BOWNE & CO INC
Form 10-Q
August 04, 2009

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2009

or

o **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

Bowne & Co., Inc.
(Exact name of registrant as specified in its charter)

Delaware	**13-2618477**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
55 Water Street New York, New York	**10041**
(Address of principal executive offices)	*(Zip Code)*

(212) 924-5500
(Registrant s telephone number, including area code)

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 (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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted to its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

The Registrant had 27,780,962 shares of Common Stock outstanding as of August 1, 2009.

TABLE OF CONTENTS

Table of Contents

PART I

FINANCIAL INFORMATION

Item 1. ***Financial Statements***

BOWNE & CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30, 2009	2008
	(Unaudited) (In thousands except per share data)	
Revenue	$ 188,976	$ 237,008
Expenses:		
Cost of revenue (exclusive of depreciation and amortization shown below)	127,756	150,098
Selling and administrative (exclusive of depreciation and amortization shown below)	42,392	56,800
Depreciation	7,056	7,506
Amortization	1,367	991
Restructuring, integration and asset impairment charges	10,379	17,479
	188,950	232,874
Operating income	26	4,134
Interest expense	(2,485)	(2,621)
Other (expense) income, net	(899)	1,424
(Loss) income from continuing operations before income taxes	(3,358)	2,937
Income tax expense	(375)	(1,361)
(Loss) income from continuing operations	(3,733)	1,576
Loss from discontinued operations, net of tax	(79)	(285)
Net (loss) income	$ (3,812)	$ 1,291
(Loss) earnings per share from continuing operations:		
Basic	$ (0.13)	$ 0.06
Diluted	$ (0.13)	$ 0.05
(Loss) per share from discontinued operations:		
Basic	$ (0.00)	$ (0.01)
Diluted	$ (0.00)	$ (0.01)

Total (loss) earnings per share:				
Basic	$	(0.13)	$	0.05
Diluted	$	(0.13)	$	0.04
Dividends per share (2009 dividends were paid in stock, 2008 were paid in cash)	$	0.055	$	0.055

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

BOWNE & CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(Unaudited) (In thousands except per share data)	
Revenue	$ 358,081	$ 445,775
Expenses:		
Cost of revenue (exclusive of depreciation and amortization shown below)	237,826	288,261
Selling and administrative (exclusive of depreciation and amortization shown below)	88,477	114,762
Depreciation	14,457	14,136
Amortization	2,734	1,579
Restructuring, integration and asset impairment charges	16,964	20,034
	360,458	438,772
Operating (loss) income	(2,377)	7,003
Interest expense	(3,352)	(4,904)
Other (expense) income, net	(156)	2,190
(Loss) income from continuing operations before income taxes	(5,885)	4,289
Income tax benefit (expense)	284	(1,425)
(Loss) income from continuing operations	(5,601)	2,864
Loss from discontinued operations, net of tax	(171)	(863)
Net (loss) income	$ (5,772)	$ 2,001
(Loss) earnings per share from continuing operations:		
Basic	$ (0.20)	$ 0.10
Diluted	$ (0.20)	$ 0.10
(Loss) per share from discontinued operations:		
Basic	$ (0.01)	$ (0.03)
Diluted	$ (0.01)	$ (0.03)
Total (loss) earnings per share:		
Basic	$ (0.21)	$ 0.07
Diluted	$ (0.21)	$ 0.07
Dividends per share (2009 dividends were paid in stock, 2008 were paid in cash)	$ 0.11	$ 0.11

See Notes to Condensed Consolidated Financial Statements.

