CAPTARIS INC
Form 10-K
March 17, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2007

OR

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

For the transition period from ______ to ______

Commission file number: 0-25186

CAPTARIS, INC.

(Exact name of registrant as specified in its charter)

Washington	**91-1190085**
(State or other jurisdiction of incorporation or organization)	**(IRS employer identification no.)**
301 116th Avenue SE, Suite 400 Bellevue, WA	**98004**
(Address of principal executive offices)	**(Zip code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value per share Preferred Stock Purchase Rights	**Nasdaq Global Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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 twelve 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 ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definition of accelerated filer , large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x

Non-accelerated filer ¨ (Do not check if smaller reporting company) Smaller reporting company ¨

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

Aggregate market value of voting and non-voting stock held by non-affiliates of the registrant as of June 30, 2007 (our most recently completed second quarter) was $138,169,155 (based upon the closing sale price of $5.12 per share on the Nasdaq Global Market on such date). For purposes of this disclosure, shares of common stock held by executive officers and directors of the registrant have been excluded because such persons may be deemed to be affiliates.

Number of shares of common stock outstanding as of February 29, 2008 was 26,345,044.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement for its 2008 Annual Meeting of Shareholders to be filed with the Commission pursuant to Regulation 14A not later than 120 days after December 31, 2007 is incorporated by reference in Part III hereof.

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PART I

This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as anticipate, believe, continue, could, estimate, expect, future, intend, may, plan, potential, predict, seek, should, target, will or the negative of these terms or other terminology. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined under Item 1A Risk Factors. These factors may cause our actual results to differ materially from any forward-looking statement. Except as required by law, we undertake no obligation to publicly release any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Item 1. BUSINESS

Founded in 1982, Captaris, Inc., (we , us , our) is a provider of computer products that automate document-centric business processes. With a comprehensive suite of software, hardware and services, we help organizations gain control over many processes that include the need to integrate documents more securely and efficiently. Our solutions also provide interoperability between documents and business applications and technology platforms.

We develop products and services for document capture, intelligent document recognition and classification, routing, workflow, document management and document delivery. Our product lineup includes the brand names RightFax, FaxPress, Captaris Workflow, Alchemy, Single Click Entry, DOKuStar and RecoStar.

Our products are distributed and supported through a global network of technology partners. This distribution system consists of business partners from all levels of the information technology (IT) spectrum: value-added resellers, original equipment manufacturers (OEMs), system integrators, distributors, mass market resellers, online retailers, office equipment dealers, and independent software vendors (ISVs). We believe the use of multiple distribution channels increases the likelihood that our products will be sold to more customers.

We have a large installed base of customers that includes many Fortune 100 companies, the majority of the Global 2000 companies, and thousands of mid-sized enterprises. Our customers use our products to reduce costs, comply with regulations, increase the performance and productivity of critical business processes, and leverage their IT system investments.

In July 2007, we bolstered our product portfolio, customer base, and distribution capabilities by acquiring Castelle, a provider of all-in-one network fax appliance solutions for businesses and enterprises. Castelle FaxPress products are designed to be easily deployed and maintained and are generally intended for lower volume use at lower price points than our RightFax product offerings. FaxPress provides Captaris with a fax server product that can be positioned in the tier below RightFax for customers looking for basic fax services that are low cost and easily deployable. The FaxPress products are available through a worldwide network of distributors, resellers, and online retailers.

Castelle s expertise in building all-in-one network appliance solutions facilitates our plan to broaden our offerings in the areas of document capture, routing and management. The network appliance design combines software and hardware into a plug and play device, and we believe this design is particularly well suited to support our focus on achieving synergies with multi-function product manufacturers and their dealer networks.

We further increased our product portfolio, customer base and distribution capabilities with the acquisition of Océ Document Technologies GmbH (ODT) in January 2008. ODT is a provider of software and solutions for document capture, text recognition, and document classification. ODT, a wholly-owned subsidiary of the Océ Group since 2000, has approximately 178 employees and maintains its global headquarters in Constance, Germany, and its North American office in Bethesda, Maryland. On an unaudited basis, ODT s revenue was about 22.5 million for the 12 months ended November 30, 2007 and their gross margin was about 65%. ODT s revenue includes software licenses, maintenance and support, hardware and professional services. In contrast to our business prior to acquisition, ODT s revenue includes a higher percentage of professional services and a larger portion of their sales are made directly rather than through partners. As a result of these factors, and a smaller revenue and customer base, ODT has a lower gross margin and more revenue variability.

After our acquisition, we re-named ODT to Captaris Document Technologies (CDT). CDT develops intelligent document and character recognition technologies that can read and extract the important information from documents needed to drive business processes and decisions.

CDT products include RecoStar, DOKuStar, Single Click Entry and ID-Star. CDT customers include some large ISVs and OEMs with capture offerings, as well as blue chip end-user accounts in Germany. CDT s expertise in intelligent

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document recognition supports our vision of fully enabling document capture, collaboration and workflow. As we continue to merge our products, we anticipate leveraging CDT s technology to enhance capture and routing in both the RightFax and Alchemy platforms. The ability to classify documents and extract critical meta-data will also enable deeper integrations with line of business applications and business process management.

