

BOWNE & CO INC  
Form 10-Q  
August 14, 2001

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended June 30, 2001**

or

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-5842**

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**BOWNE & CO., INC.**

(Exact name of registrant as specified in its charter)

Delaware

13-2618477 (State or other jurisdiction of (IRS Employer incorporation  
or organization) Identification Number) 345 Hudson Street

New York, New York

(Address of principal executive offices) 10014

(Zip Code)

(212) 924-5500

(Registrant's telephone number, including area code)

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**Not Applicable**

(Former name, former address and former fiscal year,  
if changed since last report)

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

The number of shares outstanding of each of the issuer's classes of common stock was 33,109,331 shares of common stock, par value \$.01, outstanding as at August 8, 2001.

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**FINANCIAL STATEMENTS**

**BOWNE & CO., INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	<b>Three Months Ended June 30,</b>	
	<b>2001</b>	<b>2000</b>
	<b>(Unaudited) (000 s omitted except per share amounts)</b>	
Net sales	\$278,647	\$297,692
Expenses:		
Cost of sales	178,324	177,429
Selling and administrative	74,355	78,173
Depreciation	10,833	10,719
Amortization	1,930	1,916
Restructuring and asset impairment charges	8,228	
	<hr/>	<hr/>
	273,670	268,237
	<hr/>	<hr/>
Operating income	\$4,977	\$29,455
Interest expense	(1,947)	(2,381)
Other income (expense), net	60	(1,508)
Loss on sale of subsidiary	(1,858)	
	<hr/>	<hr/>
Income from continuing operations before income taxes	1,232	25,566
Income tax expense	1,300	10,686

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(Loss)income from continuing operations

(68) 14,880

Discontinued operations:

Loss from operations of discontinued segment (less applicable tax benefit of \$708 and \$1,953, respectively)

(1,259) (4,151)

Loss on discontinuance of segment (less applicable tax benefit of \$2,857)

(5,075)

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Loss from discontinued operations

(6,334) (4,151)

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Net (loss) income

\$(6,402) \$10,729

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Earnings per share from continuing operations:

Basic

\$.00 \$.42

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Diluted

\$.00 \$.41

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Loss per share from discontinued operations:

Basic

\$(.19) \$(.12)

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Diluted  
 \$(.19) \$(.12)

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Total (loss) earnings per share:

Basic  
 \$(.19) \$.30

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Diluted  
 \$(.19) \$.30

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Dividends per share  
 \$.055 \$.055

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See Notes to Condensed Consolidated Financial Statements

**FINANCIAL STATEMENTS**  
**BOWNE & CO., INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	<b>Six Months Ended June 30,</b>	
	<b>2001</b>	<b>2000</b>
Net sales	\$548,068	\$579,517
Expenses:		

(Unaudited)  
 (000 s omitted  
 except  
 per share amounts)

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Cost of sales  
355,392 349,385  
Selling and administrative  
144,244 155,977  
Depreciation  
21,985 21,480  
Amortization  
3,706 3,633  
Restructuring and asset impairment  
charges  
8,228

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533,555 530,475

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Operating income  
\$14,513 \$49,042  
Interest expense  
(3,295) (3,738)  
Other income (expense), net  
627 (1,300)  
Loss on sale of subsidiary  
(1,858)

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Income from continuing operations  
before income taxes  
9,987 44,004  
Income tax expense  
5,319 18,489

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Income from continuing operations  
4,668 25,515

Discontinued operations:

Loss from operations of discontinued  
segment (less applicable tax benefit  
of \$6,203 and \$3,858, respectively)  
(11,288) (8,525)

Loss on discontinuance of segment  
(less applicable tax benefit of \$2,857)  
(5,075)

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Loss from discontinued operations  
(16,363) (8,525)

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Net (loss) income  
\$(11,695) \$16,990

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Earnings per share from continuing  
operations:

Basic  
\$.14 \$.71

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Diluted  
\$.14 \$.70

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Loss per share from discontinued  
operations:

Basic  
\$ (.50) \$ (.24)

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Diluted  
\$ (.50) \$ (.24)

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Total (loss) earnings per share:

Basic  
\$ (.35) \$.47

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Diluted  
\$ (.35) \$.46

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Dividends per share  
\$.11 \$.11



See Notes to Condensed Consolidated Financial Statements

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**BOWNE & CO., INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Three Months Ended June 30,</b>	
	<b>2001</b>	<b>2000</b>
	<b>(Unaudited) (000 s omitted)</b>	
Net (loss) income		
\$ (6,402) \$ 10,729		
Foreign currency translation adjustment		
779 (616)		
Net unrealized gains (losses) arising from marketable securities during the period, after deducting (crediting) taxes of \$933 and \$(3,089) for 2001 and 2000, respectively		
1,399 (3,349)		
Comprehensive (loss) income		
\$ (4,224) \$ 6,764		

