BOWNE \& CO INC
Form 10-Q
November 08, 2005

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## UNITED STATES <br> SECURITIES AND EXCHANGE COMMISSION <br> Washington, D.C. 20549 <br> Form 10-Q <br> p QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005

## 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

(State or other jurisdiction of incorporation or organization)

345 Hudson Street
New York, New York
(Address of principal executive offices)

13-2618477
(I.R.S. Employer

Identification Number)
10014
(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, and (2) has been subject to such filing requirements for the past 90 days. Yes p No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes p No o

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

The Registrant had 32,595,945 shares of Common Stock outstanding as of October 31, 2005.

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PART I<br>FINANCIAL INFORMATION

## Item 1. Financial Statements

## BOWNE \& CO., INC. AND SUBSIDIARIES

 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONSThree Months Ended September 30,

|  | 2005 |  | $\begin{aligned} & \text { Restated } \end{aligned}$ |  |
| :---: | :---: | :---: | :---: | :---: |
|  | (Unaudited) <br> (In thousands, except per share amounts) |  |  |  |
| Revenue | \$ | 159,359 | \$ | 138,353 |
| Expenses: |  |  |  |  |
| Cost of revenue |  | $(107,185)$ |  | $(92,688)$ |
| Selling and administrative |  | $(46,606)$ |  | $(43,724)$ |
| Depreciation |  | $(5,876)$ |  | $(6,712)$ |
| Amortization |  | (235) |  | (165) |
| Restructuring charges, integration costs and asset impairment charges |  | $(3,692)$ |  | (789) |
|  |  | $(163,594)$ |  | $(144,078)$ |
| Operating loss |  | $(4,235)$ |  | $(5,725)$ |
| Interest expense |  | $(1,200)$ |  | $(2,594)$ |
| Other income, net |  | 154 |  | 173 |
| Loss from continuing operations before income taxes |  | $(5,281)$ |  | $(8,146)$ |
| Income tax benefit |  | 1,456 |  | 2,846 |
| Loss from continuing operations |  | $(3,825)$ |  | $(5,300)$ |
| Discontinued operations: |  |  |  |  |
| Gain on sale of discontinued operations, net of tax |  | 3,426 |  |  |
| Income (loss) from discontinued operations, net of tax |  | 4,922 |  | $(1,160)$ |
| Income (loss) from discontinued operations |  | 8,348 |  | $(1,160)$ |
| Net income (loss) | \$ | 4,523 | \$ | $(6,460)$ |

Loss per share from continuing operations:

| Basic | $\$$ | $(.11)$ | $\$$ | $(.15)$ |
| :--- | :---: | :---: | :---: | :---: |
| $\quad$ Diluted | $\$$ | $(.11)$ | $\$$ | $(.15)$ |
| Earnings (loss) per share from discontinued operations: | $\$$ | .24 | $\$$ | $(.03)$ |
| $\quad$ Basic | $\$$ | .24 | $\$$ | $(.03)$ |

Total earnings (loss) per share:

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| Basic | $\$$ | .13 | $\$$ | $(.18)$ |
| :--- | :--- | :--- | :--- | :--- |
| Diluted | $\$$ | .13 | $\$$ | $(.18)$ |
| Dividends per share | $\$$ | .055 | $\$$ | .055 |

See Notes to Condensed Consolidated Financial Statements.

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## BOWNE \& CO., INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Nine Months Ended September 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2005 |  | Restated 2004 |  |
|  | (Unaudited) <br> (In thousands, except per share amounts) |  |  |  |
| Revenue | \$ | 532,585 | \$ | 520,689 |
| Expenses: |  |  |  |  |
| Cost of revenue |  | $(344,469)$ |  | $(323,339)$ |
| Selling and administrative |  | $(142,152)$ |  | $(149,839)$ |
| Depreciation |  | $(19,009)$ |  | $(20,310)$ |
| Amortization |  | (705) |  | (495) |
| Gain on sale of building |  |  |  | 896 |
| Restructuring charges, integration costs and asset impairment charges |  | $(6,861)$ |  | $(5,786)$ |
|  |  | $(513,196)$ |  | $(498,873)$ |
| Operating income |  | 19,389 |  | 21,816 |
| Interest expense |  | $(3,793)$ |  | $(7,985)$ |
| Other income, net |  | 1,316 |  | 868 |
| Income from continuing operations before income taxes |  | 16,912 |  | 14,699 |
| Income tax expense |  | $(8,704)$ |  | $(7,115)$ |
| Income from continuing operations |  | 8,208 |  | 7,584 |
| Discontinued operations: |  |  |  |  |
| Gain on sale of discontinued operations, net of tax |  | 3,426 |  |  |
| Income from discontinued operations, net of tax |  | 822 |  | 108 |
| Income from discontinued operations |  | 4,248 |  | 108 |
| Net income | \$ | 12,456 | \$ | 7,692 |
| Earnings per share from continuing operations: |  |  |  |  |
| Basic | \$ | . 24 | \$ | . 21 |
| Diluted | \$ | . 23 | \$ | . 21 |
| Earnings per share from discontinued operations: |  |  |  |  |
| Basic | \$ | . 12 | \$ | . 00 |
| Diluted | \$ | . 12 | \$ | . 00 |
| Total earnings per share: |  |  |  |  |
| Basic | \$ | . 36 | \$ | . 21 |
| Diluted | \$ | . 35 | \$ | . 21 |
| Dividends per share | \$ | . 165 | \$ | . 165 |

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See Notes to Condensed Consolidated Financial Statements.

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## BOWNE \& CO., INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

|  | Three Months Ended September 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | $2005$ |  | Restated 2004 |  |
|  | (Unaudited) <br> (In thousands) |  |  |  |
| Net income (loss) | \$ | 4,523 |  | $(6,460)$ |
| Foreign currency translation adjustment |  | 3,105 |  | 4,064 |
| Net unrealized gain (loss) arising from marketable securities during the period, after deducting taxes of $\$ 61$ for 2005 and crediting taxes of $\$ 2$ for 2004 |  | 91 |  | (3) |
| Comprehensive income (loss) |  | 7,719 |  | $(2,399)$ |
|  | Nine Months Ended September 30, |  |  |  |
|  |  | $2005$ | $\begin{gathered} \text { Restated } \\ 2004 \end{gathered}$ |  |
|  | (Unaudited) <br> (In thousands) |  |  |  |
| Net income | \$ | 12,456 |  | \$ 7,692 |
| Foreign currency translation adjustment |  | $(12,243)$ |  | $(1,616)$ |
| Net unrealized gains arising from marketable securities during the period, after deducting taxes of $\$ 49$ and $\$ 4$ for 2005 and 2004, respectively |  | 73 |  | 6 |
| Comprehensive income | \$ | 286 |  | \$ 6,082 |

See Notes to Condensed Consolidated Financial Statements.

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

$\left.\begin{array}{lcc} & \begin{array}{c}\text { September 30, } \\ \mathbf{2 0 0 5}\end{array} & \begin{array}{c}\text { December 31, } \\ \text { 2004 }\end{array} \\ \text { (Unaudited) }\end{array}\right)$

## LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:
Current portion of long-term debt and other short-term
borrowings $\$ 200$
Accounts payable 27,892 32,208

Employee compensation and benefits $\quad 38,341 \quad 38,663$
$\begin{array}{lll}\text { Accrued expenses and other obligations } & 43,258 & 39,441\end{array}$
Liabilities held for sale 37,093
$\begin{array}{lll}\text { Total current liabilities } & 109,691 & 157,605\end{array}$
$\begin{array}{ccc}\text { Other liabilities: } & & 75,600 \\ \text { Long-term debt } & \text { net current portion } & 75,800\end{array}$
$\begin{array}{ll}\text { Deferred employee compensation and other } & \text { 43,359 }\end{array}$
Liabilities held for sale 5,048

| Total liabilities | 224,286 | 281,812 |
| :--- | :--- | :--- |

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 and outstanding, 41,860,717 shares (2005) and $41,444,817$ shares (2004) 418
$\begin{array}{lrr}\text { Additional paid-in capital } & 81,271 & 75,368\end{array}$
$\begin{array}{lll}\text { Retained earnings 35,348 } & 352,293 & 345\end{array}$
Treasury stock, at cost, $8,964,853$ shares (2005) and
7,781,468 shares (2004) (100,484) $(85,620)$
Accumulated other comprehensive income, net 2,400 37,187
$\begin{array}{lll}\text { Total stockholders equity } 335,898 & 372,797\end{array}$
$\begin{array}{lllll}\text { Total liabilities and stockholders equity } & \$ & 560,184 & \$ & 654,609\end{array}$

See Notes to Condensed Consolidated Financial Statements.

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

## Nine Months Ended

 September 30,2005 Restated
(Unaudited)
(In thousands)

| Cash flows from operating activities: | $\$$ | 8,208 |
| :--- | ---: | :---: |
| Income from continuing operations | $\$$ | 7,584 |
| Adjustments to reconcile income from continuing operations to net cash <br> (used in) provided by operating activities: | 19,009 | 20,310 |
| Depreciation | 705 | 495 |
| Amortization | 4,723 | 153 |
| Asset impairment charges | $(43,018)$ | $(896)$ |
| Gain on sale of building <br> Changes in other assets and liabilities, net of discontinued operations <br> and certain non-cash transactions <br> Net cash (used in) provided by operating activities | $(10,373)$ | 4,968 |

Cash flows from investing activities:

| Proceeds from the sale of subsidiary, net of costs and marketable |  |  |
| :--- | ---: | ---: |
| securities received | 120,218 |  |
| Proceeds from the sale of marketable securities and other | 20,510 | 122 |
| Proceeds from the sale of building, net | $(67,000)$ | 6,731 |
| Purchase of marketable securities | $(14,594)$ | $(13,275)$ |
| Purchase of property, plant, and equipment | 59,134 | $(6,422)$ |


| Cash flows from financing activities: |  |  |
| :--- | :---: | :---: |
| Proceeds from borrowings | $(34,000$ | 128,229 |
| Payment of debt | 7,455 | $(131,229)$ |
| Proceeds from stock options exercised | $(18,122)$ | 18,503 |
| Purchase of treasury stock | $(5,611)$ | $(5,762)$ |
| Payment of dividends | $(16,478)$ | 9,741 |
| Net cash (used in) provided by financing activities |  |  |

Net cash used in discontinued operations
$(5,491)$
$(10,817)$

| Net increase (decrease) in cash and cash equivalents | 26,792 | $(2,530)$ |  |
| :--- | :--- | :--- | :--- |
| Cash and cash equivalents, beginning of period | 51,557 | 10,738 |  |
| Cash and cash equivalents, end of period | $\$$ | 78,349 | $\$$ |


| Supplemental cash flow information: <br> Cash paid for interest from continuing operations | $\$$ | 2,159 | $\$$ | 7,102 |
| :--- | :---: | ---: | :---: | :---: | :---: |
| Cash paid for interest from discontinued operations | $\$$ | 51 | $\$$ | 180 |
| Net cash paid for income taxes from continuing operations | $\$$ | 8,879 | $\$$ | 6,498 |
| Net cash paid for income taxes from discontinued operations | $\$$ | 1,471 | $\$$ | 3,180 |

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## BOWNE \& CO., INC. AND SUBSIDIARIES <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS <br> (Unaudited)

(In thousands, except share information and where noted)

## Note 1. Basis of Presentation

The financial information as of September 30, 2005 and for the three and nine month periods ended September 30, 2005 and 2004 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. 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, 2004. The Condensed Consolidated Financial Statements and Notes to the Condensed Consolidated Financial Statements have been presented to reflect the reclassification of the globalization business as assets and liabilities held for sale in the Condensed Consolidated Balance Sheet for December 31, 2004, and as discontinued operations in the Statements of Operations for the three and nine months ended September 30, 2005 and 2004, and Statements of Cash Flows for the nine months ended September 30, 2005 and 2004, and have also been presented to reflect the reclassification of the document outsourcing business as discontinued operations in the Statements of Operations for the three and nine months ended September 30, 2004 and statement of cash flows for the nine months ended September 30, 2004. Operating results for the three and nine months ended September 30, 2005 may not be indicative of the results that may be expected for the full year.

## Note 2. Reclassifications

Certain prior year amounts have been reclassified to conform to the 2005 presentation.