Industry Background

Every organization looks to optimize and automate its internal processes to achieve several desirable outcomes: to comply with regulations; to improve customer service; to increase employee productivity; to improve and accelerate revenue flows; to decrease labor, system and program costs; and to more efficiently share, store and retrieve information. With increasing amounts of information to exchange and manage, we believe there is a growing need for organizations to intelligently and securely capture and manage business information and resources throughout the information lifecycle in a more timely and cost-effective manner.

Solutions to these business needs are found within the multi-billion dollar Enterprise Content Management (ECM) market. The ECM market is further categorized into several market segments:

- **Capture,** which includes fax servers;
- **Business Process Management,** which includes workflow;
- **Electronic Document Management Systems** which includes document routing and multi-function product solutions;
- **Enterprise Search,** and,
- **Electronic Records Management.**

Captaris offers products that serve all of these market segments.

Strategy

We believe the ECM market presents growth opportunities for our products, particularly in the areas of distributed capture, routing, document and business process management. Further, we believe our product portfolio is appropriately targeted for opportunities being created by Microsoft s development of SQL Server, SharePoint Server, the Windows Workflow Foundation, and enterprise search.

The rapid increase in document-based information, combined with the regulatory and legal pressure to control all of the content more closely than ever before, has further accentuated the need for organizations to purchase products and services that can solve their business challenges. With our comprehensive product portfolio, large and diverse distribution channels, and sizable installed base of customers, we believe we are poised to take advantage of these industry trends. The key components of our business strategy include:

Strengthening our leadership position in distributed document capture solutions. We believe organizations are moving away from centralized document capture operations designed to achieve economies of scale and moving towards capturing information closer to the point of origin within their enterprises. By capturing information at the point of origin, documents and associated data describing the context, content and structure of the data on the document are more easily integrated into business processes. Fax servers are by their very nature distributed capture solutions that import and route digital documents. Our intent is to add document classification and more robust data extraction technologies, acquired as part of the CDT acquisition, and evolve RightFax from a fax server into a broader distributed capture platform.

Leveraging our expanded product portfolio across our large channel. As we integrate the CDT technology into the RightFax and Alchemy platforms and leverage the appliance building capability of Castelle, we believe these technologies will reach a broader market through the larger customer base and distribution capabilities of Captaris. We intend to bring new or improved products to market in ways that fit each channel s strengths.

Leveraging Captaris multi-function product (MFP) vendor relationships to enhance our distribution capabilities. Based on industry reports, we believe MFP vendors are selling over $1 billion in software licenses per year. Based on these reports, we believe the vast majority of these sales are in the areas of document capture, routing, and management. Over the past several years we have invested in building relationships with the MFP vendors and have established agreements with many large MFP distributors.

Selling more products into our large installed base of customers. We plan to grow our existing customer relationships by offering add-on modules, software upgrades and new products. We continually train our sales force and partners with the skills needed to cross-sell our entire product line into our existing customer base.

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Expanding our strategic technology partnerships worldwide. We have strategic partner relationships with large technology companies including Canon U.S.A., Inc., Cisco Systems, Inc., Hewlett Packard Company, Microsoft Corporation, Oracle Corporation and Xerox Corporation. We plan to pursue an expansion of similar agreements in the future through our business development efforts.

Pursuing global opportunities. We believe that the market for document-centric solutions outside the United States will experience consistent growth over the next few years. To pursue these opportunities, we localize our products into regional languages. We also actively recruit new international resellers, distributors and strategic partners to expand our market coverage and enhance technical expertise.

Grow through acquisitions. Growth through acquisitions of complementary technologies, products and distribution channels offers the potential for significant competitive advantages. In July 2007, we acquired Castelle, the maker of a network fax appliance, to expand our fax server offerings and acquire the skills necessary to develop other network appliances. In January 2008, we acquired CDT, a provider of document and character recognition technologies, to expand and strengthen our existing document solutions.

Products and Services

Our product suite addresses the key phases of the information lifecycle, from the capture, recognition and routing of documents to processing, management and delivery. Our products can be deployed alone or integrated together to solve challenging business problems and improve organizational efficiency.

Our products and services include the following categories:

- **Intelligent document capture, recognition, classification, and routing solutions** that create smart documents and automatically deliver them to meet the collaboration and compliance needs of today s business environment.

- **Business process management** software that automates both functional and vertical business processes, helps organizations maintain accountability, supports compliance initiatives and increases productivity; and

- **Document management** software products that target business needs for reducing paper by storing and accessing digital content throughout the information lifecycle and supporting compliance and collaboration within organizations.

Document Capture, Recognition, Classification, and Routing Products

Single Click Entry

Single Click Entry is designed to reduce human error and increase productivity for any application where data from scanned images is currently entered by hand. This application extracts data from an image and automatically transfers it to line of business applications for use within business processes. Powering this simple and easy to use application are a combination of high performance optical character recognition (OCR) and forms processing technologies from our CDT subsidiary.