<b>Six Months Ended June 30,</b>	
<b>2001</b>	<b>2000</b>
<b>(Unaudited) (000 s omitted)</b>	

Net (loss) income  
 \$(11,695) \$16,990  
 Foreign currency translation  
 adjustment  
 (1,677) (1,993)  
 Net unrealized gains (losses) arising  
 from marketable securities during the  
 period, after deducting (crediting)  
 taxes of \$764 and \$(1,954) for 2001  
 and 2000, respectively  
 1,286 (2,117)

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Comprehensive (loss) income  
 \$(12,086) \$12,880

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See Notes to Condensed Consolidated Financial Statements

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**BOWNE & CO., INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>June 30,</b>	<b>December</b>
	<b>2001</b>	<b>31,</b>
		<b>2000</b>
	(Unaudited)	
	(000 s omitted except share amounts)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$34,524	\$30,302
Marketable securities	3,696	1,645
Trade accounts receivable, less allowance for doubtful accounts of \$15,606 (2001) and \$15,206 (2000)	227,395	215,897
Inventories	38,348	32,560
Prepaid expenses and other current assets	34,528	34,104



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Total current assets  
338,491 314,508

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Property, plant and equipment,  
less accumulated depreciation and  
amortization of \$229,687  
(2001) and \$222,936 (2000)  
159,828 171,938  
Goodwill and other intangible  
assets, less accumulated  
amortization of \$29,486  
(2001) and \$34,140 (2000)  
164,792 159,100  
Other assets  
18,923 14,669

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Total assets  
\$682,034 \$660,215

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**LIABILITIES AND  
STOCKHOLDERS EQUITY**

Current liabilities:

Current portion of long-term debt  
and other short-term borrowings  
\$720 \$1,546  
Accounts payable  
43,077 47,759  
Employee compensation and  
benefits  
57,223 71,945  
Accrued expenses and other  
obligations  
63,438 59,716

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Total current liabilities  
164,458 180,966

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Long-term debt net of current  
portion

134,956 85,676

Deferred employee compensation  
and other benefits

43,781 40,019

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Total liabilities

343,195 306,661

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Stockholders' equity:

Preferred stock:

Authorized 2,000,000 shares, par  
value \$.01, Issuable in series none  
issued

Common stock:

Authorized 60,000,000 shares, par  
value \$.01, Issued shares  
39,770,984 (2001) and 39,656,460  
shares (2000)

398 397

Additional paid-in capital

42,159 41,172

Retained earnings

362,946 378,273

Treasury stock, at cost, 6,681,111  
shares (2001) and, 6,684,128  
shares (2000)

(58,883) (58,898)

Accumulated other comprehensive  
loss, net

(7,781) (7,390)

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Total stockholders' equity

338,839 353,554

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Total liabilities and stockholders  
equity

\$682,034 \$660,215

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**BOWNE & CO., INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Six Months Ended June 30,</b>	
	<b>2001</b>	<b>2000</b>
	<b>(Unaudited) (000 s omitted)</b>	
Cash flows from operating activities:		
Net (loss) income		
	\$(11,695)	\$16,990
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	21,985	21,480
Amortization	3,706	3,633
Asset impairment charges	1,174	
Loss from discontinued operations, net of tax	16,363	8,525
Loss on sale of subsidiary	1,858	
Changes in other assets and liabilities, net of certain non-cash transactions	(39,769)	(92,039)
	<hr/>	
	<hr/>	
Net cash used in operating activities	(6,378)	(41,411)
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	<hr/>	
Cash flows from investing activities:		
Acquisitions of businesses, including covenants not to compete, net of cash acquired	(20,750)	(5,693)
Proceeds from sale of a division	4,876	5,000

Purchase of other investments  
(1,000) (1,000)  
Proceeds from the sale of marketable  
securities and fixed assets  
1,312 618  
Purchase of property, plant and  
equipment  
(19,566) (19,507)

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Net cash used in investing activities  
(35,128) (20,582)

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Cash flows from financing activities:

Proceeds from borrowings  
176,858 139,772  
Payment of debt  
(128,309) (59,927)  
Proceeds from stock options  
exercised  
812 281  
Purchase of treasury stock  
(31,133)  
Payment of dividends  
(3,633) (3,948)

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Net cash provided by financing  
activities  
45,728 45,045

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Increase (decrease) in cash and cash  
equivalents  
\$4,222 \$(16,948)

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See Notes to Condensed Consolidated Financial Statements.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(000 s omitted, except share information and where noted)

**Note 1.** The financial information as of June 30, 2001 and for the three and six month periods ended June 30, 2001 and 2000 has been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the consolidated financial position, results of operations and of cash flows for each period presented have been made on a consistent basis. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the Company's annual report and consolidated financial statements. Operating results for the three and six months ended June 30, 2001 may not be indicative of the results that may be expected for the full year.