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## BOWNE \& CO., INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 3. Restatement of $\mathbf{2 0 0 4}$ Quarterly Financial Results

As previously disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2004, the Company s results for the three and nine month periods ended September 30, 2004 have been restated to reflect the tax effect of corrections to intercompany adjustments related to foreign entities within the globalization segment. While this restatement had no impact on results of operations for the full year in 2004, the impact on the 2004 third quarter was a decrease in net loss of $\$ 166$ (no per share effect) and the impact on the nine month period ended September 30, 2004 was an increase in net income of $\$ 298$ ( $\$ .01$ per share). In addition, the previously reported 2004 results have been reclassified to exclude the discontinued globalization business as discussed further in Note 4 to the Condensed Consolidated Financial Statements. A summary of the restated financial information for the three and nine months ended September 30, 2004 are as follows:

| Three Months Ended September 30, 2004 | As <br> Previously Reported |  | As <br> Restated |  | As Reclassified to Reflect the Discontinued Globalization Business |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Loss from continuing operations before income taxes | \$ | $(7,931)$ | \$ | $(7,931)$ | \$ | $(8,146)$ |
| Income tax benefit |  | 893 |  | 1,059 |  | 2,846 |
| Loss from continuing operations |  | $(7,038)$ |  | $(6,872)$ |  | $(5,300)$ |
| Income (loss) from discontinued operations, net of tax |  | 412 |  | 412 |  | $(1,160)$ |
| Net loss | \$ | $(6,626)$ | \$ | $(6,460)$ | \$ | $(6,460)$ |
| Loss per share from continuing operations: |  |  |  |  |  |  |
| Basic | \$ | (.19) | \$ | (.19) | \$ | (.15) |
| Diluted | \$ | (.19) | \$ | (.19) | \$ | (.15) |
| Earnings (loss) per share from discontinued operations: |  |  |  |  |  |  |
| Basic | \$ | . 01 | \$ | . 01 | \$ | (.03) |
| Diluted | \$ | . 01 | \$ | . 01 | \$ | (.03) |
| Total loss per share: |  |  |  |  |  |  |
| Basic | \$ | (.18) | \$ | (.18) | \$ | (.18) |
| Diluted | \$ | (.18) | \$ | (.18) | \$ | (.18) |

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## BOWNE \& CO., INC. AND SUBSIDIARIES <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| Nine Months Ended September 30, 2004 | As <br> Previously <br> Reported |  | As <br> Restated |  | As <br> Reclassified to Reflect Discontinued Globalization Operations |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Income from continuing operations before income taxes | \$ | 13,554 | \$ | 13,554 | \$ | 14,699 |
| Income tax expense |  | $(9,191)$ |  | $(8,893)$ |  | $(7,115)$ |
| Income from continuing operations |  | 4,363 |  | 4,661 |  | 7,584 |
| Income from discontinued operations, net of tax |  | 3,031 |  | 3,031 |  | 108 |
| Net income | \$ | 7,394 | \$ | 7,692 | \$ | 7,692 |
| Earnings per share from continuing operations: |  |  |  |  |  |  |
| Basic | \$ | . 12 | \$ | . 13 | \$ | . 21 |
| Diluted | \$ | . 12 | \$ | . 13 | \$ | . 21 |
| Earnings per share from discontinued operations: |  |  |  |  |  |  |
| Basic | \$ | . 09 | \$ | . 08 | \$ | . 00 |
| Diluted | \$ | . 08 | \$ | . 08 | \$ | . 00 |
| Total earnings per share: |  |  |  |  |  |  |
| Basic | \$ | . 21 | \$ | . 21 | \$ | . 21 |
| Diluted | \$ | . 20 | \$ | . 21 | \$ | . 21 |
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## BOWNE \& CO., INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 4. Discontinued Operations

On September 1, 2005, the Company sold its globalization business, Bowne Global Solutions (BGS) to Lionbridge Technologies, Inc., (Lionbridge) for total consideration of $\$ 193,262$, consisting of $\$ 130$ million in cash and 9.4 million shares of Lionbridge common stock valued at $\$ 63,262$ on the date of closing. Expenses and retained liabilities associated with the sale totaled $\$ 12,768$, of which approximately $\$ 9,782$ were paid as of September 30, 2005 , resulting in net cash proceeds from the sale of approximately $\$ 120,218$. The Company has recognized a net gain on the sale of BGS of approximately $\$ 3,426$ during the third quarter of 2005. Included in the gain is the recognition of the cumulative foreign currency translation amount related to BGS of approximately $\$ 22,617$ which was previously included in accumulated other comprehensive income. The Company has recorded various liabilities related to the sale of this business in accrued expenses and other obligations in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2005. Included in accrued expenses and other obligations is approximately $\$ 5,703$ which is primarily related to accrued employee compensation and estimated indemnification liabilities associated with the discontinued globalization business. Effective with the second quarter of 2005 this business has been reflected as a discontinued operation in the Condensed Consolidated Financial Statements. All prior period results have been reclassified to reflect this presentation. The assets and liabilities attributable to this business have been classified in the Condensed Consolidated Balance Sheet as of December 31, 2004 as assets and liabilities held for sale and consist of the following:

|  | $\begin{gathered} \text { December 31, } \\ 2004 \end{gathered}$ |  |
| :---: | :---: | :---: |
| Cash and marketable securities | \$ | 9,671 |
| Accounts receivable, net |  | 62,804 |
| Prepaid expenses and other assets |  | 7,347 |
| Property and equipment, net |  | 20,401 |
| Goodwill and intangible assets, net |  | 144,074 |
| Other noncurrent assets |  | 2,092 |
| Total assets held for sale | \$ | 246,389 |
| Long-term debt and other short-term borrowings | \$ | 729 |
| Accounts payable and accrued expenses |  | 36,364 |
| Deferred taxes and other |  | 3,886 |
| Long-term debt net of current portion |  | 1,162 |
| Total liabilities held for sale | \$ | 42,141 |

Operating results of the discontinued operations from the globalization business are as follows:

|  | Three Months Ended <br> September 30, |  | Nine Months Ended <br> September 30, |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
| Revenue | $\mathbf{2 0 0 5}$ | $\mathbf{2 0 0 4}$ | $\mathbf{2 0 0 5}$ | $\mathbf{2 0 0 4}$ |


| Income (loss) before income tax expense | 5,119 | 215 |  | 6,695 |  | $(1,144)$ |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
| Income tax expense | $(197)$ | $(1,787)$ |  | $(5,873)$ | $(1,779)$ |  |
| Net income (loss) | $\$$ | 4,922 | $\$$ | $(1,572)$ | $\$$ | 822 |

The results for the quarter and nine months ended September 30, 2005 reflect the results of operations of the discontinued globalization business until September 1, 2005.

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## BOWNE \& CO., INC. AND SUBSIDIARIES <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On November 9, 2004 the Company sold its document outsourcing business, as described more fully in Note 3 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004. The Company has recorded various liabilities related to the sale of the discontinued business in accrued expenses and other obligations in the accompanying Condensed Consolidated Balance Sheets. The amounts included in accrued expenses and other obligations is $\$ 3,303$ and $\$ 7,654$ as of September 30, 2005 and December 31, 2004, respectively. These amounts primarily relate to accrued employee compensation, which were paid in 2005, and estimated indemnification liabilities associated with the discontinued business. The Condensed Consolidated Financial Statements and notes to the Condensed Consolidated Financial Statements have been presented to reflect the reclassification of the document outsourcing business as a discontinued operation.

The Company s discontinued Immersant operations had net liabilities (including accrued restructuring and discontinuance costs) of $\$ 803$ at December 31, 2004, which are included in accrued expenses and other obligations in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2004. These liabilities were included in the sale of BGS to Lionbridge and accordingly, effective September 1, 2005, the Company is no longer responsible for their payment.

## Note 5. Marketable Securities

The Company classifies its investments in marketable equity 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. Current marketable securities at September 30, 2005 and December 31, 2004 consist primarily of short-term low-risk securities including auction rate securities of approximately $\$ 64.5$ million and $\$ 20.3$ million, respectively, which are described more fully in Note 6 of the Company s Annual Report on Form 10-K for the year ended December 31, 2004.

As discussed further in Note 4 to the Condensed Consolidated Financial Statements, the Company received 9.4 million shares of Lionbridge common stock valued at approximately $\$ 63.3$ million as of the closing date, as part of the total consideration received from the sale of BGS. These securities are valued at $\$ 63.5$ million as of September 30, 2005 and are classified as marketable securities, noncurrent in the accompanying Condensed Consolidated Balance Sheet. The unrealized gain, net of tax, is reported as a separate component of stockholders equity.

## Note 6. Stock Repurchase Plans

During the fourth quarter of 2004, the Company s Board of Directors authorized, and the Company entered into, an Overnight Share Repurchase program with Bank of America and repurchased 2,530,000 shares for approximately $\$ 40.2$ million. The program was completed on May 24,2005 , at which time the Company received a price adjustment of approximately $\$ 2.1$ million in the form of 166,161 additional shares. The price adjustment represents the difference between the original share purchase price of $\$ 15.75$ and the average volume-weighted adjusted share price of $\$ 15.00$ for the actual purchases made, plus interest. In accordance with this program the Company effected the purchase of $2,696,161$ shares at an average price of $\$ 14.85$ per share.

During the fourth quarter of 2004, the Company s Board of Directors also authorized an on going stock repurchase program to repurchase up to $\$ 35$ million of the Company s common stock. On July 29, 2005, the Company entered into a 10b5-1 trading plan with a broker to facilitate the purchases of shares under this program. Through December 2006, management is authorized to purchase shares from time to time at prevailing prices as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The program may be discontinued at any time. As of September 30, 2005, the Company repurchased 1,307,100 shares under the 10b5-1 plan at an average price of $\$ 13.86$ per share and through November 4, 2005 the Company has repurchased an additional 662,500 shares under that plan, bringing the average price to $\$ 13.92$ per share.

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## BOWNE \& CO., INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 7. Stock-Based Compensation

The Company has several stock-based employee compensation plans, which are described more fully in Note 17 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004. The Company accounts for those plans using the intrinsic method prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations. No stock-based employee compensation cost is reflected in net income (loss), as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following tables illustrate the effect on income from continuing operations, earnings per share from continuing operations, income from discontinued operations, earnings per share from discontinued operations, net income, and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS ) 123, Accounting for Stock-Based Compensation. In December 2004, the Financial Accounting Standards Board ( FASB ) issued SFAS 123 (revised 2004), Share-Based Payment ( SFAS 123(R) ) which replaces SFAS 123 and supercedes APB Opinion No. 25. Refer to Note 8 to the Condensed Consolidated Financial Statements for additional information.

|  | Three Months Ended September 30, |  |  |  | Nine Months Ended September 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | 2005 | Restated 2004 |  | 2005 |  | $\begin{aligned} & \text { Restated } \\ & 2004 \end{aligned}$ |  |
| (Loss) income from continuing operations: |  |  |  |  |  |  |  |  |
| As reported | \$ | $(3,825)$ | \$ | $(5,300)$ | \$ | 8,208 | \$ | 7,584 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects |  | (315) |  | (530) |  | (927) |  | $(1,609)$ |
| Pro forma (loss) income from continuing operations | , | $(4,140)$ | \$ | $(5,830)$ | \$ | 7,281 | \$ | 5,975 |

As reported (loss) earnings per share from continuing operations:
Basic \$ (.11) \$ (.15) \$ . $24 \quad \$ \quad .21$
Diluted $\quad \$ \quad(.11) \quad \$ \quad(.15) \quad \$ \quad .23 \quad \$ \quad .21$

Pro forma (loss) earnings per share from continuing operations:

| Basic | $\$$ | $(.12)$ | $\$$ | $(.16)$ | $\$$ | .21 | $\$$ | .17 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Diluted | $\$$ | $(.12)$ | $\$$ | $(.16)$ | $\$$ | .21 | $\$$ | .16 |

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## BOWNE \& CO., INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|  | Three Months Ended September 30, |  |  |  | Nine Months Ended September 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | 2005 | $\begin{aligned} & \text { Restated } \\ & 2004 \end{aligned}$ |  | 2005 |  | $\begin{gathered} \text { Restated } \\ 2004 \end{gathered}$ |  |
| Income (loss) from discontinued operations: |  |  |  |  |  |  |  |  |
| As reported | \$ | 8,348 | \$ | $(1,160)$ | \$ | 4,248 | \$ | 108 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects |  |  |  | (60) |  |  |  | (181) |
| Pro forma income (loss) from discontinued operations | \$ | 8,348 | \$ | $(1,220)$ | \$ | 4,248 | \$ | (73) |
| As reported earnings (loss) per share from discontinued operations: |  |  |  |  |  |  |  |  |
| Basic | \$ | . 24 | \$ | (.03) | \$ | . 12 | \$ | . 00 |
| Diluted | \$ | . 24 | \$ | (.03) | \$ | . 12 | \$ | . 00 |

Pro forma earnings (loss) per share from discontinued operations:

| Basic | $\$$ | .24 | $\$$ | $(.03)$ | $\$$ | .12 | $\$$ | $(.00)$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Diluted | $\$$ | .24 | $\$$ | $(.03)$ | $\$$ | .12 | $\$$ | $(.00)$ |