4

Table of Contents

BOWNE & CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
	(Unaudited) (In thousands)	
Net (loss) income	$ (3,812)	$ 1,291
Recognition of previously unrecognized pension adjustments, net of taxes of $9,773 and $132 for 2009 and 2008, respectively	13,777	212
Foreign currency translation adjustments	4,062	484
Net unrealized gain (loss) from marketable securities during the period, net of taxes of $3 and $18 for 2009 and 2008, respectively	4	(30)
Reclassification adjustments for unrealized holding losses on marketable securities that were sold during the period, net of taxes of $0 and $35 for 2009 and 2008, respectively		57
Comprehensive income	$ 14,031	$ 2,014

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(Unaudited) (In thousands)	
Net (loss) income	$ (5,772)	$ 2,001
Recognition of previously unrecognized pension adjustments, net of taxes of $10,247 and $264 for 2009 and 2008, respectively	14,444	424
Foreign currency translation adjustments	2,635	134
Net unrealized loss from marketable securities during the period, net of taxes of $1 and $129 for 2009 and 2008, respectively	(1)	(210)
Reclassification adjustments for unrealized holding losses on marketable securities that were sold during the period, net of taxes of $0 and $35 for 2009 and 2008, respectively		57
Comprehensive income	$ 11,306	$ 2,406

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

BOWNE & CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2009 (Unaudited)	December 31, 2008
	(In thousands, except share information)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,480	$ 11,524
Marketable securities	210	193
Accounts receivable, less allowances of $5,654 (2009) and $5,178 (2008)	146,775	116,773
Inventories	24,026	27,973
Prepaid expenses and other current assets	39,811	45,990
Total current assets	224,302	202,453
Marketable securities, noncurrent	2,923	2,942
Property, plant and equipment at cost, less accumulated depreciation of $268,199 (2009) and $258,425 (2008)	120,375	130,149
Other noncurrent assets:		
Goodwill	50,878	50,371
Intangible assets, less accumulated amortization of $9,524 (2009) and $6,781 (2008)	39,105	41,824
Deferred income taxes	38,825	44,368
Other	13,296	8,642
Total assets	$ 489,704	$ 480,749
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 12,125	$ 842
Accounts payable	46,477	47,776
Employee compensation and benefits	18,421	19,181
Accrued expenses and other obligations	39,154	42,085
Total current liabilities	116,177	109,884
Other liabilities:		
Long-term debt and capital lease obligations net of current portion	100,992	88,352
Deferred employee compensation	53,040	75,868
Deferred rent	19,216	19,039
Other	1,215	1,023
Total liabilities	290,640	294,166

Commitments and contingencies		
Stockholders equity:		
Preferred stock:		
Authorized 1,000,000 shares, par value $.01, issuable in series none issued		
Common stock:		
Authorized 60,000,000 shares, par value $.01, issued 43,995,660 shares and outstanding 27,780,962 shares, net of treasury shares of 16,214,698 (2009); issued 43,209,432 shares and outstanding 26,977,671 shares, net of treasury shares of 16,231,761 (2008)	440	432
Additional paid-in capital	123,618	119,676
Retained earnings	307,635	316,411
Treasury stock, at cost, 16,214,698 shares (2009) and 16,231,761 shares (2008)	(216,208)	(216,437)
Accumulated other comprehensive loss, net	(16,421)	(33,499)
Total stockholders equity	199,064	186,583
Total liabilities and stockholders equity	$ 489,704	$ 480,749

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

BOWNE & CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net (loss) income	$ (5,772)	$ 2,001
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Net loss from discontinued operations	171	863
Depreciation	14,457	14,136
Amortization	2,734	1,579
Asset impairment charges	2,128	
Changes in other assets and liabilities, net of acquisitions, discontinued operations and certain non-cash transactions	(24,326)	(53,812)
Net cash used in operating activities of discontinued operations	(484)	(1,287)
Net cash used in operating activities	(11,092)	(36,520)
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(5,711)	(10,032)
Purchases of marketable securities		(5,000)
Proceeds from the sale of marketable securities and other	187	39,838
Acquisitions of businesses	(195)	(61,187)
Net cash used in investing activities	(5,719)	(36,381)
Cash flows from financing activities:		
Proceeds from borrowings under revolving credit facility, net of debt issuance costs	38,442	48,000
Payment of debt	(19,833)	
Payment of capital lease obligations	(417)	(542)
Proceeds from stock options exercised		732
Payment of cash dividends		(2,926)
Other		221
Net cash provided by financing activities	18,192	45,485
Effects of exchange rates on cash flows and cash equivalents	575	73
Net increase (decrease) in cash and cash equivalents	1,956	(27,343)
Cash and cash equivalents, beginning of period	11,524	64,941
Cash and cash equivalents, end of period	$ 13,480	$ 37,598