**Note 2.** Inventories of \$38,348 at June 30, 2001 include raw materials of \$9,476 and work-in-process of \$28,872. At December 31, 2000, inventories of \$32,560 included raw materials of \$8,966 and work-in-process of \$23,594.

**Note 3.** Net earnings per share is calculated for basic earnings per share based on the weighted-average number of shares outstanding, and for diluted earnings per share after adjustment for the assumed conversion of all potentially dilutive securities.

	Three Months Ended June 30,	
	2001	2000
Basic shares	33,064,153	35,254,886
Diluted shares		
34,093,778		36,042,236

	Six Months Ended June 30,	
	2001	2000
Basic shares	33,037,982	35,858,332
Diluted shares		
34,031,374		36,679,032

**Note 4.** The Company classifies its investment in marketable securities as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. At June 30, 2001, the fair value of marketable securities exceeded cost by \$2,757. At December 31, 2000, the fair value of marketable securities exceeded cost by \$707. The net unrealized gains, after deferred taxes, were \$1,655 and \$368 at June 30, 2001 and December 31, 2000 respectively.

The foreign currency translation adjustment was \$9,435 and \$7,758 at June 30, 2001 and December 31, 2000 respectively.

**Note 5.** During the first quarter of 2001, the Company acquired an entity ( neustrategies ), a group focused on helping customers with their global web applications. It was acquired for approximately \$2 million and became part of

the globalization segment. This acquisition was accounted for using the purchase method of accounting.

During the second quarter of 2001, the Company acquired Document Management Services, Inc., an outsourcing company that provides services to the professional services market. It was acquired for approximately \$18 million, and became part of the outsourcing segment. This acquisition was accounted for using the purchase method of accounting and the excess purchase price over the identifiable tangible assets is reflected as part of goodwill and intangible assets. The Company is in the process of finalizing its purchase price allocation with respect to goodwill and intangible assets. Final allocation is not expected to have a material effect on results of operations.

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## BOWNE & CO., INC. AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 6.** During June 2001, the Company sold its commercial printing operations in Montreal, Quebec for approximately \$4.9 million, of which \$2.4 million was received in cash. The remainder was financed by the Company with an interest bearing note with principal due in installments beginning on the fourth anniversary. During 2000, this operation had sales of approximately \$24.4 million with net assets of approximately \$5.1 million at closing. This transaction resulted in a loss of \$1.9 million which primarily resulted from the recognition of the accumulated foreign currency translation loss that was reflected as part of accumulated other comprehensive income on the balance sheet.

**Note 7.** At June 30, 2001, the Company had borrowings of \$134 million under its \$300 million unsecured five-year revolving credit agreement, with a weighted average interest rate of approximately 6%. At December 31, 2000, the Company had borrowings of \$85 million under this agreement.

**Note 8.** During the second quarter of 2001, the Company discontinued the operations of its Internet consulting and development segment.

The Company's management performs on-going business reviews and based on quantitative and qualitative measures, assesses the need to record impairment losses on long-lived assets when impairment indicators are identified. Management determines fair value based on the market approach which includes analysis of market price multiples of companies engaged in similar businesses. In the fourth quarter of 2000, the Company recorded \$19,200 in pre-tax restructuring and goodwill impairment charges in connection with the Company's plans to align its cost structure with customer demand, as well as restructuring the Internet consulting and development segment. The above restructuring charges included a reduction in workforce of approximately 100 employees in the Internet consulting and development business, the cost of closing certain offices, and \$13,660 in impairment charges related to the goodwill of this segment based on the recoverability of carrying amounts at that time.

In the first quarter of 2001, the Internet consulting business experienced further declines in operating revenues, customer project delays and significant additional losses despite its restructuring plan being implemented. The Company determined that the remaining intangible assets were not recoverable and recorded an additional impairment charge of \$9,314 as of March 31, 2001.

In April 2001, management determined that it would no longer invest in this business and announced its decision to exit the operation. Effective with the second quarter of 2001, this segment is reflected as a discontinued operation. All prior period statements have been restated accordingly, including the reallocation of fixed overhead charges to other business segments. In connection with the Company's plan of discontinuance, the Company recorded \$5,075, net of applicable tax benefits, related to the planned discontinuance of the segment, including severance, asset impairment and occupancy costs.