Three Months Ended
September 30,

Nine Months Ended
September 30,

|  | $\mathbf{2 0 0 5}$ | Restated <br> $\mathbf{2 0 0 4}$ | $\mathbf{2 0 0 5}$ | Restated <br> $\mathbf{2 0 0 4}$ |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
| Net income (loss): <br> As reported | $\$ 4,523$ | $\$$ | $(6,460)$ | $\$ 12,456$ | $\$ 0$ | 7,692 |
| Deduct: Total stock-based employee <br> compensation expense determined under fair <br> value based method for all awards, net of <br> related tax effects |  | $(315)$ | $(590)$ |  | $(927)$ | $(1,790)$ |
| Pro forma income (loss) | $\$ 4,208$ | $\$$ | $(7,050)$ | $\$$ | 11,529 | $\$$ |

As reported earnings (loss) per share:

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| Basic | $\$$ | .13 | $\$$ | $(.18)$ | $\$$ | .36 | $\$$ | .21 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Diluted | $\$$ | .13 | $\$$ | $(.18)$ | $\$$ | .35 | $\$$ | .21 | |  |  |  |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Pro forma earnings (loss) per share: |  |  |  |  |  |  |

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## BOWNE \& CO., INC. AND SUBSIDIARIES <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

These pro forma amounts may not be representative of future results since the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years. The fair value for these options was estimated at the date of grant using the Black-Scholes model with the following weighted-average assumptions:

|  | Three Months Ended September 30, |  | Nine Months Ended September 30, |  |
| :---: | :---: | :---: | :---: | :---: |
| Stock Options from Continuing Operations | $\begin{gathered} 2005 \\ \text { Grants } \end{gathered}$ | $\begin{gathered} 2004 \\ \text { Grants } \end{gathered}$ | $2005$ Grants | $\begin{gathered} 2004 \\ \text { Grants } \end{gathered}$ |
| Expected dividend yield |  |  | 1.6\% | 1.3\% |
| Expected stock price volatility |  |  | 33.2\% | 31.4\% |
| Risk-free interest rate |  |  | 3.8\% | 2.8\% |
| Expected life of options |  |  | 5 years | 3 years |
| Weighted-average fair value |  |  | \$3.71 | \$3.52 |


|  | Three Months <br> Ended <br> September 30, | Nine Months Ended <br> September 30, |  |  |
| :--- | :---: | :---: | :---: | :---: |
|  | $\mathbf{2 0 0 5}$ <br> Grants | $\mathbf{2 0 0 4}$ <br> Grants | $\mathbf{2 0 0 5}$ <br> Grants | $\mathbf{2 0 0 4}$ <br> Grants |
| Stock Options from Discontinued Operations |  |  |  |  |
| Expected dividend yield |  |  | $1.4 \%$ |  |
| Expected stock price volatility |  |  | $31.8 \%$ |  |
| Risk-free interest rate |  | $2.8 \%$ |  |  |
| Expected life of options |  | 3 years |  |  |
| Weighted-average fair value |  | $\$ 3.24$ |  |  |

The Company did not grant any options during the three months ended September 30, 2005 and 2004.
The Company did not grant any options related to discontinued operations during the nine months ended September 30, 2005.

## Note 8. Effect of Recent Accounting Pronouncements

In April 2005, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 47 ( FIN 47 ), Accounting for Conditional Asset Retirement Obligations An Interpretation of FASB Statement No. 143. FIN 47 clarifies the terms of FASB Statement No. 143 and requires an entity to recognize a liability for a conditional asset retirement obligation if the entity has sufficient information to reasonably estimate its fair value. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company is currently evaluating the impact of this standard on its financial statements.

In December 2004, the FASB issued SFAS 123 (revised 2004), Share-Based Payment ( SFAS 123(R) ) which replaces SFAS 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees . Among other items, SFAS 123(R) eliminates the use of APB Opinion No. 25 and the intrinsic method of accounting, and requires all share-based payments, including grants of employee stock options, to
be recognized in the financial statements based on their fair values. In April 2005, the Securities and Exchange Commission adopted a new rule deferring the effective date of SFAS 123(R) for public companies until the first interim or annual reporting period of the first fiscal year that begins after June 15, 2005. In accordance with the new rule, the Company expects to adopt SFAS 123(R) in the first quarter of 2006 and will recognize compensation expense for all share-based payments and employee stock options based on the grant-date fair value of those awards. The Company is currently evaluating the impact of the statement on its financial statements. As the Company currently accounts for share-based payments using the intrinsic value method as allowed by APB Opinion No. 25, the 14

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## BOWNE \& CO., INC. AND SUBSIDIARIES <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

adoption of the fair value method under SFAS 123(R) will have an impact on its results of operations. However, the extent of the impact cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. Had the Company adopted SFAS $123(\mathrm{R})$ in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in Note 7 to the Condensed Consolidated Financial Statements.

In October 2004, the American Jobs Creation Act, known as the AJCA, became law. The AJCA provides for a deduction of $85 \%$ of qualifying foreign earnings that the Company repatriates, as defined in the AJCA, in 2005. This deduction produces the equivalent of a $5.25 \%$ effective tax rate on the repatriated earnings. The Company qualifies to repatriate up to approximately $\$ 500$ million.

The Company will complete its evaluation of the effects of the repatriation provision in accordance with FASB Staff Position No. FAS 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 in the fourth quarter of 2005. During the evaluation, the Company is principally considering global cash management objectives, its overall tax position and restrictions on the use of repatriated cash. Pending completion of this evaluation, the Company cannot reasonably estimate the range of potential income tax effects of repatriating funds. If the Company determines to repatriate funds in reliance upon the AJCA, it must complete the repatriation by the end of 2005.

## Note 9. Earnings (Loss) Per Share

Shares used in the calculation of basic earnings per share are based on the weighted-average number of shares outstanding, and for diluted earnings per share after adjustment for the assumed exercise of all potentially dilutive stock options. Basic and diluted loss per share is calculated by dividing the net loss by the weighted-average number of shares outstanding during each period. The weighted-average diluted shares outstanding for the three months ended September 30, 2005 and 2004 excludes the dilutive effect of approximately 979,078 and 690,301 stock options, respectively, and the weighted-average diluted shares outstanding for the nine months ended September 30, 2005 and 2004 excludes the dilutive effect of approximately 978,661 and 515,253 stock options, respectively, since such options have an exercise price in excess of the average market value of the Company s common stock during the respective periods. In accordance with Emerging Issues Task Force ( EITF ) Issue No. 04-08, the weighted-average diluted shares outstanding for the three months and nine months ended September 30, 2005 and 2004 also excludes the effect of approximately $4,058,445$ shares that could be issued upon the conversion of the Company s convertible subordinated debentures under certain circumstances, since the effects of EITF 04-08 are anti-dilutive to the earnings per share calculation for all periods.

|  | Three Months Ended <br> September 30, |  |
| :--- | ---: | ---: |
| Sasic shares | $\mathbf{2 0 0 5}$ | $\mathbf{2 0 0 4}$ |
| Diluted shares | $34,489,138$ | $36,410,197$ |
|  | $34,871,304$ | $36,930,173$ |
|  |  |  |
|  | Nine Months Ended |  |
|  | September $\mathbf{3 0}$, |  |
| Basic shares | $\mathbf{2 0 0 5}$ | $\mathbf{2 0 0 4}$ |
| Diluted shares | $34,692,904$ | $35,878,231$ |

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## BOWNE \& CO., INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 10. Inventories

Inventories of $\$ 27,915$ at September 30, 2005 included raw materials of $\$ 4,960$, and work-in-process of $\$ 22,955$. At December 31, 2004, inventories of \$20,559 included raw materials of \$3,615 and work-in-process of \$16,944.

## Note 11. Accrued Restructuring, Integration, and Asset Impairment Charges

The Company continually reviews its business, manages costs, and aligns its resources with market demand, especially in light of the volatility of the capital markets and the resulting variability in transactional financial printing activity. As a result, the Company took several steps over the last several years to reduce fixed costs, eliminate redundancies, and better position the Company to respond to market pressures or unfavorable economic conditions. As a result of these steps, the Company incurred restructuring charges for severance and personnel-related costs related to headcount reductions, and costs associated with closing down and consolidating facilities.

During 2004, the Company initiated further cost reductions aimed at increasing operational efficiencies. These restructuring charges included additional workforce reductions, the consolidation of the Company sfulfillment operations with the digital print facility within the financial print segment, as well as adjustments related to changes in assumptions in some previous office closings within the financial print segment. These actions resulted in restructuring, integration and asset impairment charges totaling $\$ 8,449$ for the year ended December 31, 2004.

During the nine months ended September 30, 2005, the Company continued to implement further cost reductions. These restructuring charges included (i) the reduction of headcount in certain corporate management and administrative functions that will not be replaced, (ii) revisions to estimates of costs associated with leased facilities which were exited in prior periods, and (iii) the impairment of costs associated with the redesign of the Company s Intranet and costs associated with internally developed software related to the digital print business. In addition to the aforementioned charges, during the third quarter of 2005 the Company recorded a goodwill impairment charge of $\$ 2.1$ million related to the document scanning and coding business in the Litigation Solutions segment. This is a business that the Company retained after it sold its document outsourcing business in 2004. The Company has been monitoring the operating results of the unit. As a result of the unit s operating losses during the year-to-date period, management has evaluated the carrying value of the unit and has written down the goodwill to estimated fair value. These actions resulted in restructuring, integration and asset impairment charges totaling $\$ 3,692$ for the quarter ended September 30, 2005, and $\$ 6,861$ for the nine months ended September 30, 2005.

The following information summarizes the costs incurred with respect to restructuring activities during the third quarter of 2005:

|  | Severance and PersonnelRelated Costs |  | Occupancy <br> Costs |  | Asset Impairments |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Financial Print | \$ | 86 | \$ | 417 | \$ | 538 |  | 1,041 |
| Litigation Solutions |  |  |  |  |  | 2,100 |  | 2,100 |
| Corporate/ Other |  |  |  |  |  | 551 |  | 551 |
| Total | \$ | 86 | \$ | 417 | \$ | 3,189 | \$ | 3,692 |

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## BOWNE \& CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
The activity pertaining to the Company s accruals related to restructuring charges and integration costs (excluding non-cash asset impairment charges) since December 31, 2003, including additions and payments made, are summarized below.

|  | Severance <br> and <br> Personnel- <br> Related Costs |  | Occupancy Costs |  | Other |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance at December 31, 2003 | \$ | 1,927 | \$ | 4,035 | \$ | 326 | \$ | 6,288 |
| 2004 Expenses |  | 2,588 |  | 3,550 |  | 1,841 |  | 7,979 |
| Paid in 2004 |  | $(3,406)$ |  | $(2,358)$ |  | $(2,140)$ |  | $(7,904)$ |
| Balance at December 30, 2004 |  | 1,109 |  | 5,227 |  | 27 |  | 6,363 |
| 2005 Expenses |  | 995 |  | 1,142 |  | 2 |  | 2,139 |
| Paid in 2005 |  | $(1,450)$ |  | $(1,014)$ |  | (29) |  | $(2,493)$ |
| Balance at September 30, 2005 | \$ | 654 | \$ | 5,355 | \$ |  | \$ | 6,009 |

The majority of the remaining accrued severance and personnel-related costs are expected to be paid in 2006.
On October 26, 2005, the Company announced that it is implementing $\$ 10$ million in annualized cost savings, primarily the result of a reduction in workforce during the fourth quarter of 2005.

## Note 12. Debt

The components of debt at September 30, 2005 and December 31, 2004 are as follows:

|  | September 30, <br> $\mathbf{2 0 0 5}$ | December 31, <br> $\mathbf{2 0 0 4}$ |  |  |
| :--- | :---: | ---: | :---: | :---: |
| Convertible subordinated debentures <br> Senior revolving credit facility <br> Other | $\$$ | 75,000 | $\$$ | 75,000 |

On May 11, 2005, the Company completed its new $\$ 150$ million, five-year senior, unsecured revolving credit facility (the Facility ) with a bank syndicate. The Facility replaced the $\$ 115$ million, three-year, senior, revolving credit facility that was scheduled to expire in July 2005. Interest on borrowings under the Facility is payable at rates that are based on the London InterBank Offered Rate ( LIBOR ) plus a premium that can range from 67.5 basis points to 137.5 basis points depending on the Company s ratio of Consolidated Total Indebtedness to Consolidated EBITDA ( Leverage Ratio ) for the period of four consecutive fiscal quarters of the Company. The Company also pays quarterly facility fees, regardless of borrowing activity under the Facility. The quarterly facility fees can range from 20 basis points to 37.5 basis points of the Facility amount, depending on the Company s Leverage Ratio. The Facility expires in May 2010. The Company had $\$ 150$ million of borrowings available under the Facility as of September 30, 2005.