Supplemental Cash Flow Information:		
Cash paid for interest	$ 2,171	$ 2,935
Net cash (refunded) paid for income taxes	$ (8,414)	$ 2,643

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

BOWNE & CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands, except share information and where noted)

Note 1. Basis of Presentation

The financial information as of June 30, 2009 and for the three and six month periods ended June 30, 2009 and 2008 has been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). 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. These financial statements should be read in conjunction with the Company s annual report on Form 10-K and consolidated financial statements for the year ended December 31, 2008. Operating results for the three and six months ended June 30, 2009 may not be indicative of the results that may be expected for the full year.

Certain prior year amounts have been reclassified to conform to the 2009 presentation.

In addition, certain prior year information has been retroactively restated to reflect the impact of the adoption of Financial Accounting Standards Board (FASB) Staff Position (FSP) APB 14-1, Accounting for Convertible Debt Instruments that May Be Settled in Cash upon Conversion (Including Partial Cash Settlement), (FSP APB 14-1), which is discussed in more detail in Note 2 to the Condensed Consolidated Financial Statements.

Note 2. New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS No. 165). This standard incorporates into authoritative accounting literature certain guidance that already existed within generally accepted auditing standards, but the rules concerning recognition and disclosure of subsequent events will remain essentially unchanged. Subsequent events guidance addresses events which occur after the balance sheet date but before the issuance of financial statements. Under SFAS No. 165 as under current practice, an entity must record the effect of subsequent events that provide evidence about conditions that existed at the balance sheet date but not record the effects of subsequent events which provide evidence about conditions that did not exist at the balance sheet date. This standard is effective for interim and annual periods ending after June 15, 2009. The Company adopted this standard during the second quarter of 2009. Its adoption did not have a significant impact on the Company s financial statements. The Company has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2009, for items that should be recognized or disclosed in these financial statements. The evaluation was conducted through August 4, 2009, the date these financial statements were issued.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP amends SFAS No. 107, Disclosures About Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. The Company adopted this FSP during the second quarter of 2009. Its adoption did not have a significant impact on the Company s financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. This FSP amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of

BOWNE & CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. The Company adopted this FSP during the second quarter of 2009. Its adoption did not have a material effect on the determination or reporting of our financial results.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP provides additional guidance for estimating fair value in accordance with SFAS 157, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. The Company adopted the provision of this FSP during the second quarter of 2009. Its adoption did not have a material effect on the determination or reporting of our financial results.

In May 2008, the FASB issued FSP APB 14-1. The Company adopted this FSP during the first quarter of 2009. FSP APB 14-1 requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer s nonconvertible debt borrowing rate. As such, the initial debt proceeds from the sale of the Company s convertible subordinated debentures, which are discussed in more detail in Note 10 to the Consolidated Financial Statements in the Company s annual report on Form 10-K for the year ended December 31, 2008, are required to be allocated between a liability component and an equity component as of the debt issuance date. The resulting debt discount is amortized over the instrument s expected life as additional non-cash interest expense. FSP APB 14-1 was effective for fiscal years beginning after December 15, 2008 and requires retrospective application.

Upon adoption of FSP APB 14-1, the Company measured the fair value of the Company s $75.0 million 5% Convertible Subordinated Debentures (Notes) issued in September 2003, using an interest rate that the Company could have obtained at the date of issuance for similar debt instruments without an embedded conversion option. Based on this analysis, the Company determined that the fair value of the Notes was approximately $61.7 million as of the issuance date, a reduction of approximately $13.3 million in the carrying value of the Notes, of which $8.2 million was recorded as additional paid-in capital, and $5.1 million was recorded as a deferred tax liability. Also in accordance with FSP APB 14-1, the Company is required to allocate a portion of the $3.3 million of debt issuance costs that were directly related to the issuance of the Notes between a liability component and an equity component as of the issuance date, using the interest rate method as discussed above. Based on this analysis, the Company reclassified approximately $0.4 million of these costs as a component of equity and approximately $0.3 million as a deferred tax asset. These costs were amortized through October 1, 2008, as this was the first date at which the redemption and repurchase of the Notes could occur.