Net sales and income from the discontinued operations were as follows:

	<b>Three Months Ended June 30, 2001</b>	<b>Three Months Ended June 30, 2000</b>
Net sales	\$ 286	\$ 3,840
Pre-tax loss from discontinued operations (including restructuring and shutdown costs)	\$(9,899)	\$(6,104)
Income tax benefit		
3,565 1,953		
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\$(6,334) \$(4,151)		
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**BOWNE & CO., INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Six Months Ended June 30, 2001</b>	<b>Six Months Ended June 30, 2000</b>
Net sales	\$ 1,056	\$ 7,163
Pre-tax loss from discontinued operations (including restructuring and shutdown costs)	\$(25,423)	\$(12,383)
Income tax benefit		
9,060 3,858		
<hr/>		
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\$(16,363) \$(8,525)		
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Assets and liabilities of the discontinued operations were as follows:

<b>June 30, 2001</b>	<b>December 31, 2000</b>
<hr/>	<hr/>

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Assets	\$ 1,265	\$ 19,354
Liabilities (including accrued restructuring and discontinuance costs)		
7,600 2,206		
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Net assets of discontinued operations		
\$(6,335) \$17,148		
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The balance in the accrual for loss on discontinuance represents the estimated remaining costs to exit this operation, as well as the remaining previously recorded restructuring costs. Prior to the second quarter, this accrual had been reflected as part of the overall restructuring accrual. The balance and changes in the accrual for loss on discontinuance from December 31, 2000 through June 30, 2001, including additions as well as payments made on that accrual, is summarized below.

	<u>December 31, 2000 Balance</u>	<u>Additions in 2001</u>	<u>Paid in 2001</u>	<u>June 30, 2001 Balance</u>
Severance and personnel-related costs	\$ 1,160	\$ 1,291	\$ 1,744	\$ 707
Occupancy costs				
762 2,651 582 2,831				
Other				
106 766 195 677				
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\$2,028 \$4,708 \$2,521 \$4,215				
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In addition to the accrual for loss on discontinuance discussed above, in April 2001, management determined that it would take additional steps in its cost reduction program as it affected the other segments of the Company's operations. A restructuring charge was incurred that included a reduction in force of approximately 10%. There was also approximately \$1.2 million in asset impairment charges taken in the second quarter of 2001 related to office closings in continuing operations.

The balance and changes in accrued restructuring related to continuing operations from December 31, 2000



through June 30, 2001 including additions as well as payments made on that accrual, is summarized below.

	December 31, 2000 Balance	Additions in 2001	Paid in 2001	June 30, 2001 Balance
Severance and personnel-related costs	\$851	\$4,732	\$3,163	\$2,420
Occupancy costs				
1,943    1,943				
Other				
14   380   218   176				
<hr/>				
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\$865 \$7,055 \$3,381 \$4,539				
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**BOWNE & CO., INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Severance and personnel-related costs include severance and other benefits paid to terminated employees. The amounts include employees who received notice or had otherwise been identified prior to December 31, 2000 and June 30, 2001, respectively.

Occupancy costs represent facility exit costs associated with the closing of an office in the globalization segment and the downsizing of several locations in the outsourcing segment.

**Note 9.** In August 2001, the Company entered into an agreement to acquire Mendez S.A. and its related assets from Lernout & Hauspie Speech Products N.V. for \$44.5 million. Mendez S.A. is based in Belgium and provides localization, translation technology and technical translation services. It would become part of the globalization segment. The agreement is subject to approval by the Commercial Court in Ieper, Belgium and is expected to close before October 31, 2001.

**Note 10. Segment Information**

The Company continues to focus its business on Empowering Your Information, a term used to define the management, repurposing and distribution of a client's information. The Company manages and repurposes information for distribution by digital, Internet or paper media. It manages documents on the clients' site or at its own

facilities.

The Company's continuing operations are classified into three reportable business segments: financial printing, outsourcing and globalization. The services of each segment are marketed throughout the world. The major services provided by each segment are as follows:

*Financial Printing* transactional financial, corporate reporting, mutual fund, commercial and digital printing.

*Outsourcing* document management solutions primarily for the legal and financial communities. This segment is commonly referred to as Bowne Business Solutions (BBS).

*Globalization* translation, localization and content reengineering of software and technology products. This segment is commonly referred to as Bowne Global Solutions (BGS).

The fourth segment (Internet consulting and development) which previously provided integrated Internet applications primarily for the financial services sector has been discontinued effective with the second quarter. Accordingly, segment information is no longer being presented for that segment.

Information regarding the operations of each business segment is set forth below. Performance is evaluated based on several factors, of which the primary financial measure is business segment income before interest, income taxes, depreciation and amortization of intangible assets ( EBITDA ). The Company also uses income before interest, income taxes, and amortization expenses ( EBITA ) as a measure of performance; therefore, this information is also presented. The Company manages income taxes on a global basis. Segment performance is evaluated exclusive of the disposal of business units, restructuring and asset impairment charges, other expenses, and other income.