DOKuStar

The DOKuStar product suite provides intelligent document recognition and classification, which are essential to reducing human error, improving compliance, and increasing productivity in any document-centric business process. DOKuStar is sold as a tool set to independent software vendors and system integrators for building vertical applications for document capture and forms processing.

RecoStar

RecoStar, an OCR product, is embedded into document management applications, providing fast processing speeds without sacrificing accuracy. Although OCR technology has been around for many years, we believe this technology is fundamental to new developments in the areas of information classification and enterprise search.

RightFax

RightFax is a solution for distributed capture and processing of business documents, delivering information within or without an organization in a secure and auditable way. The RightFax product suite includes a wide range of solutions: inbound document capture and routing, fax over Internet protocol (FoIP), desktop faxing over a network, and high-volume document delivery from back-office software applications such as those from Oracle or SAP. Although fax has been around for many years, we believe the market shift towards distributed capture provides new growth opportunities. When compared to other remote capture and delivery methods, our customers report that fax has advantages for digitizing documents remotely and routing them between users because of the widespread availability, proven security and reliable audit capabilities of faxing.

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RightFax Connector for Microsoft SharePoint

The RightFax SharePoint Connector enables documents to be captured remotely and populated into SharePoint enabling collaboration and workflow. This integration routes the inbound document to a specific SharePoint repository, notifies the end-user of the documents arrival, and triggers the start of the business process.

FaxPress

FaxPress is an all-in-one network fax appliance for businesses and enterprises. FaxPress is designed to be easily deployed and maintained, and provides an economical solution for companies seeking basic fax services.

Business Process Automation Products

Captaris Workflow

Captaris Workflow is a workflow platform built on the Microsoft .NET (.NET) Framework, developed to take full advantage of the .NET environment. We designed Captaris Workflow to improve operational processes for midsize and large businesses that have standardized on Microsoft technologies. We believe Captaris Workflow offers significant advantages over past workflow automation approaches with a design that, we believe, facilitates rapid, understandable, affordable and robust solutions that are highly scalable.

We are currently developing new versions of Captaris Workflow that leverage and extend the Microsoft Windows Workflow (WinWF) foundation. We believe Captaris Workflow adds significant value on top of WinWF by providing higher-level objects interfaces and tools so that end-users, business analysts, and application developers can rapidly create and deploy applications to manage complex business processes, while supporting the users through the entire lifecycle of process-centric solutions.

Document Management Products

Alchemy

Alchemy provides organizations with a complete solution for document capture, indexing, document management, archiving, records management, search and retrieval. Alchemy is designed specifically for organizations with limited or constrained IT resources, and to be deployed quickly and efficiently by end-users. Alchemy specializes in the management of fixed content that organizations must retain for business, compliance and/or legal purposes.

Professional Services

Captaris provides strategic and architectural consulting, custom deployment, integration services to third-party technologies, training and other services. These services are frequently offered as an extension of the capabilities of our channel partners.

Distribution

We sell, promote and receive referrals for the use of our products primarily through an indirect channel of resellers and distributors, system integrators, strategic partnerships, OEMs and private label agreements, as well as through our enterprise sales team and national account managers that hold dedicated business relationships with assigned accounts on the Fortune 500 list. We believe the use of multiple distribution channels increases the likelihood that our products will be sold to more customers. No single customer represented more than 10% of our net revenue in 2007, 2006, or 2005.

Our revenue and long-lived assets are classified by geographic area in Note 15 to our Consolidated Financial Statements included herein.

Product Support

We sell a variety of customer support packages for all of our products. In addition, we typically bundle a first year maintenance program with our software licenses. Our maintenance and support agreements provide customers with telephone, web and on-location

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support and unspecified upgrades and updates, when and if available. We recognize revenue for maintenance and support agreements on a straight-line basis over the service contract term, generally ranging from one to five years. We provide worldwide support 24 hours per day, 7 days per week.

The Captaris Learning Center, our online training program, enables our customers to improve their skill levels around our products and solutions. Customers register for courses online, manage their curriculum, track their class history, receive training announcements on a regular basis, complete online surveys of classes taken and register and take web-based training from one location. We deliver some educational content as a subscription-based service and we recognize the revenue from these services on a straight-line basis over the term of the subscription.

Product Development

We have in-house expertise in the development of systems that capture, recognize, classify, index, route, process, render, store, retrieve and deliver documents and data. We also have expertise in integration with back-end office systems and databases. We believe that our expertise in these areas enables us to efficiently bring innovative software products to market.

In 2007 we contracted with multiple outsource companies for maintenance engineering efforts and selected new product development. In conjunction with our outsourcing program, we are in the late stages of completing a restructuring of our development organization. At the end of 2007, we have three primary product development centers: Bellevue, Washington; Morgan Hill, California; and Tucson, Arizona. With the acquisition of CDT, we added a product development center in Constance, Germany.