The terms of the revolving credit agreement provide certain limitations on additional indebtedness, liens, restricted payments, asset sales and certain other transactions. Additionally, the Company is subject to certain financial covenants based on its results of operations. The Company was in compliance with all loan covenants as of September 30, 2005, and based upon its current projections, the Company believes it will be in compliance with the quarterly loan covenants for the remainder of fiscal year 2005. The Company is not subject to any financial covenants under the convertible subordinated debentures.

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## BOWNE \& CO., INC. AND SUBSIDIARIES <br> NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s Canadian subsidiary has a $\$ 4.3$ million Canadian dollar credit facility. There was no outstanding balance on this credit facility as of September 30, 2005 and December 31, 2004.

## Note 13. Postretirement Benefits

The Company sponsors a defined benefit pension plan which covers certain U.S. employees not covered by union agreements. Benefits are based upon salary and years of service. The Company s policy is to contribute an amount necessary to meet the ERISA minimum funding requirements. This plan was closed to new participants effective January 1, 2003. In addition, effective January 1, 2003, the benefits of current participants in the plan are computed at a reduced accrual rate for credited service after January 1, 2003, except for certain employees who will continue to accrue benefits under the existing formula if they satisfied certain age and years of service requirements. The Company also has an unfunded supplemental executive retirement plan (SERP) for certain executive management employees. The defined benefit pension plan and the SERP are described more fully in Note 13 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004. Employees covered by union agreements are included in separate multi-employer pension plans to which the Company makes contributions. Plan benefit and net asset data for these multi-employer pension plans are not available. Also, certain non-union international employees are covered by other retirement plans.

The components of the net periodic benefit cost are as follows:

|  | Pension Plan |  |  |  | SERP |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Three Months Ended September 30, |  |  |  | Three Months Ended September 30, |  |  |  |
|  | 2005 |  | 2004 |  | 2005 |  | 2004 |  |
| Service cost | \$ | 1,469 | \$ | 1,381 | \$ | 96 | \$ | 107 |
| Interest cost |  | 1,701 |  | 1,251 |  | 351 |  | 502 |
| Expected return on plan assets |  | $(1,966)$ |  | $(1,610)$ |  |  |  |  |
| Amortization of transition (asset) liability |  | (81) |  | (81) |  | 25 |  | 29 |
| Amortization of prior service cost |  | 78 |  | 79 |  | 378 |  | 436 |
| Amortization of actuarial loss |  | 144 |  | (364) |  | 218 |  | 238 |
| Net periodic cost of defined benefit plans |  | 1,345 |  | 656 |  | 1,068 |  | 1,312 |
| Union plans |  | 89 |  | 84 |  |  |  |  |
| Other retirement plans |  | 321 |  | 321 |  |  |  |  |
| Total cost | \$ | 1,755 | \$ | 1,061 | \$ | 1,068 | \$ | 1,312 |

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## BOWNE \& CO., INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|  | Pension Plan |  |  |  | SERP |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Nine Months Ended September 30, |  |  |  | Nine Months Ended September 30, |  |  |  |
|  |  | 2005 |  | 2004 |  | 005 |  | 004 |
| Service cost | \$ | 4,771 | \$ | 4,417 | \$ | 288 | \$ | 278 |
| Interest cost |  | 5,093 |  | 4,619 |  | 1,053 |  | 1,306 |
| Expected return on plan assets |  | $(5,486)$ |  | $(4,280)$ |  |  |  |  |
| Amortization of transition (asset) liability |  | (241) |  | (241) |  | 75 |  | 76 |
| Amortization of prior service cost |  | 238 |  | 239 |  | 1,134 |  | 1,134 |
| Amortization of actuarial loss |  | 380 |  | 196 |  | 654 |  | 618 |
| Net periodic cost of defined benefit plans |  | 4,755 |  | 4,950 |  | 3,204 |  | 3,412 |
| Union plans |  | 274 |  | 273 |  |  |  |  |
| Other retirement plans |  | 1,115 |  | 1,062 |  |  |  |  |
| Total cost | \$ | 6,144 | \$ | 6,285 | \$ | 3,204 | \$ | 3,412 |

The Company was not required to make any contributions to its pension plan in 2005. However, with excess cash as a result of the proceeds received from the sale of BGS during the third quarter of 2005, the Company contributed $\$ 12.25$ million to the pension plan in September 2005. This contribution provides the Company increased funding flexibility and accelerated tax benefits.

## Note 14. Income Taxes

Income tax benefit for the quarter ended September 30, 2005 was $\$ 1,456$ on pre-tax loss from continuing operations of $\$ 5,281$ compared to income tax benefit of $\$ 2,846$ for the quarter ended September 30, 2004 on pre-tax loss from continuing operations of $\$ 8,146$. Income tax expense for the nine months ended September 30, 2005 was $\$ 8,704$ on pre-tax income from continuing operations of $\$ 16,912$, compared to income tax expense for the same period in 2004 of $\$ 7,115$ on pre-tax income from continuing operations of $\$ 14,699$. The size of the non-deductible expenses are relatively unchanged from year to year, and the rate applied to U.S. taxable income was approximately $38 \%$ for all periods.

## Note 15. Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income are summarized as follows:

|  | September 30, <br> $\mathbf{2 0 0 5}$ | December 31, <br> $\mathbf{2 0 0 4}$ |  |  |
| :--- | :---: | :---: | :---: | :---: |
| Foreign currency translation adjustment | $\$$ | 5,217 | $\$$ | 40,077 |
| Minimum pension liability adjustment, net of tax effect |  | $(2,870)$ |  | $(2,870)$ |
| Unrealized gain (loss) on marketable securities, net of tax effect | $\$$ | 2,400 | $\$$ | 37,187 |

During the third quarter of 2005, the Company recognized cumulative foreign currency translation adjustments relating to BGS of approximately $\$ 22.6$ million as part of the net gain on sale of discontinued operations.

## Note 16. Segment Information

The Company is the world s largest financial printer. Bowne empowers clients information by combining superior customer service with advanced technologies to manage, repurpose and distribute that information to

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## BOWNE \& CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
any audience, through any medium, in any language, anywhere in the world. The Company is also a leader in providing litigation support services to law firms and corporate law departments.

The Company s operations consist of two reportable business segments, financial print and litigation solutions. The services of the financial print segment are marketed throughout the world. The major services provided by each segment are as follows:

Financial Print transactional financial printing, compliance printing, mutual fund printing, commercial printing, digital printing, and electronic delivery of personalized communications.

Litigation Solutions consulting, electronic discovery and software solutions, including DecisionQuest $®$, one of the nation s largest trial research firms.
As discussed in Note 4 to the Condensed Consolidated Financial Statements, the Company sold its globalization segment (BGS) to Lionbridge on September 1, 2005. The results from this business are not included in the segment results below. Segment information for the three months and nine months ended September 30, 2004 has been reclassified to reflect this presentation.

Also discussed in Note 4 to the Condensed Consolidated Financial Statements, the Company sold its document outsourcing business (BBS) to Williams Lea in November 2004. Effective with the third quarter of 2004, the results from this business are reflected as a discontinued operation in the Condensed Consolidated Financial Statements and are not included in the segment results presented below. The results for its litigation solutions business which historically had been presented in the outsourcing segment are reflected as a separate reportable business segment.

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## BOWNE \& CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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 segment profit. Segment profit is defined as gross margin (revenue less cost of revenue) less selling and administrative expenses, plus the Company s equity share of income (losses) associated with a joint venture investment in the Litigation Solutions segment. Segment performance is evaluated exclusive of interest, income taxes, depreciation, amortization, certain shared corporate expenses, restructuring, integration and asset impairment charges, gain on sale of building, other expenses and other income. Therefore, this information is presented in order to reconcile to income from continuing operations before income taxes. The Corporate/ Other category includes (i) corporate expenses for shared administrative, legal, finance and other support services which are not directly attributable to the operating segments, (ii) restructuring, integration and asset impairment charges, and (iii) other expenses and other income.

|  | Three Months Ended September 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2005 |  | Restated 2004 |  |
|  | (Unaudited) <br> (In thousands) |  |  |  |
| Revenue from external customers: |  |  |  |  |
| Financial Print | \$ | 152,337 | \$ | 129,991 |
| Litigation Solutions |  | 7,022 |  | 8,362 |
|  | \$ | 159,359 | \$ | 138,353 |
| Segment profit: |  |  |  |  |
| Financial Print | \$ | 9,541 | \$ | 6,429 |
| Litigation Solutions |  | 670 |  | (26) |
| Corporate/ Other (see detail below) |  | $(8,181)$ |  | $(5,078)$ |
|  |  | 2,030 |  | 1,325 |
| Depreciation expense | \$ | $(5,876)$ | \$ | $(6,712)$ |
| Amortization expense |  | (235) |  | (165) |
| Interest expense |  | $(1,200)$ |  | $(2,594)$ |
| Loss from continuing operations before income taxes | \$ | $(5,281)$ | \$ | $(8,146)$ |
| Corporate/ Other (by type): |  |  |  |  |
| Shared corporate expenses | \$ | $(4,329)$ | \$ | $(4,241)$ |
| Other expense, net |  | (160) |  | (48) |
| Restructuring charges, integration costs and asset impairment charges |  | $(3,692)$ |  | (789) |
|  | \$ | $(8,181)$ | \$ | $(5,078)$ |

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## BOWNE \& CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|  | Nine Months Ended September 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2005 |  | Restated 2004 |  |
|  | (Unaudited) <br> (In thousands) |  |  |  |
| Revenue from external customers: |  |  |  |  |
| Financial Print | \$ | 509,889 | \$ | 494,015 |
| Litigation Solutions |  | 22,696 |  | 26,674 |
|  | \$ | 532,585 | \$ | 520,689 |
| Segment profit: |  |  |  |  |
| Financial Print | \$ | 59,192 | \$ | 62,270 |
| Litigation Solutions |  | 2,212 |  | 1,042 |
| Corporate/ Other (see detail below) |  | $(20,985)$ |  | $(19,823)$ |
|  |  | 40,419 |  | 43,489 |
| Depreciation expense | \$ | $(19,009)$ | \$ | $(20,310)$ |
| Amortization expense |  | (705) |  | (495) |
| Interest expense |  | $(3,793)$ |  | $(7,985)$ |
| Income from continuing operations | \$ | 16,912 | \$ | 14,699 |
| Corporate/ Other (by type): |  |  |  |  |
| Shared corporate expenses | \$ | $(14,602)$ | \$ | $(15,054)$ |
| Other income, net |  | 478 |  | 121 |
| Gain on sale of building |  |  |  | 896 |
| Restructuring charges, integration costs and asset impairment charges |  | $(6,861)$ |  | $(5,786)$ |
|  | \$ | $(20,985)$ | \$ | $(19,823)$ |

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (In thousands, except per 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.

This report includes and incorporates by reference forward-looking statements within the meaning of the 1995 Act. These statements are included throughout this report, and in the documents incorporated by reference in this report, and relate to, among other things, projections of revenues, earnings, earnings per share, cash flows, capital expenditures, working capital or other financial items, output, expectations regarding acquisitions, discussions of estimated future revenue enhancements, potential dispositions and cost savings. These statements also relate to the Company s business strategy, goals and expectations concerning the Company s market position, future operations, margins, profitability, liquidity and capital resources. The words anticipate, believe , could, estimate , expect , in may , plan , predict , project, will and similar terms and phrases identify forward-looking statements in this report the documents incorporated by reference in this report.

Although the Company believes the assumptions upon which these forward-looking statements are based are reasonable, any of these assumptions could prove to be inaccurate and the forward-looking statements based on these assumptions could be incorrect. The Company s operations involve risks and uncertainties, many of which are outside the Company s control, and any one of which, or a combination of which, could materially affect the Company s results of operations and whether the forward-looking statements ultimately prove to be correct.

Actual results and trends in the future may differ materially from those suggested or implied by the forward-looking statements depending on a variety of factors including, but not limited to:
general economic or capital market conditions affecting the demand for transactional financial printing or the
Company s other services;
competition based on pricing and other factors;
fluctuations in the cost of paper, other raw materials and utilities;
changes in air and ground delivery costs and postal rates and postal regulations;
seasonal fluctuations in overall demand for the Company s services;
changes in the printing market;
the Company s ability to integrate the operations of acquisitions into its operations;
the financial condition of the Company s clients;
the Company s ability to continue to obtain improved operating efficiencies;
the Company s ability to continue to develop services for its clients;
changes in the rules and regulations to which the Company is subject;
changes in the rules and regulations to which the Company s clients are subject;
the effects of war or acts of terrorism affecting the overall business climate;
loss or retirement of key executives or employees; and
natural events and acts of God such as earthquakes, fires or floods.