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## BOWNE & CO., INC. AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended June 30,	
	2001	2000
	(000 s omitted)	
<b>Revenues from External Customers:</b>		
Financial printing		
\$196,255	\$235,323	
Outsourcing		
59,806	45,556	
Globalization		
22,586	16,813	
	\$278,647	\$297,692

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**EBITDA:**

Financial printing  
 \$21,357 \$40,467  
 Outsourcing  
 3,147 2,469  
 Globalization  
 1,464 (846)  
 Other (including restructuring and  
 asset impairment charges)  
 (10,026) (1,508)

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\$15,942 \$40,582

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**Depreciation Expense:**

Financial printing  
 \$8,565 \$8,291  
 Outsourcing  
 1,380 1,548  
 Globalization  
 888 880

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\$10,833 \$10,719

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**EBITA:**

Financial printing  
 \$12,792 \$32,176  
 Outsourcing  
 1,767 921  
 Globalization  
 576 (1,726)  
 Other (including restructuring and  
 asset impairment charges)  
 (10,026) (1,508)

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\$5,109 \$29,863  
 Amortization expense  
 (1,930) (1,916)  
 Interest expense  
 (1,947) (2,381)

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Income from continuing operations  
before income taxes  
\$1,232 \$25,566

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**BOWNE & CO., INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Six Months Ended June 30,</b>	
	<b>2001</b>	<b>2000</b>
	<b>(000 s omitted)</b>	
<b>Revenues from External Customers:</b>		
Financial printing	\$391,380	\$459,830
Outsourcing	114,471	90,149
Globalization	42,217	29,538
	<hr/>	
	<hr/>	
	\$548,068	\$579,517
	<hr/>	
	<hr/>	

**EBITDA:**

Financial printing	\$40,112	\$74,515
Outsourcing	5,802	3,786
Globalization	2,518	(4,146)
Other (including restructuring and asset impairment charges)	(9,459)	(1,300)
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	<hr/>	
	\$38,973	\$72,855
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**Depreciation Expense:**

Financial printing		
	\$17,463	\$16,687
Outsourcing		
	2,762	3,148
Globalization		
	1,760	1,645

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	\$21,985	\$21,480
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**EBITA:**

Financial printing		
	\$22,649	\$57,828
Outsourcing		
	3,040	638
Globalization		
	758	(5,791)
Other (including restructuring and asset impairment charges)		
	(9,459)	(1,300)

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	\$16,988	\$51,375
Amortization expense		
	(3,706)	(3,633)
Interest expense		
	(3,295)	(3,738)

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Income from continuing operations before income taxes		
	\$9,987	\$44,004

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**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**(000 s omitted, except share information and where noted)**

**Cautionary Statement Concerning Forward-Looking Statements**

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 (the "1995 Act"). The 1995 Act provides a "safe harbor" for forward-looking statements to encourage companies to provide information without fear of litigation so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected.

Set forth below is a summary of factors the Company believes important to its business and that could cause actual results to differ from the Company's expectations. The Company is publishing these factors pursuant to the 1995 Act. Such factors should not be construed as exhaustive or as an admission regarding the adequacy of disclosure made by the Company prior to the effective date of the 1995 Act. Readers should understand that many factors govern whether any forward-looking statements can or will be achieved. Any one of those results could cause actual results to differ materially from those projected. The words "believe," "expect," "anticipate," "intend," "aim," "will" and similar words identify forward-looking statements. The Company cautions readers that the following important factors, among others, could affect the Company's actual results and could cause the Company's actual results to differ materially from those expressed either orally or in writing in any forward-looking statements made by or on behalf of the Company.

General economic or market conditions affecting the demand for transactional financial printing or other solution offerings.

Loss or retirement of key executives, employees or technical personnel.

The effect of changes within the Company's organization or in the compensation and benefit plans and the ability of the Company to attract and retain experienced and qualified management and sales personnel.

Natural events and acts of God such as earthquakes, fires or floods.

The ability of the Company to integrate the operations of acquisitions into its operations.

**Liquidity and Capital Resources**

The Company's financial position and liquidity continue to be strong. At June 30, 2001, the Company had a working capital ratio of 2.1 to 1 and working capital of \$174,033, compared to a ratio of 1.7 to 1 and working capital of \$133,542 at December 31, 2000. The increase in working capital is attributed to an increase in accounts receivable and inventory, as well as increased long-term borrowings used to finance certain acquisitions.

It is expected that the cash generated from operations, working capital and the Company's borrowing capacity will be sufficient to fund its development and integration needs (both foreign and domestic), finance future acquisitions and capital expenditures, provide for the payment of dividends, provide for the stock repurchase program, and meet the debt service requirements. The Company experiences certain seasonal factors with respect to its borrowing needs; the heaviest period for borrowing is normally the second quarter. The Company's existing borrowing capacity provides for this seasonal increase.

Capital expenditures for the six months ended June 30, 2001 are \$19,566. Capital expenditures for the full year 2001 are anticipated to be between \$38 million and \$42 million.