We internally develop or acquire our defining core technologies, and we license from third parties primarily broad-based, generic or non-strategic components of our products, such as database software, imaging and network connection software. Whenever practical, we license and integrate such technology into our product offerings in order to decrease the cost of development and shorten the time to market for our products. We also believe that acquiring new technologies and new product offerings is consistent with our strategic initiatives, and we will pursue such opportunities as they become available.

For our product offerings to continue to achieve acceptance and remain competitive, we believe it is necessary to develop enhanced versions of our software applications. Our research and development expenditures were $16.2 million, $12.2 million, and $14.0 million in 2007, 2006, and 2005 respectively. Research and development expenses as a percentage of revenue were 17.0%, 13.3% and 16.2% in 2007, 2006, and 2005 respectively. Additional expenses in 2007 that we did not incur in 2006 or 2005 included making changes in our research and development organization s structure to reduce the costs associated with sustaining and maintenance engineering for Alchemy and Captaris Workflow.

We also develop versions of our products for several foreign markets. This globalization effort includes converting client interfaces and documentation into foreign languages and includes the expansion of internal character sets to accommodate a broader set of potential foreign languages. We expect to continue to expend research and development resources on these efforts.

Proprietary Rights

We rely on a combination of patents, copyrights, trademarks and trade secret laws, nondisclosure and other agreements and technical measures to protect our proprietary technology. We own 12 U.S. patents, including six patents acquired in 2000 in the areas of number qualification, unified messaging and fax technology and two patents acquired in 2002 in the areas of speech compression and operating system installation/servicing. These issued patents will expire between 2014 and 2026. We also own 14 pending patent applications in the U.S. and eight internationally in a range of areas, including telephony, fax, unified messaging, workflow technology and mobility-related messaging. In addition, in connection with the acquisition of CDT in January 2008, we acquired approximately 10 patents and patent applications covering certain fields of use that we believe are relevant to CDT s technology.

There can be no assurance that our efforts to protect our proprietary rights will be successful. In particular, there can be no assurance that our current or future patent applications will be granted or that our current or future issued patents will not be challenged, invalidated or circumvented, or that the rights granted under any such patents will provide competitive advantages to us.

We have periodically received letters and other communications from third parties asserting patent rights and requesting royalty payments. Some of these claims are unresolved and continue to be outstanding, even after several years of intermittent communication. Based upon our analysis, we do not believe it necessary, in most cases, to license any of the patent rights. In those cases in which we have determined a license of patent rights was necessary, we have entered into a license agreement.

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We license certain portions of our technology from third parties under written agreements, some of which contain provisions for ongoing royalty payments. Our royalty expense as a percentage of net revenue was 1.3%, 0.9% and 1.0% for the years ended December 31, 2007, 2006 and 2005, respectively.

Competition

We compete in several software markets including document capture, fax servers, business process management, and document management software. These markets are quickly evolving, highly competitive and subject to rapid technological change. Moreover, we expect to face increasing competitive pressures from both current and future competitors in the markets we serve. In most cases, we face vendors that are focusing on one particular market. The principal competitive factors applicable to our products and services include:

- breadth and quality of software alternatives;
- the ability to integrate various products with customers existing business applications and networks;
- the ability to respond to technological change;
- the level of customer support and professional services;
- relationships with distributors, strategic partners, value-added resellers and systems integrators;
- an installed base of similar or related products;
- end-user price; and
- channel partner margins.

Our suite of products comprises versatile solutions for the mid-market and enterprise departments provided through a single vendor, which we believe is a competitive advantage of our products. With respect to individual offerings in our product line, our competitive position with respect to the factors above varies depending on the market addressed.

For our **fax server and document delivery** products, our principal competitors are Esker, Inc. S.A., Biscom, Inc., Kofax/TOPCALL, Fenestrae, GFI Software, Ltd. and SAGEM-Interstar. In the overall fax server market we believe we hold the leading market share, based on worldwide revenue. Our fax server products also compete with vendors offering a range of alternative fax solutions, including standalone fax machines, operating systems containing fax and document transmission features, low-end fax modem products, desktop fax software, single-platform fax software products, application service providers and hosted solutions including J2 Global Communications and PTEK Holdings, Inc., bundled fax software and hardware providers, and customized proprietary software solutions. We strive for competitive differentiation by offering complementary products from our extensive product portfolio.

Our **capture** products from the recent CDT acquisition face several competitors. In the RecoStar OCR market, we consider the main competitors to be Nuance s Scansoft division, ABBYY and Iris. We expect increasing competition from emerging OCR companies specializing in Asian languages. In the DOKuStar intelligent document recognition (IDR) market, we compete against EMC/Captiva, Dicom/Kofax, and ReadSoft among others; these vendors provide packaged solutions. In comparison, we believe we have an advantage and defensible niche by providing an IDR platform that can be integrated within other applications.

