BOUNDLESS CORP
Form 10-Q
May 15, 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 March 31, 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 |X| No |_|

As of March 31, 2002, the Registrant had approximately 5,688,037 shares of Common Stock, $.01 par value per share outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	March 31, 2002	December 31, 2001
Current assets:	(unaudited)	
Cash and cash equivalents	$ 18	$ 25
Trade accounts receivable, net	6,392	10,053
Income tax refund	13	13
Inventories	5,805	8,073
Prepaid expenses and other current assets	468	580
Total current assets	12,696	18,744
Property and equipment, net	10,687	10,993
Goodwill, net	3,187	3,187
Other assets	265	291
	$ 26,835	$ 33,215
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current portion of long-term debt	$ 12,445	$ 15,362
Accounts payable	13,774	15,355
Accrued salaries	1,129	1,430
Accrued warranty	682	645
Accrued marketing programs	100	100
Other accrued current liabilities	1,494	2,015
Deferred revenue	303	310
Total current liabilities	29,927	35,217
Long-term liabilities:		
Long-term debt, less current maturities	655	833
Other	1,246	1,308
Total long-term liabilities	1,901	2,141
Total liabilities	31,828	37,358
Stockholders' deficit:		
Preferred stock	--	--
Common stock	57	57
Additional paid-in capital	35,280	35,280
Accumulated deficit	(40,297)	(39,339)
Accumulated other comprehensive loss	(33)	(141)
Total stockholders' deficit	(4,993)	(4,143)

	$ 26,835	$ 33,215

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended March 31,	
	2002	2001
	(unaudited)	
Revenue	$ 10,022	$ 12,989
Cost of revenue	9,357	11,441
Gross margin	665	1,548
Operating expenses:		
Sales and marketing	492	1,772
General and administrative	819	1,847
Research and development	307	401
Other expenses (credits)	(339)	22
Total operating expenses	1,279	4,042
Operating loss	(614)	(2,494)
Interest expense, net	344	426
Loss before income taxes	(958)	(2,920)
Income taxes	--	--
Loss from continuing operations	(958)	(2,920)
Loss from discontinued operations	--	(2,466)
Net loss	$ (958)	$ (5,386)
Weighted average common shares outstanding	5,688	4,667
Basic net (loss) per common share:		
Continuing operations	$ (0.17)	$ (0.63)
Discontinued operations	--	(0.53)
Basic net (loss) per common share	$ (0.17)	$ (1.16)
Weighted average dilutive shares outstanding	5,688	4,667
Diluted net loss per common share:		
Continuing operations	$ (0.17)	$ (0.63)
Discontinued operations	--	(0.53)
Diluted net (loss)per common share	$ (0.17)	$ (1.16)

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

BOUNDLESS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
For the Three Months Ended March 31,

	2002	
	(unaudited)	(una
Cash flows from operating activities:		
Net loss	$ (958)	$(
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
Loss from discontinued operations	--	
Depreciation and amortization	470	
Loss on the write down of debt financing costs	98	
Loss on the disposition of assets	--	
Deferred revenue	(7)	
Provision (credit) for doubtful accounts	(17)	
Provision (credit) for excess and obsolete inventory	(7)	
Changes in assets and liabilities:		
Trade accounts receivable	3,679	
Inventories	2,274	
Other assets	15	
Accounts payable and accrued expenses	(2,322)	
Net change in assets and liabilities of discontinued operations	--	(
Net cash provided by (used in) operating activities	3,225	(
Cash flows from investing activities:		
Capital expenditures	(121)	
Net cash used in investing activities	(121)	
Cash flows from financing activities:		
Net proceeds from issuance of debt	--	
Payments on loans payable and capital leases	(3,111)	
Proceeds from issuance of common stock	--	
Net cash provided by (used in) financing activities	(3,111)	
Net (decrease) in cash and cash equivalents	(7)	(
Cash and cash equivalents at beginning of year	25	
Cash and cash equivalents at end of period	$ 18	$
Non-cash transactions:		
Equipment acquisitions funded through debt	$ 16	$
Cash paid for:		
Interest	312	
Taxes	5	

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 three-month period ended March 31, 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 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 and thin client 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 March 31, 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 on-demand 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 9.