## **Cash Flows**

The Company's net cash used in operating activities was \$6,378 and \$41,411 for the six months ended June 30, 2001, and 2000, respectively. The change reflects a smaller increase in accounts receivable and inventory, compared with 2000, primarily attributed to the decreased sales in the first six months of 2001, as compared with 2000.

Net cash used in investing activities was \$35,128 and \$20,582 for the six months ended June 30, 2001 and 2000, respectively. The increase was primarily the result of cash used in the acquisition of Document Management Services, Inc. in 2001 of approximately \$18 million.

Net cash provided by financing activities was \$45,728 and \$45,045 for the six months ended June 30, 2001 and 2000, respectively. The amounts reflect lower net borrowings in the current year, primarily due to a lower amount of cash used in operations, as well as the lack of treasury stock repurchases in the first half of 2001, compared to the prior year.

## **Share Repurchase Program**

No shares were purchased during the six months ended June 30, 2001.

## **Foreign Exchange**

The Company derives a portion of its revenues from various foreign sources. To date, the Company has not experienced significant gains or losses as a result of fluctuations in the exchange rates of the related foreign currencies. However, as the Company expands its global presence, fluctuations may become significant. To date, the Company has not used foreign currency hedging instruments to reduce its exposure to foreign exchange fluctuations. The Company has a net translation loss of \$1,677 in its accumulated comprehensive income for the six months ended June 30, 2001. This loss is primarily attributed to the fluctuation in value between the U.S. dollar and the euro, pound sterling and Canadian dollar.

## **Recent Accounting Pronouncement**

Statement of Financial Accounting Standards No. 133 ( SFAS 133 ), Accounting for Derivative Instruments and Hedging Activities, was issued in June 1998. SFAS 133 standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, by requiring recognition of those instruments as assets and liabilities and measuring them at fair value.

In June, 2000, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, which amended SFAS 133 and was to be adopted concurrently with SFAS 133. The new statement addressed a limited number of issues causing implementation difficulties for a large number of entities getting ready to apply SFAS 133. The Company does not currently use derivative instruments; therefore, the adoption of this pronouncement did not have a material effect on the Company's consolidated financial statements.

In June 2001, the FASB issued Statement No. 141, Business Combinations (SFAS 141), and Statement No. 142, Goodwill and Other Intangible Assets (SFAS 142). SFAS 141 requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is prohibited. SFAS 141 also provides new criteria to determine whether an acquired intangible asset should be recognized separately from goodwill.

Upon adoption of SFAS 142, amortization of existing goodwill would cease and the remaining book value would be tested for impairment at least annually at the reporting unit level using a new two-step impairment test.

Amortization of goodwill recorded on equity investments would also cease, but this embedded goodwill will continue to be tested for impairment under current accounting rules for equity investments. In addition, the Company will have adjustments to the equity in net income of affiliates line item to reflect the impact of adopting these new statements on the operations of our equity investments.

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As of the date of adoption, the Company expects to have unamortized goodwill in the amount of \$143 million and unamortized identifiable intangible assets of approximately \$18 million, all of which will be subject to the provisions of SFAS 141 and 142. Because of the extensive effort needed to comply with adopting these pronouncements, it is not practicable to reasonably estimate the impact of adopting these statements on the Company's financial statements.

### **Impact of the Euro Conversion**

On January 1, 1999, certain of the member countries of the European Union established fixed conversion rates between their existing sovereign currencies ( legacy currencies ) and a single currency called the euro. The legacy currencies are scheduled to remain legal tender as denominations of the euro during the transition period from January 1, 1999 to January 1, 2002. Beginning January 1, 2002, euro-denominated bills and coins will be introduced and by July 1, 2002, legacy currencies will no longer be legal tender.

The Company has implemented a global financial software solution as part of its overall strategy to standardize and improve its financial reporting systems globally. This system has the capability of being able to report, pay, and receive currencies using the euro as its functional currency. The costs associated with the euro conversion are anticipated to be minimal since this functionality is part of a delivered system. Thus, the cost of conversion should not have a material effect on the Company.

### **Results of Operations**

Historically, the Company has primarily provided financial printing and other related services. Revenues related to transactional financial printing services are affected by cyclical conditions of the capital markets. Over the past few years the Company has expanded its service offerings and focused its business on empowering information to become the global market leader in this field by combining superior customer service with appropriate new technologies to manage, repurpose and distribute a client's information anywhere in the world.

Management evaluates the performances of its operating segments separately to monitor the different factors affecting financial results. EBITDA and EBITA are measured because management believes that such information is useful in evaluating the results of certain segments relative to other entities which operate within these industries and to its affiliated segments. EBITDA and EBITA are alternatives to and not replacement measures of operating performance as determined in accordance with generally accepted accounting principles. Each segment is subject to review and evaluation as management monitors current market conditions, market opportunities and available resources. The performance of each segment is discussed below. The Internet consulting and development segment is no longer being discussed as a separate segment as it has become classified as a discontinued operation during the second quarter of 2001, based on management's announcement to exit this segment made on April 23, 2001.