For our **business process automation** products, we face several competitors offering similar products and using similar architecture designed for rapid deployment by knowledge workers. We believe the direct competitors of our business process automation products also utilize the .NET product architecture and would include K2.net (SourceCode Technology Holdings, Ltd.), Metastorm, and Ultimus, Inc. Overall, we believe our products are differentiated from our competitors products due to our deep integration with Microsoft technology and applications, as well as our ability to offer our own capture and document management products to round out solutions. We do not categorize Microsoft s WinWF as a direct competitor but as a new and widely available platform on which to build our workflow and business process management products.

Our **document management** solutions compete primarily in the mid-market and MFP dealer channels based on functionality and price. Our main competitors are Hyland Software, Inc. (OnBase product), EMC Corporation / Documentum (ApplicationXtender product), Westbrook Technologies, Inc. (Fortis product) and Compulink Business Systems, Inc. (Laserfiche product). While these vendors offer products with similar functionality, we strive to differentiate by the simplicity of Alchemy, the respective price/value received, and by the inherent benefits of offering complementary products in the Captaris product suite: RightFax, FaxPress, Single Click Entry and Captaris Workflow.

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Hardware

To augment RightFax sales, we currently purchase fax boards from Dialogic Corporation. Similarly, our FaxPress network appliance business is dependent upon our manufacturing partners and component suppliers. If these manufacturers terminate their relationships with us, are unable to fill orders on a timely basis, or experience quality performance issues, we may be unable to meet our customers demands which could delay or decrease our revenue or otherwise have an adverse impact on our operations. In 2007, we made strides in moving beyond our dependence on fax hardware by starting the transition to software-based FoIP which does not rely on fax hardware in many Internet protocol environments. We expect this shift from hardware to software to increase over the next several years.

Seasonality

Most of our software product revenue comes from current-quarter orders and sales, of which a substantial portion has, at times, occurred in the last month of the quarter. Our results of operations may fluctuate as a result of seasonal factors and they may cause our operating results to fall below the expectations of securities analysts and investors for a particular quarter. Specifically, due to typical year-end dealer sales patterns and end-user buyer patterns, revenue in our first quarter, without taking into account the effect of acquisitions, has historically declined from the fourth quarter of the previous year. Revenue builds gradually during the second and third quarters ending with the fourth quarter as our largest quarter for revenue. We anticipate this pattern will continue in 2008.

Employees

As of December 31, 2007, we had 450 full-time employees, 177 in sales and marketing, 118 in technical support and production, 84 in engineering and product development and 71 in finance, information technology and administration. Our employees enter into agreements containing confidentiality restrictions. We have never had a work stoppage and no employees, other than those with CDT, are represented by a labor organization. We consider our employee relations to be good.

Subsequent to year end, we acquired CDT. CDT has approximately 178 employees.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Exchange Act are available free of charge on our Web site as soon as reasonably practicable after the reports have been filed with or furnished to the SEC at http://www.captaris.com under About Us Investor Relations SEC Filings. In addition, the following corporate governance materials of Captaris are also available in the About Us menu by selecting the Corporate Governance link on our Web site at http://www.captaris.com:

- Audit Committee, Compensation Committee and Governance Committee Charters.
- Code of Business Conduct applicable to all directors, officers and employees of Captaris.
- Finance Code of Professional Conduct for our CEO and senior financial officers.

If we waive any material provision of our Code of Business Conduct or Finance Code of Professional Conduct for our CEO and senior financial officers or substantively change the codes, we will disclose that fact on our Web site within four business days. A copy of any of the materials filed with or furnished to the SEC or copies of the corporate governance materials described above are also available free of charge and can be mailed to you upon request to Captaris, Inc., Investor Relations, 301 116th Avenue NE, Suite 400, Bellevue, WA 98004.

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Executive Officers

Our executive officers as of March 1, 2008 are as follows:

Name	Age	Position	Executive Officer Since
David P. Anastasi	51	President, Chief Executive Officer and Director	2000
Peter Papano	58	Chief Financial Officer and Treasurer	2003
Douglas F. Anderson	54	Senior Vice President of Global Field Operations	2007
Paul M. Yantus	46	Executive Vice President of Marketing and Product Development	2007

Mr. Anastasi joined Captaris as President, Chief Executive Officer and a director in November 2000. From May to November of 2000, Mr. Anastasi served as President and Chief Executive Officer of Conversational Computing Corporation, a speech recognition technologies company. Prior to that, he was a founder and President and Chief Executive Officer of the Global Chipcard Alliance, a SmartCard consortium from 1999 to 2000. From 1994 to 1999, Mr. Anastasi served as Vice President and General Manager of the Public Access Solutions and SmartCard Division of U S WEST. Mr. Anastasi currently serves on the Board of Directors of the AeA (formerly known as the American Electronics Association). Mr. Anastasi holds a B.S. degree in marketing management from Bentley College and a Masters degree with an emphasis in international management from the University of San Francisco.