3. Going Concern Considerations and Management's Plans

As of March 31, 2002, the Company was in violation of certain covenants of the Chase Credit Line. On April 24, 2002 the Company entered into a Forbearance Agreement (the "Agreement") relating to the Chase Credit Line with our secured lenders. Under the Agreement, our lenders agreed not to exercise their remedies under the Chase Credit Line, under which we are in default, until May 31, 2002 unless we default under the Agreement or a new default arises under the Chase Credit Line.

During the forbearance period, we are required to pay our lenders $50 per week against our loan balance and to continue to pay interest under the Chase Credit Line. The Agreement in general allows us to use our collections during the forbearance period to make these payments, to pay a $120 commitment fee to a potential replacement lender for a replacement line of credit and to make the payments set forth in our budget of weekly expenses which must be approved by the lenders. However, the Agreement caps the Chase Credit Line at $5,400, to be reduced by our weekly $50 payments, and modifies our borrowing base in several ways including by capping our eligible inventory at $1,600. Our collections during the forbearance period that are available for our use will depend on our borrowing base as may be applicable from time to time. As of April 29, 2002, the Company's outstanding debt under the Chase Credit Line was $5,350.

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 $17 million, resulting primarily from the classification of debt under the Company's loan and mortgage agreements to current liabilities as a result of loan covenant violations 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 effected in a timely manner. Management believes that the following actions, in addition to the continued 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 cash required

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

- 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.

- Completing negotiations with a lender to provide an asset-based revolving line of credit as a replacement of the Company's existing revolving line of credit. There can be no assurance that these negotiations will be successful.

- Working with its existing secured lender on a restructuring of the terms of the debt which it holds to allow for the closing of an agreement with a replacement lender. While management is hopeful an arrangement can be achieved, it can give no assurance an agreement will be reached.

- 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 commencing promptly after we complete a refinancing of our credit facility, 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. Our offer is contingent upon acceptance by our creditors holding at least 75% of our unsecured debt.

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.

4. Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a first-in first-out basis. The major components of inventories are as follows:

	March 31, 2002	December 31, 2001
Raw materials and purchased components	$4,326	$6,329
Finished goods	655	952
Service parts	824	792
Total inventories	$5,805	$8,073

5. Stockholders' Deficit

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

	March 31, 2002	December 31, 2001
Common stock, $0.01 par value, 25,000,000 shares authorized,5,688,037 and 5,688,037 shares issued at March 31, 2002 and December 31, 2001, respectively ...	$ 57	$ 57
Additional paid-in capital	35,280	35,280
Accumulated deficit	(40,297)	(39,339)
Accumulated other comprehensive loss	(33)	(141)
Total stockholders' deficit	$ (4,993)	$ (4,143)

6. 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 first quarter ended March 31, 2002 and 2001, sales to three major OEMs as a percentage of total revenues were 28% and 19%, respectively.

7. Business Segments

The Company's manufacturing is conducted at its New York and Florida facilities (through April 16, 2002 - see Note 12) 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 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 9), 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. 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):

Three Months Ended 31-Mar-02	Total	Elimi- nations	Boundless Technol- ogies/Corp.	Boundles Manufact uring
Customer Revenue	$ 10,022		$ 5,965	$ 4,057
Intercompany Revenue		$ (4,276)		4,276
Total Revenue	$ 10,022	$ (4,276)	$ 5,965	$ 8,333

Gross Margin	$ 665	$ (221)	$ 1,539	$ (653
Gross Margin percent	6.6%		25.8%	-7.8
Operating income (loss)	$ (614)		$ 652	$ (1,266
Total assets by business segment ..	$ 26,835		$ 13,943	$ 12,892