On October 1, 2008, the Company repurchased approximately $66.7 million of the Notes, and amended the terms of the remaining $8.3 million Notes outstanding (the Amended Notes), effective October 1, 2008. The amendment increased the semi-annual cash interest payable on the Notes from 5.0% to 6.0% per annum, and changed the conversion price applicable to the Notes from $18.48 per share to $16.00 per share for the period from October 1, 2008 to October 1, 2010. In accordance with FSP APB 14-1, the Company remeasured the fair value of the Amended Notes using an applicable interest rate for similar debt instruments without an embedded conversion option as of the amendment date. Based on this analysis, the Company determined that the fair value of the Amended Notes was approximately $7.6 million as of the amendment date, a reduction of approximately

BOWNE & CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$0.7 million in the carrying value of the Amended Notes, of which $0.4 million was recorded as additional paid-in capital, and $0.3 million was recorded as a deferred tax liability.

The Company recognized interest expense for the Notes of $0.2 million and $1.7 million for the three months ended June 30, 2009 and 2008, respectively, and $0.4 million and $3.4 million for the six months ended June 30, 2009 and 2008, respectively. The effective interest rates for the three and six months ended June 30, 2009 and 2008 were 11% and 9.5%, respectively. Included in interest expense for these periods was additional non-cash interest expense of approximately $0.1 million and $0.8 million for the three months ended June 30, 2009 and 2008, respectively, and $0.2 million and $1.6 million for the six months ended June 30, 2009 and 2008, respectively, as a result of the adoption of this FSP.

The following table illustrates the impact of adopting FSP APB 14-1 on the Company s income (loss) from continuing operations before income taxes, income (loss) from continuing operations, net income (loss), earnings (loss) per share from continuing operations, and earnings (loss) per share for the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Impact on income (loss) from continuing operations before income taxes	$ (88)	$ (798)	$ (174)	$ (1,572)
Impact on income (loss) from continuing operations	$ (52)	$ (467)	$ (102)	$ (992)
Impact on basic earnings (loss) per share from continuing operations	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.04)
Impact on diluted earnings (loss) per share from continuing operations	$ (0.00)	$ (0.02)	$ (0.00)	$ (0.04)
Impact on net income (loss)	$ (52)	$ (467)	$ (102)	$ (992)
Impact on basic earnings (loss) per share	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.04)
Impact on diluted earnings (loss) per share	$ (0.00)	$ (0.02)	$ (0.00)	$ (0.04)

As of June 30, 2009 and December 31, 2008, the carrying value of the $8.3 million Amended Notes amounted to approximately $7.7 million and $7.5 million, respectively, which are classified as noncurrent liabilities in the accompanying Condensed Consolidated Balance Sheets. The unamortized discounts related to the Notes were approximately $0.6 million and $0.8 million as of June 30, 2009 and December 31, 2008, respectively, which are being amortized through October 1, 2010.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets . The FSP amends the facts that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. The FSP requires companies to consider their historical experience in renewing or extending similar arrangements together with the asset s intended use, regardless of whether the arrangements have explicit renewal or extension provisions. In the absence of historical experience, companies should consider the assumptions that market participants would use about renewal or extension consistent with the highest and best use of the asset, adjusted for entity-specific factors. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years, which will require prospective application. The Company adopted this standard during the first quarter of 2009. Its adoption did not have a significant impact on the Company s financial statements for the three and six months ended June 30, 2009.