Mr. Papano joined Captaris in September 2003. Prior to joining Captaris, Mr. Papano served as Chief Financial Officer of Evant, Inc., an enterprise software company, from 2000 to 2003; QRS Corporation, a publicly traded e-commerce company, from 1998 to 2000; and The Dialog Corporation, an electronic information company, from 1991 to 1998. Mr. Papano is a certified public accountant. He holds a B.S. degree in business with an emphasis in finance and an M.B.A. degree in accounting from the University of Colorado.

Mr. Anderson joined Captaris in July 2005 as Vice President of North American Field Operations. In April, 2007, he was promoted to Senior Vice President Global Sales and Field Operations. Prior to joining Captaris, Mr. Anderson held management positions at IBM from 1976 to 1985, Lotus Development Corporation from 1985 to 1990, Saros Corporation (FileNet) from 1991 to 1994, and executive-level positions with several emerging public and private companies headquartered both in and outside North America. Mr. Anderson holds a bachelor s degree from the University of Washington.

Mr. Yantus joined Captaris in April 2007 as Executive Vice President of Marketing and Product Development. Prior to joining Captaris, from March 2005 to September 2006, Mr. Yantus served as President and CEO of Scan-Optics, a provider of information capture and recognition technologies to the financial, government, and education markets. Prior to Scan-Optics, he founded Espire, an ASP solution for managing branded messaging, and served as its President from July 2003 to March 2005. From March 1999 to June 2003, Mr. Yantus served as Senior Vice President of Custom Communications division for MSX International. Mr. Yantus holds a B.B.A. degree from Western Michigan University and a Post Bachelor degree in Computer Science from Wayne State University.

Item 1A. RISK FACTORS

The following factors may materially adversely affect our business, financial condition or results of operations. In that event, the trading price of our common stock could decline and shareholders may lose part or all of their investment. Therefore, shareholders should carefully consider the risks described below before making an investment decision.

Our stock price has been highly volatile.

The market price of our common stock has been, and may continue to be, highly volatile. The future price of our common stock may fluctuate in response to factors, involving our competitors or us, such as:

new product announcements or changes in product pricing policies;

quarterly and seasonal fluctuations in our operating results;

announcements of technical innovations;

announcements relating to strategic relationships or acquisitions;

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- changes in earnings estimates by securities analysts; and

- general conditions in the economy and/or levels of information technology spending.

In addition, the market prices of securities issued by many companies, particularly in high-technology industries, are volatile for reasons unrelated to the operating performance of the specific companies. This industry volatility, along with broad market fluctuations, may adversely affect the market price of our common stock.

Our quarterly and seasonal sales operating results vary. These operating results may fall below expectations of securities analysts and investors.

Our sales operating results may fluctuate significantly from quarter to quarter or season to season in the future. Because of these fluctuations, our operating results for a particular quarter may fall below the expectations of securities analysts and investors. If this occurs, the trading price of our common stock may decline. These fluctuations could cause period-to-period comparisons to be less than meaningful. Numerous factors contribute to the unpredictability of our operating results, including:

- fluctuations in quarterly sales patterns;

- seasonality factors discussed below;

- the timing of customer orders;

- constraints on our manufacturing and assembly operations;

- shortages or increases in the prices of raw materials and components;

- changes in our mix of products and distribution channels;

- customer order deferrals in anticipation of new versions of our products;

- the announcement or introduction of new products by us or our competitors;

- pricing pressures;

- costs related to the acquisition of technologies or businesses;

- costs of maintaining, integrating or expanding our operations;
- costs of hiring qualified personnel;
- technological changes in our market, including changes in standards for protocols, platforms and operating systems applicable to software, hardware and networking environments;
- costs associated with outside service providers, such as legal counsel and auditors, and taxes owed by us;
- general economic conditions; and
- exchange rate fluctuations.

Most of our software product revenue comes from current-quarter orders and sales, of which a substantial portion has, at times, occurred in the last month of the quarter. We do not maintain a large backlog of orders and most of our distributors maintain little or no inventory. Order fulfillment cycles are typically short and often as short as one to two days. Accordingly, the timing of customer orders can cause significant variations in quarterly results of operations. Because we sell our products to end-customers through various third parties, such as value-added resellers and independent distributors, we are unable to predict with certainty the actual orders, sales and revenue these third parties will generate in a given quarter. These factors could impair and delay our ability to know when revenue and earnings will be higher or lower than expected. We plan our expenditure levels and product development on our expected revenue. Because our expenses are relatively fixed in the short term, we may be unable to adjust our spending in time to compensate for any unexpected shortfall in quarterly revenue.

Our results of operations may also fluctuate as a result of seasonal factors and this may cause our operating results to fall below the expectations of securities analysts and investors for a particular quarter. Specifically, due to typical year-end dealer sales patterns and end-user buying patterns, revenue in our first quarter, without taking into account the effect of acquisitions, has historically declined from the fourth quarter of the previous year.