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Many of these factors are described in greater detail in the Company s filings with the Securities and Exchange Commission, including those incorporated by reference in this report. All future written and oral forward-looking statements attributable to the Company or persons acting on behalf of the Company are expressly qualified in their entirety by the previous statements.

## Overview

The Company s results of operations for the three and nine months ended September 30, 2005 were impacted by the increase in non-transactional revenue and the continuing slow capital markets activity. For the quarter ended September 30, 2005, total revenue increased $15 \%$ to $\$ 159.4$ million and segment profit increased $53 \%$ to $\$ 2.0$ million. For the nine months ended September 30, 2005 total revenue increased $2 \%$ to $\$ 532.6$ million and segment profit declined $7 \%$ to $\$ 40.4$ million.

The results of the Company s two reporting segments are discussed below.
Financial Print. Revenue increased $\$ 22.3$ million, or $17 \%$, to $\$ 152.3$ million and segment profit increased $\$ 3.1$ million, or $48 \%$, to $\$ 9.5$ million for the quarter ended September 30, 2005 as compared to the same period last year. For the nine months ended September 30, 2005, financial print revenue increased $\$ 15.9$ million, or $3 \%$, to $\$ 509.9$ million and segment profit decreased by $\$ 3.1$ million, or $5 \%$, to $\$ 59.2$ million as compared to the nine months ended September 30, 2004. The increase in revenue for the quarter and nine months ended September 30, 2005 is primarily due to an increase in non-transactional revenue, which includes mutual fund and compliance reporting revenue. Offsetting the increase in non-transactional revenue for the nine months ended September 30, 2005 was the continued decline in transactional revenue as a result of slow capital market activity as compared to 2004. The increase in segment profit for the quarter reflects the significant increase in non-transactional revenue compared to the third quarter of 2004, while the decrease in segment profit for the nine months ended September 30, 2005 reflects the continued downturn in transactional revenue, which historically has been the Company s most profitable class of service.

Litigation Solutions. Revenue decreased $\$ 1.3$ million and $\$ 4.0$ million for the three and nine months ended September 30, 2005, respectively, compared to the same periods in 2004. Segment profit increased $\$ .7$ million and $\$ 1.2$ million for the three months and nine months ended September 30, 2005, respectively, as compared to the same periods in 2004. The increase in segment profit is attributable to a reduction of expenses and higher marketing expenses incurred in 2004 in connection with the launch of a new marketing and promotional campaign. During the third quarter of 2005 the Company recorded a pre-tax goodwill impairment charge of $\$ 2.1$ million related to its document scanning and coding business.
On September 1, 2005, the Company sold its globalization business, Bowne Global Solutions, to Lionbridge Technologies, Inc., a provider of globalization and testing systems, for total consideration of approximately $\$ 193.3$ million, consisting of $\$ 130$ million in cash and 9.4 million shares of Lionbridge common stock valued at approximately $\$ 63.3$ million on the date of closing. The Company recognized a net gain on the sale of approximately $\$ 3.4$ million. Effective with the second quarter of 2005 this business is reflected as a discontinued operation in the Condensed Consolidated Financial Statements. All prior period results have been reclassified to reflect this presentation.

On October 26, 2005, the Company announced that it is implementing $\$ 10$ million in annualized cost savings, primarily the result of a reduction in workforce during the fourth quarter of 2005. The Company estimates that related restructuring expenses from these actions will result in a 2005 fourth quarter pre-tax charge of approximately $\$ 4$ million.

As discussed in Note 4 to the Condensed Consolidated Financial Statements, the Company sold its document outsourcing business in November 2004. Effective with the third quarter of 2004, the results of this business have been reflected as a discontinued operation and the results for the litigation support services business which historically has been presented in the outsourcing segment are now presented as a separate business segment.

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## Items Affecting Comparability

The Company continually reviews its business, manages costs, and aligns its resources with market demand, especially in light of the volatility of the capital markets experienced over the last several years and the resulting variability in transactional financial printing activity. As a result, the Company took several steps over the last several years to reduce fixed costs, eliminate redundancies, and better position the Company to respond to market pressures or unfavorable economic conditions.

The following tables summarize the amounts incurred for restructuring, integration and asset impairment charges for each segment for the quarter and nine months ended September 30, 2005 and 2004:

|  | Quarters Ended <br> September 30, |  | Nine Months Ended <br> September 30, |  |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\mathbf{2 0 0 5}$ | $\mathbf{2 0 0 4}$ | $\mathbf{2 0 0 5}$ | $\mathbf{2 0 0 4}$ |  |  |
|  | $\$ 1,041$ | $\$ 625$ | $\$ 1,983$ | $\$ 4,701$ |  |  |
| Financial Print | 2,100 | 164 | 2,111 | 192 |  |  |
| Litigation Solutions | 551 |  | 2,767 | 893 |  |  |
| Corporate/ Other |  |  |  |  |  |  |
|  | $\$ 3,692$ | $\$ 789$ | $\$$ | 6,861 | $\$$ | 5,786 |
| Total | $\$ 2,377$ | 491 | 4,373 | 3,639 |  |  |
| After-tax impact | $\$$ | 0.07 | $\$ 0.01$ | $\$$ | 0.12 | $\$$ |
| Impact per diluted share |  |  |  | 0.10 |  |  |

The charges taken in the three and nine months ended September 30, 2005 reflect (i) the reduction of headcount in certain corporate management and administrative functions that will not be replaced, (ii) revisions to estimates of costs associated with leased facilities which were exited in prior periods, (iii) the impairment of costs associated with the redesign of the Company s Intranet and costs associated with internally developed software related to the digital print business, and (iv) a goodwill impairment charge of $\$ 2.1$ million related to the document scanning and coding business in the Litigation Solutions segment. Further discussion of the restructuring activities is included in the segment information which follows, as well as in Note 11 to the Condensed Consolidated Financial Statements.

The Company expects to incur total restructuring and integration charges for the full year 2005 of approximately $\$ 11$ million.

In May 2004, the Company sold its financial print facility in Dominguez Hills, California for net proceeds of $\$ 6,731$, recognizing a gain on the sale of $\$ 896$ ( $\$ 551$ after tax, or $\$ .01$ per share) during the quarter ended June 30, 2004.

## Results of Operations

Management evaluates the performance of its operating segments separately to monitor the different factors affecting financial results. 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 over the next few pages.

Management uses segment profit to evaluate the performance of its operating segments. Segment profit is defined as gross margin (revenue less cost of revenue) less selling and administrative expenses, plus the Company s equity share of income (losses) associated with a joint venture investment in the Litigation Solutions segment. Segment performance is evaluated exclusive of interest, income taxes, depreciation, amortization, certain shared corporate expenses, restructuring, integration and asset impairment charges, gain on sale of building, other expenses and other income. Therefore, this information is presented in order to reconcile to income from continuing operations before income taxes. The Corporate/ Other category includes (i) corporate expenses for shared administrative, legal, finance and other support services which are not directly attributable to the operating segments, (ii) restructuring, integration and asset impairment charges, and (iii) other expenses and other income.

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Quarter Ended September 30, 2005 Compared to Quarter Ended September 30, 2004

## Financial Print

| Financial Print Results: | Quarters Ended September 30, |  |  |  |  |  | Quarter Over Quarter |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2005 |  | $\%$ of Revenue | 2004 |  |  |  |  |  |
|  |  |  | \$ Change |  |  | $\begin{gathered} \text { \% } \\ \text { Change } \end{gathered}$ |  |  |  |
|  | (Dollars in thousands) |  |  |  |  |  |  |  |  |
| Revenue: |  |  |  |  |  |  |  |  |  |
| Transactional financial printing | \$ | 61,687 |  | 40\% | \$ |  | 60,881 | 47\% | \$ | 806 | 1\% |
| Compliance reporting |  | 28,347 |  | 19 |  | 22,496 | 17 |  | 5,851 | 26 |
| Mutual funds |  | 40,718 | 27 |  | 28,797 | 22 |  | 11,921 | 41 |
| Commercial |  | 9,976 | 6 |  | 8,179 | 6 |  | 1,797 | 22 |
| Other |  | 11,609 | 8 |  | 9,638 | 8 |  | 1,971 | 20 |
| Total revenue |  | 152,337 | 100 |  | 129,991 | 100 |  | 22,346 | 17 |
| Cost of revenue |  | $(101,395)$ | (67) |  | $(85,825)$ | (66) |  | 15,570 | 18 |
| Gross margin |  | 50,942 | 33 |  | 44,166 | 34 |  | 6,776 | 15 |
| Selling and administrative |  | $(41,401)$ | (27) |  | $(37,737)$ | (29) |  | 3,664 | 10 |
| Segment profit | \$ | 9,541 | 6\% | \$ | 6,429 | 5\% | \$ | 3,112 | 48\% |
| Other Items: |  |  |  |  |  |  |  |  |  |
| Depreciation | \$ | $(5,183)$ | (3)\% | \$ | $(6,166)$ | (5) \% | \$ | (983) | (16)\% |
| Restructuring, integration and asset impairment charges |  | $(1,041)$ | (1) |  | (625) | (0) |  | 416 | 67 |

Financial print revenue increased $17 \%$ for the quarter ended September 30, 2005 as compared to the same period last year. This increase is primarily the result of increased non-transactional revenue including mutual fund and compliance reporting revenue as compared to 2004. Compliance reporting revenue increased $26 \%$ for the quarter ended September 30, 2005, due in part to new Securities and Exchange Commission regulations and more extensive disclosure requirements. Mutual fund services revenue increased $41 \%$ and commercial revenue increased $22 \%$ for the quarter ended September 30, 2005 as compared to the same period last year, which is primarily due to the addition of several new clients and additional work from existing clients.

Revenue from the international markets increased $10 \%$ to approximately $\$ 25,550$ for the quarter ended September 30, 2005, as compared to $\$ 23,137$ for the quarter ended September 30, 2004. This increase is primarily due to increases in transactional financial printing and compliance reporting revenue from Europe, Canada, and Asia. The increase is also partially due to the weakness in the U.S. dollar compared to foreign currencies. At constant exchange rates, revenue from international markets increased 5\% for the quarter ended September 30, 2005 compared to the same period in 2004.

Other revenue increased $20 \%$ for the quarter ended September 30, 2005, compared to the same period in 2004. This increase is primarily attributable to increases in digital revenue, fulfillment services, and translation services compared to the quarter ended September 30, 2004.

Gross margin of the financial print segment increased by $15 \%$ as compared to the same period in 2004, and the margin percentage decreased slightly to $33 \%$ for the quarter ended September 30, 2005 as compared to $34 \%$ in the same period in 2004. The slight decrease in gross margin percentage is related to the growth in non-transactional work (compliance reporting, mutual fund, commercial, other) which impacts gross margin percentage since this work is not as profitable as transactional work. Gross margins were also negatively impacted due to competitive pricing pressure.

Selling and administrative expenses increased $10 \%$ for the quarter ended September 30, 2005 as compared to the same period in 2004. This increase is primarily the result of expenses that are directly associated with sales, such as selling expenses (including commissions and bonuses). As a percent of revenue,

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selling and administrative expenses decreased approximately two percentage points to $27 \%$ for the quarter ended September 30, 2005 compared to the same period in 2004.

The resources the Company commits to the transactional financial printing market are significant and management continues to balance these resources with market conditions. In the third quarter of 2005, the Company incurred costs for revisions to estimates of costs associated with leased facilities which were exited in prior periods, including costs related to the relocation of the London financial print facility. Total restructuring and asset impairment charges related to the financial print segment for the quarter ended September 30, 2005 were $\$ 1,041$ compared to $\$ 625$ in 2004.

Segment profit (as defined in Note 16 to the Condensed Consolidated Financial Statements) from this segment increased $48 \%$ for the quarter ended September 30, 2005 compared to 2004. The increase in segment profit is primarily a result of the significant increase in non-transactional revenue. Segment profit as a percentage of revenue increased approximately one percentage point from 2004 to 2005. Refer to Note 16 of the Condensed Consolidated Financial Statements for additional segment financial information and reconciliation of segment profit to pre-tax income.