In February 2008, the FASB issued FSP FAS 157-2 Effective Date of FASB Statement No. 157 (FSP FAS 157-2), which deferred the effective date of Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS 157) for all non-financial assets and non-financial liabilities for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years for items within the scope of FSP

BOWNE & CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FAS 157-2. The Company adopted this standard for non-financial assets and non-financial liabilities during the first quarter of 2009. Its adoption did not have a significant impact on the Company s financial statements for the three and six months ended June 30, 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations . This standard establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired and also changes the accounting treatment for certain acquisition related costs, restructuring activities, and acquired contingencies, among other changes. This statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. This Statement is effective for financial statements issued for fiscal years beginning on or after December 15, 2008 and interim periods within those fiscal years. The Company adopted this standard during the first quarter of 2009. Its adoption did not have a material impact on the Company s financial statements as a result of the Company not acquiring any businesses during the six months ended June 30, 2009. The adoption of this standard could potentially reduce the Company s future operating earnings due to required recognition of acquisition and restructuring costs through operating earnings upon the acquisitions. The magnitude of this impact will be dependent on the number, size, and nature of acquisitions in periods subsequent to adoption.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 outlines the accounting and reporting for ownership interests in a subsidiary held by parties other than the parent. The Company adopted this standard during the first quarter of 2009. The adoption of this standard did not have a significant impact on its financial statements for the three and six months ended June 30, 2009.

Recently Issued Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification^tm and the Hierarchy of Generally Accepted Accounting Principles (SFAS 168), which replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles . SFAS 168 identifies the source of accounting principles and the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). In addition, SFAS 168 establishes the FASB Accounting Standard Codification^tm (the Codification) as the source of authoritative GAAP recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP. All guidance contained in the Codification carries an equal level of authority. The initial date of the adoption of this standard was effective for financial statements issued for interim and annual periods ending after June 15, 2009. On June 3, 2009, FASB decided that SFAS 168 will be effective for interim and annual periods ending after September 15, 2009. The Company will adopt SFAS 168 during the third quarter of 2009. The Company does not anticipate that its adoption will have a significant impact on its financial statements.

In December 2008, the FASB issued FSP FAS 132(R)-1, Employer s Disclosures about Postretirement Benefit Plan Assets . The FSP amends SFAS No. 132 (revised 2003) to provide guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. The FSP requires employers of public and nonpublic companies to disclose more information about how investment allocation decisions are made, more information about major categories of plan assets, including concentration of risk and fair-value measurements, and the fair-value techniques and inputs used to measure plan assets. The disclosure requirements are effective for years ending after December 15, 2009. The Company will adopt the disclosure requirements of the FSP in the Company s annual report on Form 10-K for the year ended December 31, 2009, and does not anticipate that this standard will have a significant impact on its financial statements.

BOWNE & CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Marketable Securities

The Company classifies its investments 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. Marketable securities as of June 30, 2009 and December 31, 2008 consist primarily of investments in auction rate securities of approximately $2.9 million. Uncertainties in the credit markets have prevented the Company and other investors from liquidating some holdings of auction rate securities in recent auctions. Accordingly, the Company still holds a portion of these auction rate securities and is receiving interest at comparable rates for similar securities.

The Company s investments in auction rate securities had a par value of approximately $3.1 million as of June 30, 2009, and are insured against loss of principal and interest. Due to the uncertainty in the market as to when these auction rate securities will be refinanced or the auctions will resume, the Company has classified the auction rate securities as noncurrent assets as of June 30, 2009. The total unrealized loss related to its auction rate securities was $177 ($104 after tax), of which $10 ($6 after tax) and $19 ($11 after tax) was recorded during the three and six months ended June 30, 2009, respectively.

Note 4. Fair Value of Financial Instruments

The Company defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The fair value estimates presented in the table below are based on information available to the Company as of June 30, 2009 and December 31, 2008.

SFAS 157 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The standard utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity s own assumptions.