*Quarter Ended June 30, 2001 Compared to Quarter Ended June 30, 2000*

### **Financial Printing**

Sales decreased \$39,068 or 17%. Demand for transactional financial printing remained very low and was down sharply during the second quarter of 2001, as compared to 2000. While we continue to maintain our share of this



market, the reduced activity has impacted our revenues and gross margin. For the quarter, transactional financial printing experienced decreased revenues of \$44,559 or 42%.

This decrease in transactional revenues was offset to some degree by increased non-transactional financial printing of \$5,491. This increase is the result of our efforts to increase our revenues in the corporate reporting, mutual funds and digital printing markets. These services are expected to provide a more stable volume of work than transactional financial and we expect these services to be less cyclical.

Gross margin contribution of this segment decreased by \$25,006, as the margin percentage decreased by approximately four percentage points to 41%. The margins in the transactional financial market were negatively impacted by the lower resource utilization as compared to the second quarter of last year.

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Selling and administrative expenses decreased \$5,896 or 9%, to \$58,948. The decrease was primarily the result of lower expenses that are directly associated with sales such as selling expenses (including commissions) and certain variable administrative expenses. As a percent of sales, these expenses increased by approximately two percentage points to 30%. This increase is primarily the result of lower revenues available to absorb certain fixed selling and administrative expenses.

EBITDA decreased \$19,110 to \$21,357 as a result of the foregoing.

### **Outsourcing**

Sales increased \$14,250, or 31%. This increase resulted primarily from new customers and the acquisition of Document Management Services, Inc. ( DMS ), offset by decreased revenue from existing customers.

Gross margin from this segment increased \$1,541 while the margin percentage decreased approximately two percentage points to 19%. The decline is attributed to the decreased volume of activity at existing customers.

Selling and administrative expenses increased \$863 or 12% to \$7,982; however, as a percent of sales, these expenses decreased by approximately two percentage points to 13%.

EBITDA from this segment increased by \$678 to \$3,147, and remained consistent as a percentage of sales.

### **Globalization**

Sales increased \$5,773 or 34%. Our globalization segment provides two primary services, software localization and web site content management. The market for these services appears to be growing and while our share of the market is difficult to determine we estimate that it also is growing.

The increase in cost of sales and selling and administrative expenses of \$3,463 is directly related to the additional costs required to produce and manage the increased volume, and to a lesser extent, increases in compensation and selling costs associated with increased sales.

As a result of the foregoing, EBITDA increased to \$1,464, compared to a loss of \$846 for the quarter ended June 30, 2000.

### **Summary**

Net sales decreased \$19,045 or 6%, to \$278,647. The decrease is attributed to the large decline in transactional financial printing offset by increases in outsourcing and globalization. There was a \$19,940 decrease in gross margin; and, the gross margin percentage decreased approximately four percentage points to 36%. This decrease was primarily attributable to the declines in the Company's financial printing segment.

Selling and administrative expenses decreased by \$3,818 or 5%, to \$74,355. This decrease was due to the selling and administrative costs related to the decrease in sales as well as reductions in discretionary spending. As a percentage of sales, these expenses increased approximately one percentage point to 27%, primarily as a result of lower revenues available to absorb certain fixed selling and administrative expenses.

Depreciation increased \$114, and amortization remained consistent.

There were \$8,228 in restructuring and impairment charges in the current year, as previously discussed in Note 8 to the financial statements.

Interest expense decreased \$434 primarily as a result of a lower average interest rate in the current year partially offset by higher average borrowings in 2001.

Other income (expense), net changed from an expense of \$1,508 to income of \$60 primarily due to an accrual in connection with a matter in litigation in the second quarter of the prior year.

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The loss on sale of subsidiary in the second quarter of the current year relates to the sale of the commercial printing operation in our Montreal location.

The effective overall income tax rate for the quarter was impacted by the loss incurred in the second quarter of 2001 as compared to income in the prior year. This was further impacted by the non-deductibility of the loss on sale of subsidiary in the second quarter of 2001.

As a result of the foregoing, the net loss from continuing operations was \$68 as compared to net income of \$14,880 for the same period last year.

As previously discussed, the Company discontinued its Internet consulting and development segment which resulted in losses of \$6,334 and \$4,151 in 2001 and 2000, respectively. As a result, the net loss of the Company was \$6,402 for the second quarter of 2001, as compared to net income of \$10,729 in the same period of 2000.

*Six Months Ended June 30, 2001 Compared to Six Months Ended June 30, 2000*

### **Financial Printing**

Sales decreased \$68,450 or 15%. Demand for transactional financial printing remained very low and was down sharply during the first half of 2001, as compared to 2000. While we continue to maintain our share of this market, the reduced activity has impacted our revenues and gross margin. For the six months ended June 30, 2001, transactional financial printing experienced decreased revenues of \$82,795 or 38%. Commercial printing decreased \$2,555 or 6%.

