization expenses of \$122 and reductions in trade accounts receivable, affiliate receivables and inventories of \$122, \$8 and \$249, respectively. Non-cash charges during the second quarter of 2005 were \$10 and deferred revenues increased by \$19. In addition, cash on deposit with the Company's lender declined by \$271. These amounts were offset by reductions in accounts payable and accrued expenses of \$324, increases in other assets, principally cash collateral, of \$145 and increases in other receivables of \$28. Net cash provided by operating activities during the six months ended June 30, 2004 was \$556, principally related to reductions in inventories of \$730, income before reorganization expenses of \$89 and increases in accounts payable and accrued expenses of \$82. This amount was offset by increases in trade accounts receivable and affiliate receivables of \$404, a reduction in the balance of deferred revenues of \$74, and non-cash credits of \$24 relating to the reversal of previously accrued reserves against trade accounts receivable.

For the six months ended June 30, 2005, net cash used in reorganization activities was \$42 composed primarily of professional expenses of \$150, fees of the U.S. Trustee administering the bankruptcy case of \$14 and facility relocation expenses of \$20. These expenses were offset by increases in accrued liabilities of \$150, principally for legal expenses. Net cash used in reorganization activities for the six months ended June 30, 2004 was \$162, which amount included \$189 of expenses primarily related to the Company's relocation of its manufacturing facility, offset by increases in accrued liabilities of \$27, principally for legal expenses, and cash proceeds of \$23 from the sale of excess machinery and equipment.

Net cash used in investing activities for the six months ended June 30, 2005 and 2004, consisted of equipment purchases of \$18 and \$14, respectively.

During the first and second quarters of 2005 and 2004, net cash used in financing activities was \$369 and \$645, respectively, consisting of net payments to EGC and Valtec under the respective DIP financing agreements.

FORWARD-LOOKING INFORMATION MAY PROVE INACCURATE

This Form 10-Q contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements represent the Company's expectations and beliefs concerning future events, based on information available to us on the date of the filing of this Form 10-Q, and are subject to various risks and uncertainties. We disclaim any intent or obligation to update or revise any of the forward-looking statements, whether in response to new information, unforeseen events or changed circumstances except as required to comply with the disclosure requirements of the federal securities laws.

Forward looking statements necessarily involve known and unknown risks, uncertainties and other factors that may cause the actual results, levels of activity,

performance, or achievements to be materially different from any future results, levels of activity, performance, or achievement expressed or implied by such

Edgar Filing: BOUNDLESS CORP - Form 10-Q

forward-looking statements. Readers are cautioned to review carefully the discussion concerning these and other risks which can materially affect the Company's business, operations, financial condition and future prospects.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "intend," "expect," "anticipate," "assume," "hope," "plan," "believe," "seek," "estimate," "predict," "approximate," "potential," "continue", or the negative of such terms. Statements including these words and variations of such words, and other similar expressions, are forward-looking statements. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable based upon its knowledge of its business, the Company cannot absolutely predict or guarantee its future results, levels of activity, performance, or achievements. Moreover, neither the Company nor any other person assumes responsibility for the accuracy and completeness of such statements.

The Company notes that a variety of factors could cause its actual results and experience to differ materially from the anticipated results or other expectations expressed in its forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of its business include, but are not limited to, the following: changes in spending patterns; changes in overall economic conditions; the impact of competition and pricing; the financial condition of the suppliers and manufacturers from whom the Company sources its merchandise; changes in tax laws; the Company's ability to hire, train and retain a consistent supply of reliable and effective participants in its marketing operations; general economic, business and social conditions in the United States; the costs of complying with changes in applicable labor laws or requirements, including without limitation with respect to health care; changes in the costs of interest rates, insurance, shipping and postage, energy, fuel and other business utilities; the risk of non-payment by, and/or insolvency or bankruptcy of, customers and others owing indebtedness to the Company; actions that may be taken by creditors with respect to the Company's obligations that are subject to default proceedings; threats or acts of terrorism or war; and strikes, work stoppages or slow downs by unions affecting businesses which have an impact on the Company's ability to conduct its own business operations.

Forward-looking statements that the Company makes, or that are made by others on its behalf with its knowledge and express permission, are based on knowledge of the Company's business and the environment in which it operates, but because of the factors listed above, actual results may differ from those in the forward-looking statements. Consequently, these cautionary statements qualify all of the forward looking statements made herein. The Company cannot assure the reader that the results or developments anticipated by it will be realized or, even if substantially realized, that those results or developments will result in the expected consequences for it or affect it, its business or operations in the way the Company expects. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates, or on any subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf, which are expressly qualified in their entirety by these cautionary statements. The Company does not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances after the date hereof or thereof or to reflect the occurrence of unanticipated events, other than as required to comply with the disclosure requirements of the federal securities laws.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Edgar Filing: BOUNDLESS CORP - Form 10-Q

The Company's exposure to market risk for changes in interest rates is related primarily to the Company's revolving credit facility and long-term debt obligations.

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 June 30, 2005 the Company's investments consisted of cash balances maintained in its corporate account with the JPMorganChase Bank.