Subsequent to year end, we acquired Océ Document Technologies GmbH and renamed it Captaris Document Technologies GmbH (CDT). (We discuss this acquisition in further detail in this report under Subsequent Events in Item 7, Management s

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Discussion and Analysis of Financial Conditions and Results of Operations.) CDT transacts business in Euros and its revenue, expenses and results of operations will be translated to U.S. dollars in our consolidated financial statements. We expect a significant portion of our consolidated revenue in 2008 to come through CDT. As such, our revenue, operating expenses and results of operations may fluctuate as a result of changes in foreign currency rates between the Euro and U.S. dollar. This may cause our operating results to fall below the expectations of securities analysts and investors for a particular quarter or year.

We depend on third parties for key components of our RightFax product.

Until October 2007, two domestic suppliers provided fax processing circuit boards to meet our specifications, Dialogic Corporation and Cantata Technology, Inc. Historically, we have relied almost exclusively on Cantata for fax boards primarily because of volume price discounts and the cost and effort required to develop software for alternate fax boards. In October 2007, Dialogic announced that it had acquired all of the outstanding stock of EAS Group, Inc., which owns Cantata. As a result, our suppliers of fax boards are now consolidated under the control of a single parent company, Dialogic. Significant changes in technology, issues regarding quality performance, delays, interruptions or reductions in our supply of fax boards, or unfavorable changes to price and delivery terms could adversely affect our business. We may be relatively more impacted by these issues now that Dialogic controls Cantata.

We rely heavily on independent distributors, value-added resellers and IT service partners.

A substantial majority of our revenue depends on a network of computer-oriented value-added resellers, independent distributors and IT service partners. There is intense competition for the attention of these resellers from our competitors and from providers of other products distributed through these channels. Many of these resellers do not have the financial resources to withstand a downturn in their businesses. We may not be able to maintain or expand our network of resellers in the future. Moreover, our resellers may not maintain or expand their present level of efforts to sell our products. If we lose a major dealer or reseller, or if our dealers and resellers lose interest in selling our products, our business, results of operations and financial condition may be adversely affected.

Failure to establish and maintain OEM and strategic relationships could limit our ability to maintain or increase revenue.

Creating and maintaining OEM and strategic relationships is important to our success because these relationships enable us to market and distribute our products to a larger customer base than we could otherwise reach through our direct marketing efforts. We may not be successful in creating new OEM or strategic relationships on acceptable terms, if at all. Moreover, although we view our OEM and strategic relationships as an important factor in the successful commercialization of our products, our current strategic partners may not view their relationships with us as significant for their own businesses and any one of them could reassess their commitment to us in the future. Further, our OEM and strategic relationships are generally non-exclusive, which means our OEM and strategic partners may develop relationships with some of our competitors. Failure of one or more of our OEM and strategic partners to successfully develop and sustain a market for our products, or the termination of one or more of our OEM and strategic relationships, could adversely affect our ability to maintain or increase revenue.

Additionally, our OEM and strategic partners, from time to time, require us to customize our products and/or develop further enhancements or capabilities. If we are unable to meet these requests in a timely manner, our relationships with our partners and operating results could be negatively impacted.

Our market is highly competitive.

The business solutions market is highly competitive and is rapidly changing. We may not have the financial resources, marketing, distribution, service capability and depth of key personnel or technological knowledge to continue to compete successfully in each of our markets.

We believe the main competitive factors affecting our business are breadth and quality of software alternatives, product integration capabilities, product functionality, performance, reliability, ease of use, ability to update our products to respond to technological change, relationships with distributors, strategic partners, value-added resellers and systems integrators, price, size of the installed base, level of customer support and professional services.

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In the market for LAN-based fax systems, our principal competitors are Esker, Inc. S.A., Biscom, Inc., TOPCALL International AG, Omtool, Ltd., Fenestrae, GFI Software, Ltd. and SAGEM-Interstar. Our fax server products also compete broadly with vendors offering a range of alternative fax solutions, including operating systems containing fax and document transmission features, low-end fax modem products, desktop fax software, single-platform fax software products, outsource fax providers and customized proprietary software solutions. The direct competitors of our business process automation products include K2.net (SourceCode Technology Holdings, Ltd.), Metastorm and Ultimus, Inc. Our main competitors of our document archiving products are Hyland Software, Inc. (OnBase product), EMC Corporation / Documentum (ApplicationXtender, EmailXtender products) and Compulink Business Systems, Inc. (Laserfiche product). For our capture products, our main competitors are Nuance s Scansoft division, ABBYY and Iris. In addition, we compete against EMC/Captiva, Dicom/Kofax, and ReadSoft among others.

We may not be able to compete successfully against current and future competitors and the competitive pressures we face could harm our business and prospects. We expect the competition in our markets to increase over time. There can be no assurance that our current or future competitors will not develop products comparable or superior in terms of price and performance features to those developed by us or be able to adapt more quickly than we can to new or emerging technologies and changes in market opportunities. Increased competition and competitive pressures may result in changes in market share, decreased sales volumes, price reductions and/or increased operating costs associated with marketing and sales incentives, resulting in related reductions in revenue, gross margins and operating income, any of which could materially adversely affect our ability to achieve our financial and business goals. There can be no assurance in the future that we will be able to successfully compete against current and future competitors.