## Litigation Solutions

## Quarters Ended September 30,

| Litigation Solutions Results: | 2005 |  |  | 2004 |  | \% of <br> Revenue | Quarter Over Quarter |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  |  |  | $\begin{gathered} \text { \$ } \\ \text { Change } \end{gathered}$ | $\begin{gathered} \text { \% } \\ \text { Change } \end{gathered}$ |
|  | (Dollars in thousands) |  |  |  |  |  |  |  |  |
| Revenue | \$ | 7,022 |  | 100\% | \$ |  | 8,362 | 100\% | \$ | $(1,340)$ | (16)\% |
| Cost of revenue |  | $(5,790)$ | (82) |  | $(6,804)$ | (81) |  | $(1,014)$ | (15) |
| Gross margin |  | 1,232 | 18 |  | 1,558 | 19 |  | (326) | (21) |
| Selling and administrative |  | (876) | (12) |  | $(1,804)$ | (22) |  | (928) | (51) |
| Other income |  | 314 | 4 |  | 220 | 3 |  | 94 | 43 |
| Segment profit (loss) | \$ | 670 | 10\% | \$ | (26) | 0\% | \$ | 696 | 100 \% |
| Other Items: |  |  |  |  |  |  |  |  |  |
| Depreciation | \$ | (130) | (2)\% | \$ | (205) | (2)\% | \$ | (75) | (37)\% |
| Restructuring, integration and asset impairment charges |  | $(2,100)$ | (30) |  | (164) |  |  | 1,936 | 100 |

Revenue decreased $16 \%$ for the three months ended September 30, 2005 compared to the quarter ended September 30, 2004. The gross margin percentage decreased one percentage point to approximately $18 \%$ for the quarter ended September 30, 2005 compared to the same period in 2004. The decline in revenue and gross margin is due to a significant decrease in document scanning and coding revenue and a decrease in higher margin transactional consulting services revenue in 2005, partially offset by an increase in graphics services revenue.

Selling and administrative expenses decreased $52 \%$ for the quarter ended September 30, 2005 compared to the same period in 2004, while decreasing ten percentage points as a percentage of revenue. The reduction in selling and administrative expenses is primarily due to lower headcount, as well as a reduction in rent expense and discretionary spending. Also contributing to the decrease in 2005, as compared to 2004, was a decrease in marketing expenses at DecisionQuest due to expenses incurred in 2004 related to the launch of a new marketing and promotional campaign. The decrease in selling and administrative expenses is also generally related to reductions in those expenses directly associated with sales, such as selling expenses (including commissions and bonuses), and certain variable
administrative expenses.
Other income increased by $43 \%$ primarily related to the increase in income from the Company s equity share of income associated with the CaseSoft joint venture investment for the quarter ended September 30, 2005 as compared to the same period in 2004.

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During the third quarter of 2005, the Company recognized a goodwill impairment charge of $\$ 2.1$ million related to its document scanning and coding business, as discussed in Note 11 to the Condensed Consolidated Financial Statements.

As a result of the foregoing, segment profit (loss) (as defined in Note 16 to the Condensed Consolidated Financial Statements) for this segment increased $\$ 696$ for the quarter ended September 30, 2005, compared to the same period in 2004. Segment profit as a percentage of revenue increased nine percentage points to $9 \%$ for the quarter ended September 30, 2005 as compared to the same period in 2004. Refer to Note 16 of the Condensed Consolidated Financial Statements for additional segment financial information and reconciliation of segment profit to income from continuing operations before taxes.

## Summary

Overall revenue increased approximately $\$ 21,006$, or $15 \%$, to $\$ 159,359$ for the quarter ended September 30, 2005 compared to the same period in 2004. The increase is largely attributed to the significant increase in non-transactional financial printing revenue, specifically mutual fund, compliance reporting, and commercial printing revenue. There was a $\$ 6,509$ increase in gross margin, and the gross margin percentage remained constant at $33 \%$.

Selling and administrative expenses on a company-wide basis increased $\$ 2,882$, or $7 \%$, to $\$ 46,606$ compared to the same period in 2004. This increase is primarily the result of expenses that are directly associated with sales, such as selling expenses (including commissions and bonuses) and certain variable marketing and administrative expenses, offset by decreases caused by the Company s continual effort to manage expenses. Shared corporate expenses were $\$ 4,329$ in the quarter ended September 30, 2005, compared to $\$ 4,241$ in the same period in 2004, an increase of $\$ 88$. As a percentage of revenue, overall selling and administrative expenses decreased by approximately three percentage points to $29 \%$ for the quarter ended September 30, 2005, as compared to the same period in 2004.

Depreciation decreased $\$ 836$ or $12 \%$, primarily as a result of reduced capital expenditures in recent years.
There were $\$ 3,692$ in restructuring, integration, and asset impairment charges for the quarter ended September 30, 2005, as compared to $\$ 789$ in the same period in 2004, as discussed in Note 11 to the Condensed Consolidated Financial Statements.

Interest expense decreased $\$ 1,394$, or $54 \%$ in the quarter ended September 30, 2005 as compared to the same period in 2004, primarily the result of the early retirement of the Company s senior notes in December 2004, as described in the Company s Annual Report on Form 10-K for the year ended December 31, 2004. Interest expense related to these notes was approximately $\$ 1.2$ million for the quarter ended September 30, 2004. Also contributing to the decrease in interest expense was a decrease in the amortization of deferred financing costs for the quarter ended September 30, 2005 as compared to 2004, which is also related to the early retirement of the Company s senior notes, and less borrowings on the revolving credit facility during the quarter ended September 30, 2005.

Income tax benefit for the quarter ended September 30, 2005 was $\$ 1,456$ on pre-tax loss from continuing operations of $\$ 5,281$, compared to an income tax benefit in 2004 of $\$ 2,846$ on pre-tax loss from continuing operations of $\$ 8,146$. The size of the non-deductible expenses are relatively unchanged from year to year, and the rate applied to U.S. taxable income remained at approximately $38 \%$.

Income from discontinued operations for the quarter ended September 30, 2005 was $\$ 8,348$ compared to a loss from discontinued operations of $\$ 1,160$ for the same period last year. The 2005 results from discontinued operations include a net gain on the sale of the globalization business that occurred on September 1, 2005 of $\$ 3,426$ and the results of operations of the discontinued globalization business until the date of sale. The loss from discontinued operations for the quarter ended September 30, 2004 also includes the results of the discontinued globalization and outsourcing businesses.

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As a result of the foregoing, net income for the quarter ended September 30, 2005 was $\$ 4,523$ as compared to a net loss of $\$ 6,460$ for the same period in 2004.

## Domestic Versus International Results of Operations

The Company has operations in the United States, Canada, Europe, Mexico, South America and Asia. The Company s international operations are derived from its financial print segment. Domestic (U.S.) and international components of loss from continuing operations before income taxes for the quarters ended September 30, 2005 and 2004 are as follows:

|  | Quarters Ended September 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2005 |  | 2004 |  |
| Domestic (United States) | \$ | $(3,374)$ | \$ | $(7,522)$ |
| International |  | $(1,907)$ |  | (624) |
| Loss from continuing operations before taxes | \$ | $(5,281)$ | \$ | $(8,146)$ |

Domestic pre-tax loss from continuing operations improved by $\$ 4.1$ million for the quarter ended September 30, 2005, compared to the same period in 2004, due primarily to an increase in non-transactional financial print revenue in 2005 which offset the decreased level of transactional financial print activity in the third quarter of 2005. Domestic pre-tax loss from continuing operations for the quarter ended September 30, 2005 includes approximately $\$ 2.4$ million in restructuring charges, integration charges, and asset impairments primarily related to the impairment of internally developed software related to the digital print business and a goodwill impairment charge of $\$ 2.1$ million related to the document scanning and coding business. International pre-tax loss from continuing operations for the quarter ended September 30, 2005 increased primarily from an increase in restructuring charges, integration charges, and asset impairments related to international operations in 2005 as compared to 2004. The pre-tax loss from continuing operations related to international operations includes approximately $\$ 1.2$ million related to the relocation of the London financial print facility.

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Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004
Financial Print

| Nine Months Ended September 30, |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  |  | Period 0 | Period |
|  |  | \% of |  | \% of |  |  |
| Financial Print Results: | 2005 | Revenue | 2004 | Revenue | \$ Change | $\begin{gathered} \% \\ \text { Change } \end{gathered}$ |


| Revenue: |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Transactional financial printing | \$ | 174,773 | 34\% | \$ | 199,824 | 40\% | \$ | $(25,051)$ | (13)\% |
| Compliance reporting |  | 139,193 | 27 |  | 124,879 | 25 |  | 14,314 | 11 |
| Mutual funds |  | 124,856 | 25 |  | 107,283 | 22 |  | 17,573 | 16 |
| Commercial |  | 32,513 | 6 |  | 27,734 | 6 |  | 4,779 | 17 |
| Other |  | 38,554 | 8 |  | 34,295 | 7 |  | 4,259 | 12 |
| Total revenue |  | 509,889 | 100 |  | 494,015 | 100 |  | 15,874 | 3 |
| Cost of revenue |  | $(326,163)$ | (64) |  | $(301,816)$ | (61) |  | 24,347 | 8 |
| Gross margin |  | 183,726 | 36 |  | 192,199 | 39 |  | $(8,473)$ | (4) |
| Selling and administrative |  | $(124,534)$ | (24) |  | $(129,929)$ | (26) |  | $(5,395)$ | (4) |
| Segment profit | \$ | 59,192 | 12\% | \$ | 62,270 | 13\% | \$ | $(3,078)$ | (5)\% |
| Other Items: |  |  |  |  |  |  |  |  |  |
| $\begin{array}{llllllll}\text { Depreciation } & \$(17,319) & (3) \% \quad \$ \quad(18,473) & (4) \% \quad \$ \quad(1,154)\end{array}$ |  |  |  |  |  |  |  |  |  |
| Restructuring, integration and asset impairment |  |  |  |  |  |  |  |  |  |
| Gain on sale of building |  |  |  |  | 896 | (0) |  | (896) | (100) |

Financial Print revenue increased 3\% for the nine months ended September 30, 2005, with the largest class of service in this segment, transactional financial printing, down $13 \%$ as compared to the same period in 2004. This decline in revenue from transactional financial printing is consistent with the overall decline in capital market activity as measured by the number of Securities and Exchange Commission filings, which also declined year over year. Offsetting the decrease in transactional financial printing revenue was the increase in revenue generated from non-transactional printing services, including mutual fund and compliance reporting revenue. Compliance reporting revenue increased $11 \%$ for the nine months ended September 30, 2005, as compared to the same period in the prior year, due in part to the new Securities and Exchange Commission regulations and more extensive disclosure requirements. Mutual fund services revenue increased $16 \%$ and commercial revenue increased $17 \%$ for the nine months ended September 30, 2005 as compared to the same period in 2004, which is primarily due to the addition of several new clients and additional work from existing clients. Revenue reported for the nine months ended September 30, 2005 reflects a reclassification of approximately $\$ 4,236$ of compliance reporting revenue which had previously been reported as transactional financial printing revenue in the second quarter of 2005. This reclassification has no impact on total revenue reported for the six months and nine months ended September 30, 2005.

Revenue from the international markets increased $21 \%$ to approximately $\$ 90,048$ for the nine months ended September 30, 2005, as compared to $\$ 74,259$ for the nine months ended September 30, 2004. This increase is primarily due to increases in transactional financial printing and compliance reporting revenue from Europe, Canada and Asia. The increase is also partially due to the weakness in the U.S. dollar compared to foreign currencies. At constant exchange rates, revenue from international markets increased $15 \%$ for the nine months ended September 30, 2005 compared to 2004.

Other revenue increased $12 \%$ for the nine months ended September 30, 2005, compared to the same period in 2004. This increase resulted primarily from increases in fulfillment and translation services compared to the same period in 2004.

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Gross margin of the financial print segment decreased by $4 \%$, and the gross margin as a percentage of revenue decreased by approximately three percentage points to $36 \%$ for the nine months ended September 30, 2005 as compared to the same period in the prior year. The decreased activity in transactional financial printing negatively impacts gross margins since, historically, transactional financial printing is our most profitable class of service. The growth in non-transactional work (compliance reporting, mutual fund, commercial, other) also impacts gross margin percentage since this work is not as profitable as transactional work. Gross margins were also negatively impacted due to competitive pricing pressure.

Selling and administrative expenses decreased $4 \%$ for the nine months ended September 30, 2005 as compared to the same period in the prior year. This decrease is primarily due to lower incentive compensation, consulting fees, and bad debt expense, due to the collection of approximately $\$ 2.0$ million of amounts which had previously been written off to bad debt expense. Also contributing to the decrease in selling and administrative costs are lower selling costs associated with the lower margin mutual fund and compliance reporting revenue, compared to the higher margin transactional financial printing revenue. As a percent of revenue, selling and administrative expenses decreased approximately two percentage points to $24 \%$ for the nine months ended September 30, 2005 as compared to the same period in the prior year.

The resources the Company commits to the transactional financial printing market are significant and management continues to balance these resources with market conditions. During the nine months ended September 30, 2005, the Company incurred additional restructuring charges within its financial print segment related to revisions to estimates of costs associated with leased facilities which were exited in prior periods, including costs related to the relocation of the London financial print facility, and headcount reductions related to the continued consolidation of the Company s fulfillment operations with its digital print facility which began during 2004, as well as the reduction of certain administrative positions which will not be replaced. Total restructuring and asset impairment charges related to the financial print segment for the nine months ended September 30, 2005 were $\$ 1,983$ compared to $\$ 4,701$ for the same period in 2004.