These decreases in the segment's revenues were offset to some degree by increased corporate reporting and mutual fund printing of \$19,556. These increases are the result of our efforts to increase our revenues in the non-transactional financial printing market. These services are expected to provide a more stable volume of work than transactional financial and we expect these services to be less cyclical.

Gross margin contribution of this segment decreased by \$49,745 while the margin percentage decreased by approximately five percentage points to 40%. The margins in the transactional financial market were negatively impacted by the lower resource utilization as compared to the first six months of last year.

Selling and administrative expenses decreased \$15,342, or 12%, to \$115,388; as a percent of sales, these expenses increased by approximately one percentage point to 30%. This increase is primarily the result of lower revenues available to absorb certain fixed selling and administrative expenses.

EBITDA decreased \$34,403 to \$40,112 as a result of the foregoing.

### **Outsourcing**

Sales increased \$24,322 or 27%. This increase resulted primarily from new customers and the acquisition of DMS, as well as expanded services with existing customers.

Gross margin from this segment increased \$3,754 while the margin percentage decreased approximately one percentage point to 19%.

Selling and administrative expenses increased \$1,738 or 12%; however, as a percent of sales, these expenses decreased by approximately two percentage points to 14%.

EBITDA from this segment increased by \$2,016 to \$5,802.

### **Globalization**

Sales increased \$12,679 or 43%. Our globalization segment provides two primary services, software localization and web site content management. The market for these services appears to be growing and while our share of the market is difficult to determine we estimate that it also is growing.

The increase in cost of sales and selling and administrative expenses of \$6,015 is directly related to the additional costs required to produce and manage the increased volume, and to a lesser extent, increases in compensation and selling costs associated with increased sales.

As a result of the foregoing, EBITDA increased to \$2,518 compared to a loss of \$4,146 for the six months ended June 30, 2000.

### **Summary**

Net sales decreased \$31,449 or 5%, to \$548,068. The decrease is attributed to the large decline in transactional financial printing offset by increases in outsourcing and globalization. There was a \$37,456 decrease in gross margin; and, the gross margin percentage decreased approximately five percentage points to 35%. This decrease was primarily attributable to the declines in the Company's financial printing segment.

Selling and administrative expenses decreased by \$11,733 or 8%, to \$144,244. This decrease was due to the selling and administrative costs related to the decrease in sales as well as reductions in discretionary spending. As a percentage of sales, these expenses decreased approximately one percentage point to 26%.

Depreciation increased \$505, or 2%, while amortization increased \$73, or 2%.

There were \$8,228 in restructuring and impairment charges in the current year, as previously explained in Note 8 to the financial statements.

Interest expense decreased \$443 as a result of a lower average interest rate in the current year, partially offset by higher average borrowings.

Other income (expense), net changed from an expense of \$1,300 in 2000 to income of \$627 in 2001 primarily due to an accrual in connection with a matter in litigation in the prior year.

The loss on sale of subsidiary in the second quarter of the current year relates to the sale of the commercial printing operation in our Montreal location.

The effective overall income tax rate for the first six months was impacted by the loss incurred in the first six months of 2001 as compared to income in the prior year. This was further impacted by the non-deductibility of the loss on sale of subsidiary in the second quarter of 2001.

As a result of the foregoing, the net income from continuing operations was \$4,668 as compared to \$25,515 for the same period last year.

As previously discussed, the Company discontinued its Internet consulting and development segment which resulted in losses of \$16,363 and \$8,525 in 2001 and 2000, respectively. As a result, the net loss of the Company was \$11,695 for the first six months of 2001, as compared to net income of \$16,990 in the same period of 2000.

#### **Quantitative and Qualitative Disclosure about Market Risk**

The Company's market risk is principally associated with trends in the domestic and international capital markets, particularly in the financial print segment and to a limited degree, in the outsourcing segment. This includes trends in the initial public offerings market, an important component of the financial printing segment. The Company also has market risk tied to interest rate fluctuations related to its debt obligations and fluctuations in foreign currency.

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## **PART II**

### **OTHER INFORMATION**

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

(a) Reports on Form 8-K  
Report dated May 8, 2001, relating to a letter sent to the shareholders regarding its Annual Meeting and auditors' fees.

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## **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.

BOWNE & CO., INC.

/s/ROBERT M. JOHNSON

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Robert M. Johnson  
*(Chairman of the Board (and Director),  
Chief Executive Officer)*

Date: August 14, 2001

/s/C. CODY COLQUITT

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C. Cody Colquitt  
*(Senior Vice President and Chief Financial Officer)  
(Principal Accounting Officer)*

Date: August 14, 2001