Three Months Ended 31-Mar-01	Total	Elimi- nations	Boundless Technol- ogies/Corp.	Boundles Manufact uring
Customer Revenue	$ 12,989		$ 9,472	$ 3,517
Intercompany Revenue		$ (6,556)		6,556
Total Revenue	$ 12,989	$ (6,556)	$ 9,472	$ 10,073
Gross Margin	$ 1,548	$ (286)	$ 2,165	$ (331
Gross Margin percent	11.9%		22.9%	-3.3
Operating income (loss)	$ (2,494)		$ (458)	$ (2,036
Total assets by business segment ..	$ 38,175		$ 16,884	$ 21,291

Pertinent financial data by major geographic segments for the first quarter ended March 31, 2002 and 2001 are:

	March 31, 2002	March 31, 2001
Net sales to unaffiliated customers:		
United States	$ 8,507	$ 9,291
United Kingdom	279	1,557
Other European countries	1,038	1,936
Other foreign countries	198	205
Total sales	$10,022	$12,989

8. 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 loss. The Company does not enter into such contracts for speculative purposes and currently these are the only derivative instruments held by the Company as of March 31, 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 31, 2001, resulted in recording $30 in accumulated other comprehensive loss for the cumulative effect of the accounting change. As of March 31, 2002, the Company had one interest rate swap contract remaining, having a nominal principal amount of $1,222 with a maturity date of March 2003. The aggregate fair market value of all interest rate swap contracts was ($33) on March 31, 2002 and is included in accrued expenses and other current liabilities on the Consolidated Balance Sheet.

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

	March 31, 2002	March 31, 2001
Net loss	$(958)	$(5,386)
Other comprehensive income (loss):		
Cumulative effect of adoption of FAS 133	--	(30)
Cash flow hedges	108	(75)
Other comprehensive income (loss):	108	(105)
Total comprehensive loss	$(850)	$(5,491)

9. 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 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 March 31, 2001 was $2,466.

10. 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 Capio(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 Capio family of products for Neoware.

11. 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 $466 in amortization for the three months ended March 31, 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. In addition, the Company will complete the first step of the goodwill impairment test by June 30, 2002, which requires determining the fair value of the reporting unit, as defined by SFAS 142, and comparing it to the carrying value of the net assets allocated to the reporting unit. The Company will not be able to determine the impact of SFAS 142 on its Consolidated Financial Statements until such time as it applies all of its provisions. And there are no assurances that the application of SFAS 142 will not result in a material impairment charge.

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.

	March 31, 2001
Reported net loss	$ (5,386)
add back: goodwill amortization	466
Adjusted net loss	$ (4,920)
Basic earnings per share:	
Reported net loss	$ (1.16)
Goodwill amortization	0.10
Adjusted net loss per common share	$ (1.06)
Diluted earnings per share:	
Reported net loss	$ (1.16)
Goodwill amortization	0.10
Adjusted diluted net loss per common share	$ (1.06)

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. The Company has not yet estimated if subsequent events (Note 12) will result in any impairment of long-lived assets

12. Subsequent Events

On April 16, 2002, the Company announced that its subsidiary, Boundless Manufacturing, will relocate its Printed Circuit Board Assembly (PCBA) operations from Boca Raton, FL, into its Long Island manufacturing campus in Hauppauge, NY. The Company believes the move will result in overall expense reduction and increased efficiencies in the New York systems assembly operation. The Company anticipates that the relocation will occur in phases with completion scheduled by the beginning of its third quarter. The Company also anticipates there will be some losses incurred for the disposal of assets which will not be part of the relocation. The Company expects these charges to be recorded in the second quarter of 2002 but has not yet determined what the amount will be or if it will have a material effect on its Consolidated Financial Statements.

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.

First quarter of 2002 compared with first quarter of 2001

Revenue - Revenue for the quarter ended March 31, 2002 was $10,022 as compared to $12,989 for the quarter ended March 31, 2001.

Sales of the Company's General Display Terminals declined 18% to $5,965 for the quarter ended March 31, 2002 from $7,280 for the quarter ended March 31, 2001. Declining demand for General Display Terminals was the main reason for the decrease in revenue. The Company believes the market for General Display Terminals will continue to decline as customers move toward applications requiring graphical user interfaces.

Revenue in the first quarter of 2001 for the Capio product line which was sold in June 2001 (Note 10) was $2,167.