In May 2004, the Company sold its financial printing facility in Dominguez Hills, California for net proceeds of $\$ 6,731$, recognizing a gain on the sale of $\$ 896$ during the quarter ended June 30, 2004. The Company moved to a new leased facility in Southern California during the third quarter of 2004.

Segment profit (as defined in Note 16 to the Condensed Consolidated Financial Statements) from this segment decreased $5 \%$ for the nine months ended September 30, 2005 compared to 2004. The decrease in segment profit is primarily a result of the decreased transactional financial printing revenues in 2005. Segment profit as a percentage of revenue decreased approximately one percentage point from 2004 to 2005. Refer to Note 16 of the Condensed Consolidated Financial Statements for additional segment financial information and reconciliation of segment profit to income from continuing operations before income taxes.

## Litigation Solutions

Nine Months Ended September 30,

## Litigation Solutions Results:

$\%$ of $\quad \%$ of

|  | (Dollars in thousands) |  |  |  |  |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Revenue | $\$ 22,696$ | $100 \%$ | $\$ 26,674$ | $100 \%$ | $\$$ | $(3,978)$ | $(15) \%$ |
| Cost of revenue | $(18,304)$ | $(81)$ | $(21,387)$ | $(80)$ | $(3,083)$ | $(14)$ |  |
|  |  |  |  |  |  | $(895)$ | $(17)$ |
| Gross margin | 4,392 | 19 | 5,287 | 20 | $(19)$ | $(40)$ |  |
| Selling and administrative | $(3,018)$ | $(13)$ | $(4,992)$ | $(19)$ | $(1,974)$ | 12 |  |
| Other income | 838 | 4 | 747 | 3 | 91 | 10 |  |

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| Segment profit | $\$$ | 2,212 | $10 \%$ | $\$$ | 1,042 | $4 \%$ | $\$$ | 1,170 | $100 \%$ |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Other Items:       <br> Depreciation <br> Restructuring, integration and asset <br> impairment charges $\$$ $(470)$ $(2) \%$ $\$$ $(626)$ $(2) \%$$\$$ | $(156)$ | $(25) \%$ |  |  |  |  |  |  |  |
|  | $(2,111)$ | $(9)$ | $(192)$ | $(1)$ | 1,919 | 100 |  |  |  |

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Revenue decreased $15 \%$ and gross margin decreased $17 \%$ for the nine months ended September 30, 2005 as compared to the same period in 2004. The gross margin as a percentage of revenue decreased slightly to $19 \%$ for the nine months ended September 30, 2005 as compared to the same period in 2004. The decline in revenue is due to a significant decrease in document scanning and coding revenue and a decrease in higher margin transactional consulting services revenue in 2005, partially offset by an increase in graphics services revenue. In addition, a large consulting project was completed in June 2004 and this revenue has not been replaced during 2005. Gross margin was positively impacted during 2005 by improved utilization of courtroom technologists.

Selling and administrative expenses decreased $40 \%$, while decreasing six percentage points as a percentage of revenue. The reduction in selling and administrative expenses is primarily due to lower headcount, as well as a reduction in rent expense and discretionary spending. Also contributing to the decreased expenses in 2005 as compared to 2004 was a decrease in marketing expenses at DecisionQuest due to expenses incurred in 2004 related to the launch of a new marketing and promotional campaign. The decrease in selling and administrative expenses is also generally related to reductions in those expenses directly associated with sales, such as selling expenses (including commissions and bonuses), and certain variable administrative expenses.

Other income increased $12 \%$ primarily related to the increase in income from the Company s equity share of income associated with the CaseSoft joint venture investment for the nine months ended September 30, 2005 as compared to the same period in 2004.

During the third quarter of 2005, the Company recognized a goodwill impairment charge of $\$ 2.1$ million related to its document scanning and coding business, as discussed in Note 11 to the Condensed Consolidated Financial Statements.

As a result of the foregoing, segment profit (as defined in Note 16 to the Condensed Consolidated Financial Statements) for this segment increased $\$ 1,170$ for the nine months ended September 30, 2005 compared to the same period in 2004. Segment profit as a percentage of revenue increased six percentage points to $10 \%$ for the nine months ended September 30, 2005 as compared to the same period in 2004. Refer to Note 16 of the Condensed Consolidated Financial Statements for additional segment financial information and reconciliation of segment profit to income from continuing operations before taxes.

## Summary

Overall revenue increased by $\$ 11,896$, or $2 \%$, to $\$ 532,585$ for the nine months ended September 30, 2005 compared to the same period in 2004. This increase is primarily attributed to the increase in non-transactional financial print revenue, specifically mutual fund and compliance reporting revenue. Offsetting the increase in non-transactional financial print revenue was a significant decrease in transactional financial print revenue due to the continued downturn in capital market activity and a decrease in revenue from the litigation solutions segment for the nine months ended September 30, 2005 as compared to 2004. There was a $\$ 9,234$, or $5 \%$, decrease in gross margin, and the gross margin as a percentage of revenue decreased approximately three percentage points to $35 \%$ as compared to the same period in 2004. This decrease in gross margin percentage was primarily attributable to the impact of lower transactional financial printing activity, which historically is the most profitable class of service within the financial print segment.

Selling and administrative expenses on a company-wide basis decreased by $\$ 7,687$, or $5 \%$, for the nine months ended September 30, 2005 as compared to the same period in 2004. This decrease is primarily due to lower incentive compensation, consulting fees, and bad debt expense, due to the collection of approximately $\$ 2.0$ million of amounts which had previously been written off to bad debt expense. Also contributing to the decrease in selling and administrative costs are lower selling costs associated with the lower margin mutual fund and compliance reporting revenue, compared to the higher margin transactional financial printing revenue. The decrease in selling and administrative expenses is also due to lower labor costs, rent expense, marketing costs and discretionary spending in the litigations solutions business, and the Company s continual effort to manage expenses. Shared corporate expenses were $\$ 14,602$ in the nine months ended September 30,

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2005 compared to $\$ 15,054$ in the same period in 2004, a decrease of $\$ 452$. This decrease is primarily due to decreases in professional fees and consulting fees associated with compliance with Section 404 of the Sarbanes-Oxley Act. These fees were higher in 2004 since that was the initial year of compliance. As a percentage of revenue, overall selling and administrative expenses decreased by approximately two percentage points, to $27 \%$ for the nine months ended September 30, 2005 compared to the same period in 2004.

Depreciation decreased by $\$ 1,301$, or $6 \%$ for the nine months ended September 30, 2005 as compared to the same period in 2004, primarily as a result of reduced capital expenditures in recent years.

There were $\$ 6,861$ in restructuring, integration, and asset impairment charges for the nine months ended September 30, 2005, as compared to $\$ 5,786$ in the nine months ended September 30, 2004, as discussed in Note 11 to the Condensed Consolidated Financial Statements.

The gain on the sale of building of \$896 for the nine months ended September 30, 2004 relates to the sale of the Company s financial print facility in Dominguez Hills, California in May 2004. The Company relocated to a new leased facility in Southern California in September 2004.

Interest expense decreased $\$ 4,192$, or $53 \%$, primarily the result of the early retirement of the Company s senior notes in December 2004, as described in the Company s Annual Report on Form 10-K for the year ended December 31, 2004. Interest expense related to these notes was approximately $\$ 3.5$ million for the nine months ended September 30, 2004. Also contributing to the decrease in interest expense was a decrease in the amortization of deferred financing costs for the nine months ended September 30, 2005 as compared to 2004, also related to the early retirement of the Company s senior notes, and less borrowings on the revolving credit facility during the nine months ended September 30, 2005 as compared to the same period in 2004.

Income tax expense for the nine months ended September 30, 2005 was $\$ 8,704$ on pre-tax income from continuing operations of $\$ 16,912$, compared to income tax expense in 2004 of $\$ 7,115$ on pre-tax income from continuing operations of $\$ 14,699$. The size of the non-deductible expenses are relatively unchanged from year to year, and the rate applied to U.S. taxable income remained at approximately $38 \%$.

Income from discontinued operations for the nine months ended September 30, 2005 was $\$ 4,248$ compared to $\$ 108$ for the same period last year. The 2005 results from discontinued operations include a net gain on the sale of the globalization business that occurred on September 1, 2005 of $\$ 3,426$ and the results of the operations of the discontinued globalization business until the date of sale. The 2005 results also include a $\$ 5.4$ million tax charge to record deferred income taxes related to basis differences which no longer met the permanent reinvestment criteria of Accounting Principles Board Opinion No. 23. The loss from discontinued operations for the nine months ended September 30, 2004 includes the results of the discontinued globalization and outsourcing businesses.

As a result of the foregoing, net income for the nine months ended September 30, 2005 was $\$ 12,456$ as compared to $\$ 7,692$ for the same period of 2004.

## Domestic Versus International Results of Operations

$\left.\begin{array}{l|ccc} & \begin{array}{c}\text { Nine Months Ended } \\ \text { September 30, }\end{array} \\ & \mathbf{2 0 0 5} & \mathbf{2 0 0 4}\end{array}\right]$

Income from continuing operations improved in the nine months ended September 30, 2005 compared to the same period in 2004. International pre-tax income from continuing operations improved significantly in 2005 compared to
the same period in 2004 primarily due to increases in transactional financial printing and compliance reporting revenue from Europe, Canada and Asia. The international results for the nine months ended September 30, 2004 included approximately $\$ 1.1$ million of restructuring charges, which were primarily related to headcount reductions at the financial print facilities in Paris and Toronto. The international results

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for the nine months ended September 30, 2005 included approximately $\$ 1.8$ million of restructuring charges, which were related to the relocation of the London financial print facility. The decrease in domestic pre-tax income from continuing operations is primarily due to the decrease in transactional financial printing revenue within the financial print segment for the nine months ended September 30, 2005 as compared to 2004. The domestic results for the nine months ended September 30, 2005 included approximately $\$ 5.1$ million in restructuring charges, integration costs and asset impairment charges related primarily to the impairment of costs associated with the redesign of the Company s Intranet, the impairment of internally developed software related to the digital print business, a goodwill impairment charge of $\$ 2.1$ million related to the document scanning and coding business, and the reduction of headcount in certain corporate management and administrative functions that will not be replaced. The domestic results for the nine months ended September 30, 2004 included approximately $\$ 4.7$ million of restructuring charges consisting of the consolidation of certain administrative functions and the consolidation of the Company s fulfillment operations with its digital print facility within the financial print segment.

## Liquidity and Capital Resources

Nine Months Ended September 30,

Liquidity and Cash Flow Information: 2005

|  |  |  | (Restated) |  |
| :--- | :---: | :---: | :---: | :---: |
| Working capital | $\$$ | 225,351 | $\$$ | 130,300 |
| Current ratio |  | 3.05 to 1 |  | 1.84 to 1 |
| Net cash (used in) provided by operating activities | $\$$ | $(10,373)$ | $\$$ | 4,968 |
| Net cash provided by (used in) investing activities | $\$$ | 59,134 | $\$$ | $(6,422)$ |
| Net cash (used in) provided by financing activities | $\$$ | $(16,478)$ | $\$$ | 9,741 |
| Net cash used in discontinued operations | $\$$ | $(5,491)$ | $\$$ | $(10,817)$ |
| Capital expenditures | $\$$ | 14,594 | $\$$ | 13,275 |
| Average days sales outstanding |  | 75 |  | 72 |

Overall working capital increased approximately $\$ 95.1$ million at September 30, 2005 as compared to the same period in 2004. The increase in working capital results from several factors. The primary reason for the increase in working capital is the increase in cash and marketable securities of approximately $\$ 137.2$ million as a result of the proceeds received from the sales of the outsourcing business in November 2004 and the globalization business in September 2005. Also contributing to the increase in working capital are increases in accounts receivable of $\$ 22.5$ million and inventory of $\$ 7.8$ million as of September 30, 2005 as compared to 2004. In addition, there was a decrease in accrued compensation and benefits of approximately $\$ 10.0$ million primarily related to a decrease in accrued bonuses, as well as decreases in current accrued supplemental executive retirement plan (SERP) expenses, accrued worker s compensation and medical benefit claims as of September 30, 2005 as compared to September 30, 2004. Offsetting the increases in working capital as of September 30, 2005 as compared to September 30, 2004 were the following; (i) in December 2004, the Company retired its $\$ 60$ million private placement senior notes using a portion of the proceeds received from the sale of the outsourcing business, (ii) since September 30, 2004, the Company has repurchased approximately 4 million shares of its common stock for approximately $\$ 58.3$ million, (iii) the Company contributed $\$ 12.25$ million to the pension plan in September 2005 and (iv) slight increases in accrued expenses and taxes payable primarily related to the sale of the globalization business.