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

An evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures as of June 30, 2005. Based on that evaluation, the Company's management, including the CEO and CFO, has concluded that the Company's disclosure controls and procedures are effective. During the period covered by this report, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

18 of 24

PART II - OTHER INFORMATION

Item 1. Legal Matters

In re: Boundless Corporation, et. al.

As discussed above, on the Petition Date, the Company, and its wholly and majority owned subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The Chapter 11 Cases are being jointly administered under the caption "In re Boundless Corporation, et al., Case No. 03-81558-478." As debtors-in-possession, we are authorized under Chapter 11 to continue to operate as an ongoing business, but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court. As of the Petition Date, virtually all pending litigation (including some of the actions described below) is stayed, and absent further order of the Bankruptcy Court, no party, subject to certain exceptions, may take any action, again subject to certain exceptions, to recover on pre-petition claims against us. In addition, we may reject pre-petition executory contracts and unexpired lease obligations, and parties affected by these rejections may file claims with the Bankruptcy Court. At this time, it is not possible to predict the outcome of the Chapter 11 process or its effect on the Company's business.

An action was commenced by Kareem Mangaroo, employed by Boundless Technologies between February 1994 and April 1999 as a material handler ("Plaintiff"), on February 5, 2001, against Boundless Technologies, Boundless Corporation, and

Edgar Filing: BOUNDLESS CORP - Form 10-Q

four employees of the Company (Joseph Gardner, its CFO, Michelle Flaherty, formerly manager of Human Resources, Thomas Iavarone, director of Logistics, and Anthony San Martin, manager of Shipping), seeking damages for the unlawful termination of Plaintiff's employment in violation of Plaintiff's rights under Title VII of the Civil Rights Act of 1964, as amended; the Equal Protection Clause and Due Process Clause, pursuant to the Civil Rights Act of 1886, as amended, 42 U.S.C. ss. 1981; and for damages as a result of the conspiratory actions of defendants to deprive Plaintiff of his equal protection and due process rights pursuant to 42 U.S.C. ss. 1985 and for violation Plaintiff's rights under the Employee Retirement Income Security Act 29 U.S. C. of ss. 1001. Plaintiff further alleges claims under State law for breach of contract. The verified complaint was filed in the United States District Court, Eastern District of New York. Plaintiff seeks (i) compensatory damages of \$1 million from each of Boundless Technologies and four employees of the company (jointly and severally), (ii) punitive damages of \$2 million from each of Boundless Technologies, the Company, and four employees of the Company (jointly and severally), (iii) \$1 million against Boundless Technologies for breach of contract, and (iv) the value of forfeited options, attorney's fees, costs of the action and other relief as the court deems necessary.

On February 17, 2003, the defendants' motion for summary judgment was granted. On March 21, 2003, Plaintiff served Notice of Appeal to the United States Court of Appeals for the Second Circuit in opposition to the granting of defendants' motion for summary judgment. On October 15, 2003, the United States Court of Appeal for the Second Circuit granted the defendants' motion to Stay the appeal in accordance with 11 U.S.C. Section 362, which Stay is still in effect. The Company intends to vigorously defend this suit since it believes that it has meritorious defenses to the action.

An action was commenced by Donald W. Lytle ("Plaintiff") on February 8, 2001, against Boundless Technologies, Inc., GN Netcom, Inc., Portal Connect, Inc., and Wholesale Audio Video, Inc. in the Iowa District Court, Johnson County; Law No. LACV061503 alleging negligence and products defects resulting in injuries to Plaintiff's hearing as a result of the use of one model of the Company's General Display Terminals. Plaintiff was suing for unspecified damages. On January 17, 2003, Plaintiff filed a Dismissal with Prejudice dismissing Plaintiff's claims against Boundless Technologies, Inc.

In November 2002, Comdial Corporation filed a demand for arbitration with the American Arbitration Association against Boundless Manufacturing Services, Inc. ("Boundless").

19 of 24

Among other things, Comdial contends that Boundless breached its contractual obligations to Comdial by failing to meet Comdial's orders for the delivery of products manufactured by Boundless. The Comdial demand seeks damages in excess of \$6.0 million. On February 6, 2003, Boundless responded to the demand by denying substantially all of Comdial's claims and asserting counterclaims totaling approximately \$8.2 million, including approximately \$0.8 million in past due invoiced amounts. On March 13, 2003, Boundless announced that it has filed for protection pursuant to Ch. 11 of the U.S. Bankruptcy Code, causing a stay in the arbitration matter. It is not known at this time whether this filing will have any long-term impact on the arbitration, or whether the arbitration will eventually proceed. No amounts have been accrued in the Company's financial statements for any losses. In May 2005 Comdial Corporation filed for protection under Ch. 11 of the U.S. Bankruptcy Code. Since the Company's claims against Comdial accrued prior to Comdial's filing for bankruptcy, any damages awarded to the Company will constitute pre-petition claims against Comdial.

Edgar Filing: BOUNDLESS CORP - Form 10-Q

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 31.1: Certification of Acting Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.

Exhibit 31.2: Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.

Exhibit 32: Certification of Acting Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

20 of 24

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: March 6, 2006

Boundless Corporation

By: /s/ Joseph Gardner

Joseph Gardner
Vice President and Chief Financial Officer
(Principal Accounting and Financial Officer)

21 of 24