Revenues for the period ending March 31, 2002, from Boundless Manufacturing were $4,057, excluding intercompany revenue, as compared to $3,517 for the period ending March 31, 2001. The revenue growth is attributable to the introduction of new customers in the second half of 2001. The Company anticipates continued growth in revenues from this segment of the business as Boundless Manufacturing executes its plan of offering a complete and complementary line of services to both middle-market OEMs, and start-up companies.

Net revenue from the Company's repairs and spare parts business for the quarter ended March 31, 2002 was $548 as compared to $551 for the quarter ended March 31, 2001.

Comdial, IBM and Compaq were the most significant customers for the Company's products, accounting for 12%, 8% and 8% of revenue, respectively, for the quarter ended March 31, 2002.

Gross Margin - Gross margin for the three months ended March 31, 2002 was $665 (7% of revenue) compared to gross margin of $1,548(12% of revenue) for the first quarter of 2001. The decrease in gross margin as a percent of revenue is attributable to the decline in the General Display Terminals revenue, which yields higher gross profits than Boundless Manufacturing. As of March 31, 2002, Boundless Manufacturing was operating with two manufacturing facilities, both of which were underutilized and resulted in $648 of excess fixed overhead costs in the gross margin.

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 March 31, 2002, operating expenses decreased 68% to $1,279 (13% of revenue), compared to expenses for the first quarter of 2001 of $4,042(31% of revenue). 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 year-to-year decreases are explained below.

Sales and Marketing Expenses - Sales and marketing expenses decreased 72% to $492 (5% of revenue) for the quarter ended March 31, 2002 from $1,772 (14% of revenue) for the quarter ended March 31, 2001. This decrease was mainly due to the elimination of expenditures for sales and marketing programs related to the Capio product line, which was sold to Neoware Systems, Inc. in June 2001. The Company promotes its products using media advertising, direct mail, telemarketing, public relations and cooperative channel marketing programs.

General and Administrative Expenses - General and administrative expenses decreased to $819 (8% of revenue), from $1,847 (14% of revenue) for the three months ended March 31, 2002 and 2001, respectively. The elimination of goodwill amortization in accordance with SFAS 142 accounted for $466 of the decrease. Employee compensation and travel reductions accounted for $550 of the year-to-year reduction in expenditures.

Research and Development Expenses - Research and development expenses for the first quarter decreased to $307 in 2002 from $401 in 2001. Personnel expense reductions were attributable for this decrease.

Other expenses (credits) - Other credits for the quarter ended March 31, 2002 was $(339) compared to expenses of $22 for the period ended March 31, 2001. In the first quarter of 2002, the Company reversed $450 of prior years' bonus accruals. This reversal stemmed from several employees' waiver of their 2000 bonus awards in 2002. This credit was partially offset by a charge of $98 for the write down of debt financing costs.

Interest Expense, net - Interest expense, net for the quarter ended March 31, 2002 was $344 compared to $426 for the comparable period in 2001. This reduction is attributable to the Company's lower outstanding debt.

Loss From Discontinued Operations- The loss from March 31, 2001 was $2,466 relating to the Company's decision to discontinue the operations of Merinta.

Income Tax Expense - For the first quarter of 2002 and 2001, the Company did not record an income tax credit against the recorded loss before income taxes of $958 and $5,386 respectively. 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 March 31, 2002, the Company recorded a net loss of $958, compared to net loss of $5,386 for the quarter ended March 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

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

As of March 31, 2002 the Company had a working capital deficiency of $17,231 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.

On May 25, 2000, the Company signed an agreement with The Chase Manhattan Bank ("Chase") amending and restating the existing credit line to add as co-borrowers Boundless

Manufacturing and Merinta. Terms of the credit line (the "Chase Credit Line") were substantially similar to those previously in effect. The credit line expires April 14, 2003. On November 16, 2000, in connection with the equity investment secured for Merinta, the Company amended the revolving credit line entered into May 25, 2000. On April 17, 2001, the Chase Credit Line was further amended, including a reduction in the overall amount of the line from $15,000 to $12,000 as well as an immediate reduction in the amount of the line which could be collateralized by inventory from $5,000 to $3,800, to be reduced further by $100 per month beginning August 1, 2001.