Technology and customer demands change rapidly in our industry.

In our industry, technology and customer demands change rapidly and our competitors frequently introduce new products and features. To succeed, we must identify, develop and market new products, features and services that are compatible with a growing array of computer and peripheral devices, support popular computer and network operating systems and applications, and achieve broad market acceptance by satisfying evolving customer needs and keeping pace with those technological developments. To do this, we must spend substantial funds on product development. We regularly devote significant resources to technologies that we anticipate will be widely adopted. To be successful, we must, among other things, develop and market products and services that achieve broad market acceptance. We may not be able to develop new products or product enhancements on a timely basis. Even if we do, the market may not accept the new products or product enhancements that we develop and accordingly, the results of our operations may be adversely affected.

We may require additional capital in the future and may be unable to obtain this capital at all or on commercially reasonable terms.

The development and marketing of products requires significant amounts of capital. If we need additional capital resources, we may be required to sell additional equity or debt securities, secure additional lines of credit or obtain other third party financing. The timing and amount of such capital requirements cannot be determined at this time and will depend on a number of other factors, including demand for our existing and new products and changes in technology in the networking industry. We may also need to raise additional funding if we decide to undertake more rapid expansion, including acquisitions of complementary products or technologies. There can be no assurance that additional financing will be available on satisfactory terms when needed, if at all. Failure to raise such additional financing, if needed, may result in our inability to achieve our long-term business objectives. Moreover, if we need to issue equity or convertible debt securities to raise additional capital, any such issuance could result in significant dilution to our shareholders.

Our business is affected by adverse economic conditions and resulting declines in customers investments in our products.

Our profitability may be adversely affected by global economic conditions and a prolonged economic slowdown. Generally, we derive net revenue primarily from licensing software as well as follow-on sales of add-on software modules and the sale of maintenance and support agreements. We group our revenues based on whether the revenue is non-recurring revenue (revenues from sales of software) or recurring revenue (revenues from maintenance and support agreements). During a short-term economic slowdown, non-recurring revenue is adversely affected because customers are reluctant to buy software, but this adverse impact is generally offset by recurring revenue from long-term maintenance and service contracts. During a prolonged economic slowdown, however, the reluctance of our customers to invest has an adverse impact on both recurring and non-recurring revenue because both

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types of revenue are to a large extent based on our installed base. As long-term maintenance contracts expire during a prolonged economic slowdown, we enter into fewer new long-term agreements to replace expiring contracts because fewer customers make investments in software during the slowdown.

We are highly dependent on information technology systems.

Our operations rely on complex information technology systems and networks, which are potentially vulnerable to damage or interruption from a variety of sources. We are constantly evaluating our current technology and information technology systems. Although we take precautions against interruptions of our information technology systems and networks and the unrestricted disclosure of our proprietary information, a prolonged interruption of our information technology systems or a disclosure of our proprietary data could adversely affect our business.

We face risks from our international operations.

Maintaining or growing our revenue depends, in part, on our international product sales. We focus significant management attention and financial resources toward our international operations and, with the acquisition of CDT in January 2008, we have significantly expanded these operations. It is costly to establish international facilities and operations to promote our brand internationally and to develop localized systems. We may not succeed in these efforts. Our net sales from international market segments may not offset the expense of establishing and maintaining the related operations and, therefore, these operations may not be profitable on a sustained basis. Significant portions of our revenue are subject to the risks associated with international operations, which include:

- difficulty adapting products to local languages and technologies;
- inability to respond to changes in regulatory requirements;
- inability to meet special standards requirements;
- exposure to exchange rate fluctuations;
- restrictive governmental actions (such as trade protection measures, including export duties and quotas and custom duties and tariffs);
- import or export licensing requirements, restrictions, tariffs and other regulatory restrictions;
- the burdens of complying with a variety of foreign laws, including more protective employment laws;
- limitations on the repatriation of funds;
- longer receivables cycles;

- difficulties in staffing and managing international operations;

- potentially adverse tax consequences; and

- uncertainties arising from local economic or market conditions, local business practices and cultural considerations.

In addition, the laws of some foreign countries are uncertain or do not protect intellectual property rights to the same extent as the United States. Moreover, we could be sued for patent infringement or other intellectual property violations in a foreign country where it could be very costly to defend such a lawsuit.

Currently, our United States sales and some international sales are denominated in U.S. dollars. We also may price our international sales to Europe in Euros, to the United Kingdom in British pounds sterling, to Canada in Canadian dollars, and to Australia in Australian dollars. Increases in the value of the U.S. dollar against these currencies could cause our products to become relatively more expensive to customers in a particular country or region, leading to reduced revenue or profitability in that country or region. We expect to continue expanding our international operations. As a result, we expect our non-U.S.-dollar-denominated sales and our exposure to gains and losses on international currency transactions will increase, which could have a material adverse effect on our results of operations in a given quarter or year.

As of the date of this report, a significant amount of our cash is held by our German subsidiary, and if we are not able to repatriate these funds in a timely manner, our liquidity may suffer.