BOWNE & CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The carrying value and fair value of the Company s significant financial assets and liabilities and the necessary disclosures for the periods are presented as follows:

		June 30, 2009			
	Carrying	Fair Value Measurements			
	Value	Total	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents[(1)]	$ 13,480	$ 13,480	$ 13,480	$	$
Marketable securities[(2)]	3,133	3,133	210		2,923
Total financial assets	$ 16,613	$ 16,613	$ 13,690	$	$ 2,923
Financial Liabilities:					
Convertible subordinated debentures (the Notes[(3)])	$ 7,696	$ 8,071	$	$ 8,071	$
Term loans[(4)]	24,167	24,167		24,167	
Senior revolving credit facility[(4)]	79,417	79,417		79,417	
Total financial liabilities	$ 111,280	$ 111,655	$	$ 111,655	$

		December 31, 2008			
	Carrying	Fair Value Measurements			
	Value	Total	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents[(1)]	$ 11,524	$ 11,524	$ 11,524	$	$
Marketable securities[(2)]	3,135	3,135	193	2,942	
Total financial assets	$ 14,659	$ 14,659	$ 11,717	$ 2,942	$
Financial Liabilities:					
Convertible subordinated debentures (the Notes[(3)])	$ 7,464	$ 7,841	$	$ 7,841	$
Senior revolving credit facility[(4)]	79,500	74,412		74,412	
Total financial liabilities	$ 86,964	$ 82,253	$	$ 82,253	$

(1) Included in cash and cash equivalents are money market funds of $2,619 and $2,762 as of June 30, 2009 and December 31, 2008, respectively.

(2) Included in marketable securities are auction rate securities of $2,923 and $2,942 as of June 30, 2009 and December 31, 2008, respectively.

(3) The carrying value of the Notes as of December 31, 2008 was retroactively adjusted to reflect the adoption of FSP APB 14-1, which is discussed in more detail in Note 2 to the Condensed Consolidated Financial Statements. The Notes are shown net of debt discounts, and are included as a component of long-term debt as of June 30, 2009 and December 31, 2008.

(4) The carrying values as of June 30, 2009 represents the borrowings outstanding under the amended and extended revolving credit facility and term loans, which are discussed in more detail in Note 10 to the Condensed Consolidated Financial Statements.

BOWNE & CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of the beginning and ending balances of the Company s investments in auction rate securities classified as a Level 3 fair value measurement as of June 30, 2009 is as follows:

Balance at January 1, 2009	$
Transfer in/(out) of Level 3	2,942
Net unrealized loss included in accumulated other comprehensive loss	(19)
Balance at June 30, 2009	$ 2,923

The following assumptions were used by the Company in order to measure the estimated fair value of its financial assets and liabilities as of June 30, 2009: (i) the carrying value of cash and cash equivalents approximates fair value because of the short term maturity of those instruments; (ii) the Company s marketable securities are carried at estimated fair value as calculated by the Company using a model based on current yields and other known market data; (iii) the carrying value of the liabilities under the term loans and revolving credit agreement approximates fair value as of June 30, 2009, since this facility has a variable interest rate similar to those that are currently available to the Company and is reflective of current market conditions; and (iv) the carrying value of the Notes is based on the market values for similar debt without conversion features as of the issuance date in accordance with FSP APB 14-1 and the fair value of the Notes as of June 30, 2009, is based on the estimated market value for similar debt without conversion features as of June 30, 2009.

Note 5. Stock-Based Compensation

In accordance with SFAS No. 123 (revised 2004) Share-Based Payment (SFAS 123(R)), the Company measures the share-based compensation expense for stock options granted based upon the estimated fair value of the award on the date of grant and recognizes the compensation expense over the award s requisite service period. The Company has not granted stock options with market or performance conditions. The weighted-average fair value of stock options granted during the three and six months ended June 30, 2009 was $1.51 and $1.42, respectively. There were no stock options granted during the three and six months ended June 30, 2008, respectively. The weighted-average fair value was calculated using the Black-Scholes-Merton option pricing model. The following assumptions were used to determine the weighted-average fair value of the stock options granted during the three and six months ended June 30, 2009:

	June 30, 2009	
	Three Months Ended	Six Months Ended
Expected dividend yield	3.5%	3.5%
Expected stock price volatility	78.0%	67.2%
Risk-free interest rate	2.0%	2.3%

Expected life of options	5 years	5 years

The Company uses historical data to estimate the expected dividend yield and expected volatility of the Company s stock in determining the fair value of the stock options. The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant and the expected life of the options represents the estimated length of time the options are expected to remain outstanding, which is based on the history of exercises and cancellations of past grants made by the Company. In accordance with SFAS 123(R), the Company recorded compensation expense for the three and six months ended June 30, 2009 and 2008, net of pre-vesting forfeitures for the options granted, which was based on the historical experience of the vesting and forfeitures of stock options granted in prior years.