As of March 31, 2002, the Company was in violation of certain covenants of the Chase Credit Line. On April 24, 2002 the Company entered into a Forbearance Agreement (the "Agreement") relating to the Chase Credit Line with our secured lenders. Under the Agreement, our lenders agreed not to exercise their remedies under the Chase Credit Line, under which we are in default, until May 31, 2002 unless we default under the Agreement or a new default arises under the Chase Credit Line.

During the forbearance period, we are required to pay our lenders $50 per week against our loan balance and to continue to pay interest under the Chase Credit Line. The Agreement in general allows us to use our collections during the forbearance period to make these payments, to pay a $120 commitment fee to a potential replacement lender for a replacement line of credit and to make the payments set forth in our budget of weekly expenses which must be approved by the lenders. However, the Agreement caps the Chase Credit Line at $5,400, to be reduced by our weekly $50 payments, and modifies our borrowing base in several ways including by capping our eligible inventory at $1,600. Our collections during the forbearance period that are available for our use will depend on our borrowing base as may be applicable from time to time. As of April 29, 2002, the Company's outstanding debt under the Chase Credit Line was $5,350.

The Company is highly leveraged. As of March 31, 2002, the Company had negative tangible net worth of $8,422 and total liabilities of $31,828. The Company's liabilities at March 31, 2002 included repayment of a revolving loan of $5,561 plus interest maturing April 2003, a ten-year promissory note in the amount of $5,908 which requires monthly principal and interest payments through July 1, 2009 and capital leases in the amount of $1,631 which require monthly payments plus interest through February 2006.

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 $5,908 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. Due to cross-default provisions within the agreement, the Company is also in default with respect to the mortgage.

In the event there is a further decline in the Company's sales and earnings 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 three months ended March 31, 2002 was $3,225 attributable to non-cash expenses (principally depreciation) of $444, a reduction in accounts receivable of $3,679 and a reduction of inventories of $2,274. This increase in cash was offset by a reduction of accounts payable and accrued liabilities of $2,322. Net cash used in investing activities was comprised of capital expenditures of $121. Net cash used in financing activities included repayment on the Company's revolving loan in the amount of $2,946 and payments on other loans in the amount of $165.

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 primarily on the basis of technology, performance, price, quality, reliability, distribution and customer service and support. Product life cycles are short. To remain competitive, the Company must be able to develop new products and periodically enhance its existing products. In particular, the Company anticipates that it will have to continue to lower the prices of many of its products to stay competitive and effectively manage

financial returns with resulting reduced gross margins. In some of the Company's markets, it may not be able to compete successfully against current and future competitors, and the competitive pressures it faces could harm its business and prospects.

New Products and Technological Change. The computer industry is 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:

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

- 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 noncancelable 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:

- Changes in a country or region's political or economic conditions,

- Trade protection measures,

- Import or export licensing requirements,
- The overlap of different tax structures,
- Unexpected changes in regulatory requirements,
- Differing technology standards,
- Problems caused by the conversion of various European currencies to the Euro (see "Adoption of the Euro" section below), and
- 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:

- The hiring and retention of key employees,
- Management of facilities in separate geographic areas, and
- 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:

- The Company's, or a competitor's, announcement of new products, services or technological innovations,
- Quarterly increases or decreases in the Company's earnings,
- Changes in revenue or earnings estimates by the investment community, and
- 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 March 31, 2002 the Company had in place an interest rate swap agreement in the amount of $1,222,000 at an effective interest rate of 8.9%. 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 March 31, 2002 the Company's investments consisted of cash balances maintained in its corporate account with the Chase Manhattan 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.

PART II - OTHER INFORMATION

Item 3. Defaults Upon Senior Securities

As of March 31, 2002, the Company was in violation of certain covenants of the Chase Credit Line. On April 24, 2002 the Company entered into a Forbearance Agreement (the "Agreement") relating to the Chase Credit Line with our secured lenders. Under the Agreement, our lenders agreed not to exercise their remedies under the Chase Credit Line, under which we are in default, until May 31, 2002 unless we default under the Agreement or a new default arises under the Chase Credit Line.

During the forbearance period, we are required to pay our lenders $50,000 per week against our loan balance and to continue to pay interest under the Chase Credit Line. The Agreement in general allows us to use our collections during the forbearance period to make these payments, to pay a $120,000 commitment fee to a potential replacement lender for a replacement line of credit and to make the payments set forth in our budget of weekly expenses which must be approved by the lenders. However, the Agreement caps the Chase Credit Line at $5,400,000 to be reduced by our weekly $50,000 payments, and modifies our borrowing base in several ways including by capping our eligible inventory at $1,600,000. Our collections during the forbearance period that are available for our use will depend on our borrowing base as may be applicable from time to time. As of April 29, 2002, the Company's outstanding debt under the Chase Credit Line was $5,350,000.

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 $5,908,000 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 $50,000. To induce the lender to make the loan, the Company executed and delivered a guaranty of Boundless' obligations to the lender. Due to cross-default provisions within the agreement, the Company is also in default with respect to the mortgage.

Item 4. Submission of Matters to a Vote of Security Holders

On February 28, 2002, the Company held its annual meeting of stockholders for the year ending December 31, 2000. The purpose of the meeting was (i)to elect directors to serve until the next stockholders' meeting; (ii)to approve the adoption of our 2001 Incentive Plan, permitting the issuance of up to 284,000 shares of our Common Stock pursuant to grants of stock options and stock awards to our employees, directors and others; and (iii)to ratify the appointment of BDO Seidman, LLP as our independent auditors for the 2001 fiscal year.

The following tables provide information including the number of votes "For", "Against" or "Withheld", and the number of abstentions and broker non-votes, for each matter voted on and for each director nominee:

Table 1. Election of Directors

Nominee	Votes Received (net of all votes withheld)	Votes Withheld
Richard Bowman	4,631,271	107,657
Gary Brooks	4,630,121	108,807
J. Gerald Combs	4,267,642	471,286
Anthony Giovaniello	4,631,432	107,496
Joseph V. Joy, Jr.	4,631,231	107,697
Safwan Masri	4,631,667	107,261
John J. McGovern	4,631,321	107,607
Oscar L. Smith	4,630,121	108,807
J. Frank Stephens	4,631,226	107,702

Table 2. Adoption of the 2001 Incentive Plan

Votes "For"	Votes "Against"	Votes "Withheld"
4,534,331	181,875	22,722

Table 3. Ratification of BDO Seidman, LLP as the Company's certified independent public accountants for the 2001 calendar year.

Votes "For"	Votes "Against"	Votes "Withheld"
4,700,239	29,061	9,628

Item 5. Other Information

On April 16, 2002, the Company announced that its subsidiary, Boundless Manufacturing, will relocate its Printed Circuit Board Assembly (PCBA) operations from Boca Raton, FL, into its Long Island manufacturing campus in Hauppauge, NY. The Company believes the move will result in overall expense reduction and increased efficiencies in the New York systems assembly operation.

The Company anticipates that the relocation will occur in phases with completion scheduled by the beginning of its third quarter.

The Company also anticipates there will be some losses incurred for the disposal of assets which will not be part of the relocation. The Company expects these charges to be recorded in the second quarter of 2002 but has not yet determined what the amount will be or if it will have a material effect on its Consolidated Financial Statements.

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.

(b) Reports on Form 8-K

On April 30, 2002, the Company filed with the Securities and Exchange Commission a Current Report on Form 8-K disclosing that the Company had entered into with its secured lenders a Forbearance Agreement (the "Agreement") relating to its credit line with such lenders (the "Chase Credit Line"). Under the Agreement, the Company's lenders agreed not to exercise their remedies under the Chase Credit Line, under which the Company is in default, until May 31, 2002 unless the Company defaults under the Agreement or a new default arises under the Chase Credit Line.

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: May 14, 2002

Boundless Corporation

By: /s/ Joseph Gardner

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