The Company recorded compensation expense related to stock options of $168 and $831 for the three and six months ended June 30, 2009, respectively, and $188 and $400 for the three and six months ended June 30, 2008, respectively, which is included in selling and administrative expenses in the Condensed Consolidated Statement of

Table of Contents

BOWNE & CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Operations. As of June 30, 2009, there was approximately $832 of total unrecognized compensation cost related to non-vested stock option awards which is expected to be recognized over a weighted-average period of 1.49 years.

During the first half of 2009, certain executive officers of the Company voluntarily surrendered 794,500 outstanding stock options with an exercise price that ranged from $10.58 to $15.75 per share. Included in the stock options that were voluntarily surrendered was 204,000 options that were nonvested. The Company recognized approximately $457 of compensation expense in March 2009 related to the accelerated vesting of the nonvested portion of the voluntarily surrendered stock options. No additional compensation was provided to these officers in return for surrendering these stock options.

Stock Option Plans

The Company has the following stock incentive plans: a 1999 Plan (which was amended in May 2009) and a 2000 Plan, which are described more fully in Note 17 of the Notes to Consolidated Financial Statements in the Company s annual report on Form 10-K for the year ended December 31, 2008. The 1999 Plan was approved by shareholders. The 2000 Plan did not require shareholder approval. The Company uses treasury shares to satisfy stock option exercises from the 2000 Plan, deferred stock units and restricted stock awards. To the extent treasury shares are not used, shares are issued from the Company s authorized and unissued shares.

In May 2009, the 1999 Plan was amended to increase the available share reserve by 1.5 million shares and eliminate the fungible pool approach previously used for counting grants under the plan, among other things. The amendment to the 1999 Plan is discussed in more detail in the Company s definitive Proxy Statement dated April 15, 2009.

The details of the stock option activity for the six months ended June 30, 2009 is as follows:

	Number of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding as of January 1, 2009	2,645,301	$ 10.94	
Granted	96,500	$ 3.18	
Exercised		$	
Forfeited/Cancelled	(796,600)	$ 14.57	
Outstanding as of March 31, 2009	1,945,201	$ 9.07	
Granted	10,000	$ 2.98	
Exercised		$	
Forfeited/Cancelled	(92,950)	$ 7.00	
Outstanding as of June 30, 2009	1,862,251	$ 9.14	$ 2,154
Exercisable as of June 30, 2009	1,035,626	$ 13.09	$

There were no stock options exercised during the three and six months ended June 30, 2009. The total intrinsic value of the stock options exercised during the three and six months ended June 30, 2008 was $212 and $215, respectively. The amount of cash received from the exercise of stock options was $732 for the six months ended June 30, 2008. The tax benefit recognized related to compensation expense for stock options amounted to $50 and $106 for the three and six months ended June 30, 2009, respectively, and $19 and $42 for the three and six months ended June 30, 2008, respectively. The actual tax benefits realized from stock option exercises was $72 and $73 for the three and six months ended June 30, 2008, respectively. The excess tax benefits related to stock option exercises resulted in cash flows from financing activities of $11 for the six months ended June 30, 2008.

Table of Contents

BOWNE & CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes weighted-average option exercise price information as of June 30, 2009:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number Outstanding**	**Weighted-Average Remaining Life**	**Weighted-Average Exercise Price**	**Number Exercisable**	**Weighted-Average Exercise Price**
$ 1.49 - $10.31	973,395	6 years	$ 4.86	165,895	$ 9.40
$10.32 - $11.99	81,732	2 years	$ 10.64	81,732	$ 10.64
$12.00 - $14.00	534,789	2 years	$ 13.46	531,789	$ 13.46
$14.00 - $15.77	238,415	4 years	$ 15.19	226,040	$ 15.20
$15.78 - $19.72	33,920	7 years	$ 17.53	30,170	$ 17.61