During the fourth quarter of 2004, the Company s Board of Directors authorized an ongoing stock repurchase program to repurchase up to $\$ 35$ million of the Company s common stock. On July 29, 2005, the Company entered into a 10b5-1 trading plan with a broker to facilitate the purchases of shares under this program. Through December 2006, management is authorized to purchase shares from time to time at prevailing prices as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The program may be
discontinued at any time. The Company has repurchased approximately 2.0 million shares under this plan through November 4, 2005.

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The Company had all of the borrowings available under its new $\$ 150$ million unsecured revolving credit facility as of September 30, 2005, as described further in Note 12 to the Condensed Consolidated Financial Statements. The Company s Canadian subsidiary also had all of its borrowings available under its $\$ 4.3$ million Canadian dollar credit facility as of September 30, 2005.

It is expected that the cash generated from operations, working capital, the sale of marketable securities, and the Company s borrowing capacity will be sufficient to fund its development needs (both foreign and domestic), finance future acquisitions, if any, and capital expenditures, provide for the payment of dividends, meet its debt service requirements and provide for repurchases of the Company s common stock under the aforementioned stock repurchase program. 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 nine months ended September 30, 2005 were $\$ 14.6$ million. For the full year 2005, the Company plans capital spending of approximately $\$ 44.0$ million, which includes approximately $\$ 24.0$ million related to capital expenditures associated with the relocation of the Company s corporate office and New York based operations to 55 Water Street during 2006. The relocation is expected to result in a capital commitment of approximately $\$ 28$ million. As detailed in the Company s 8-K filed February 25, 2005, the lease has an initial term of 20 years for approximately 200,000 square feet.

## Cash Flows

The Company continues to focus on cash management, including managing receivables and inventory. Year-to-date average days sales outstanding increased to 75 days from 72 days for the nine months ended September 30, 2005 as compared to the same period in 2004. The Company had net cash used in operating activities of $\$ 10,373$ for the nine months ended September 30, 2005 as compared to net cash provided by operating activities of $\$ 4,968$ for the nine months ended September 30, 2004. The change in net cash used in operating activities in 2005 as compared to 2004 is primarily attributable to the larger amount of bonuses and commissions paid during the nine months ended 2005 as compared to 2004. Also contributing to the change in cash used in operating activities was the increase in accounts receivable and work-in-process inventory in 2005. Offsetting these increases was a decrease in the amount the Company contributed to its defined benefit pension plan in 2005 as compared to 2004. The Company had income from continuing operations of $\$ 8,208$ in the nine months ended September 30, 2005 as compared to income from continuing operations of $\$ 7,584$ for the same period in 2004. Overall, cash used in operating activities increased by approximately $\$ 15.3$ million from 2004 to 2005.

Net cash provided by investing activities was $\$ 59,134$ for the nine months ended September 30, 2005 as compared to net cash used in investing activities for the nine months ended September 30, 2004 of $\$ 6,422$. This change was primarily the result of approximately $\$ 120,218$ net cash proceeds received from the sale of the Company s globalization business in September 2005 and $\$ 20,280$ received from the sale of marketable securities during the nine months ended September 30, 2005 as compared to the receipt of $\$ 6,731$ related to the sale of the Company s facilities in Dominguez Hills, California during the nine months ended September 2004. Offsetting the increase in cash provided by investing activities was the purchase of marketable securities of approximately $\$ 67.0$ million in the third quarter of 2005 and a slight increase in cash used in the acquisition of property, plant and equipment during 2005 as compared to the prior year.

Net cash used in financing activities was $\$ 16,478$ for the nine months ended September 30, 2005 as compared to net cash provided by financing activities of $\$ 9,741$ for the nine months ended September 30, 2004. The change in 2005 as compared to 2004 was primarily the result of the repurchase of approximately 1.3 million shares of common stock for an aggregate amount of $\$ 18,122$ during 2005, net payments of debt in 2005 of approximately $\$ 200$, as compared to net payments of $\$ 3,000$ in 2004, and proceeds from stock option exercises of $\$ 7,455$ in 2005 as compared to $\$ 18,503$ in 2004.

Net cash used in discontinued operations was $\$ 5,491$ and $\$ 10,817$ for the nine months ended September 30, 2005 and 2004, respectively. The cash used in discontinued operations for the nine months ended September 30, 2005 represents cash used in the operations of the sold globalization business and the

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payment of accrued expenses (primarily employee compensation and benefits) related to the sale of the Company s document outsourcing business in November 2004. The cash used in discontinued operations in 2004 primarily represents cash used in the operations of the discontinued outsourcing and globalization businesses during the nine months ended September 30, 2004.

## Contractual Obligations, Commercial Commitments, and Off-Balance Sheet Arrangements

The Company s contractual obligations and commercial commitments are summarized in the Company sannual report on Form 10-K for the year ended December 31, 2004. Pursuant to the terms of the lease entered into in February 2005 for the relocation of its primary New York City offices, the Company has delivered to the landlord a letter of credit for approximately $\$ 9,392$ to secure the Company s performance of its obligations under the lease. The amount of the letter of credit will be reduced in equal amounts annually until 2016, at which point the Company shall have no further obligation to post the letter of credit, provided no event of default has occurred and is continuing. The letter of credit obligation shall also be terminated if the entire amount of the Company s 5\% Convertible Subordinated Debentures due October 1, 2033 are converted into stock of the Company, or repaid and refinanced on certain specified terms, or remain outstanding beyond October 1, 2008.

## 2005 Outlook

The following statements and certain statements made elsewhere in this document are based upon current expectations. These statements are forward looking and are subject to factors that could cause actual results to differ materially from those suggested here, including demand for and acceptance of the Company s services, new technological developments, competition and general economic or market conditions, particularly in the domestic and international capital markets, and excludes the effect of potential dilution from the Convertible Subordinated Debentures and the impact from any future purchases under our share repurchase program. Refer also to the Cautionary Statement Concerning Forward Looking Statements included at the beginning of this Item 2.

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The guidance for the full year 2005 results are unchanged from the estimates provided in the Company s quarterly report on Form 10-Q for the quarter and six months ended June 30, 2005 except for additional restructuring and impairment charges and the addition of capital expenditures related to the New York office relocation. The outlook excludes the following: (i) results of the globalization business which is reflected as a discontinued operation, (ii) the effect of potential dilution from the Convertible Subordinated Debentures and (iii) the impact from any future purchases under the Company s share repurchase program. The Company estimates that full year 2005 results will be in the ranges shown below.

## Full Year 2005 Outlook

| Revenues: | $\$ 650$ to $\$ 695$ million |
| :--- | :--- |
| $\quad$ Financial Print | $\$ 620$ to $\$ 660$ million |
| $\quad$ Litigation Solutions | $\$ 30$ to $\$ 35$ million |
| Segment Profit: | $\$ 65$ to $\$ 75$ million |
| $\quad$ Financial Print | $\$ 3$ to $\$ 5$ million |
| Litigation Solutions | $\$ 17$ to $\$ 21$ million |
| Corporate/ Other: | $\$ 11$ million |
| $\quad$ Corporate expense | $\$ 28$ million |
| Restructuring and impairment charges | $\$ 5.5$ million |
| Depreciation and amortization | $\$ 0.14$ to $\$ 0.33$ |
| Interest expense |  |
| Diluted earnings per share from continuing operations | $\$ 0.30$ to $\$ 0.40$ |
| Diluted earnings per share from continuing operations, excluding <br> restructuring and impairment charges, adjusted for the sale of the <br> globalization business <br> Diluted shares <br> Capital expenditures, excluding New York City office relocation <br> Capital expenditures, New York City office | 35.2 million shares |

Total expenditures related to the New York City office relocation are expected to be $\$ 28$ million, of which approximately $\$ 24$ million will be expended in 2005.

## Recent Accounting Pronouncements

In April 2005, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 47 ( FIN 47 ), Accounting for Conditional Asset Retirement Obligations An Interpretation of FASB Statement No. 143. FIN 47 clarifies the terms of FASB Statement No. 143 and requires an entity to recognize a liability for a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the entity $s$ control, if the entity has sufficient information to reasonably estimate its fair value. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company is currently evaluating the impact of this standard on its financial statements.

In December 2004, the FASB issued SFAS 123 (revised 2004), Share-Based Payment ( SFAS 123(R) ) which replaces SFAS 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. Among other items, SFAS 123(R) eliminates the use of APB Opinion No. 25 and the intrinsic method of accounting, and requires all share-based payments, including grants of employee stock options, to be recognized in the financial statements based on their fair values. In April 2005, the Securities and Exchange Commission adopted a new rule deferring the effective date of SFAS 123(R) for public companies until the first interim or annual reporting period of the first fiscal year that begins after June 15, 2005. In accordance with the new rule, the Company expects to adopt SFAS 123(R) in the first quarter of 2006 and will recognize compensation expense for all share-based

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payments and employee stock options based on the grant-date fair value of those awards. The Company is currently evaluating the impact of the statement on its financial statements. As the Company currently accounts for share-based payments using the intrinsic value method as allowed by APB Opinion No. 25, the adoption of the fair value method under SFAS $123(\mathrm{R})$ will have an impact on its results of operations. However, the extent of the impact cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. Had the Company adopted SFAS $123(\mathrm{R})$ in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in Note 7 to the Condensed Consolidated Financial Statements.

In October 2004, the American Jobs Creation Act, known as the AJCA, became law. The AJCA provides for a deduction of $85 \%$ of qualifying foreign earnings that the Company repatriates, as defined in the AJCA, in 2005. This deduction produces the equivalent of a $5.25 \%$ effective tax rate on the repatriated earnings. The Company qualifies to repatriate up to approximately $\$ 500$ million.

The Company will complete its evaluation of the effects of the repatriation provision in accordance with FASB Staff Position No. FAS 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 in the fourth quarter of 2005. During the evaluation, the Company is principally considering global cash management objectives, its overall tax position and restrictions on the use of repatriated cash. Pending completion of this evaluation, the Company cannot reasonably estimate the range of potential income tax effects of repatriating funds. If the Company determines to repatriate funds in reliance upon the AJCA, it must complete the repatriation by the end of 2005.

## Item 3. Quantitative and Qualitative Disclosures 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. This includes trends in the initial public offerings and mergers and acquisitions markets, both important components of the financial print segment. The Company also has market risk tied to interest rate fluctuations related to a portion of its debt obligations, fluctuations in foreign currency, and investments in marketable securities, as discussed below.

## Interest Rate Risk

The Company s exposure to market risk for changes in interest rates relates primarily to its short-term investment portfolio, long-term debt obligations, revolving credit agreement and synthetic lease agreement.

The Company does not use derivative instruments in its short-term investment portfolio. The Company s debentures issued in September 2003 consist of fixed rate instruments, and therefore, would not be impacted by changes in interest rates. The debentures have a fixed interest rate of $5 \%$. As discussed in Note 12 to the Condensed Consolidated Financial Statements, the Company entered into a new five-year $\$ 150$ million senior unsecured revolving credit facility in May 2005 which replaced the $\$ 115$ million three-year revolving credit facility that was scheduled to expire in July 2005. Borrowings under the new revolving credit facility bear interest at LIBOR plus a premium that can range from 67.5 basis points to 137.5 basis points depending on certain leverage ratios. During the nine months ended September 30, 2005 there was a minimal average outstanding balance under the revolving credit facility and there was no outstanding balance as of September 30, 2005, therefore, there is no significant impact from a hypothetical increase in the interest rate related to the revolving credit facility during the nine months ended September 30, 2005.

## Foreign Exchange Rates

The Company derives a portion of its revenues from various foreign sources. Revenue from the Company s international financial print operations is denominated in foreign currencies, while some of its costs are denominated in U.S. dollars. To date, the Company has not used foreign currency hedging instruments to reduce its exposure to foreign exchange fluctuations. The Company has reflected translation adjustments of $(\$ 12,243)$ and $(\$ 1,616)$ in its Condensed Consolidated Statements of Comprehensive Income (Loss) for the nine months ended September 30, 2005 and 2004, respectively. These adjustments are primarily attributed to the fluctuation in value between the U.S. dollar and the euro, pound sterling and Canadian dollar.

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## Equity Price Risk

The Company s investments in marketable securities were approximately $\$ 130.6$ million as of September 30, 2005, primarily consisting of $\$ 64.5$ million in auction rate securities, and 9.4 million shares of Lionbridge common stock that were part of the total consideration received from the sale of BGS, valued at $\$ 63.5$ million at September 30, 2005. The auction rate securities are fixed income securities with minimal market fluctuation risk, while the value of the Lionbridge shares is dependent on current market conditions and the operations of Lionbridge and therefore is susceptible to a change in value. To date, the Company has not used hedging instruments to reduce its exposure to share price fluctuations. The Company s defined benefit pension plan holds investments in both equity and fixed income securities. The amount of the Company s annual contribution to the plan is dependent upon, among other things, the return on the plan s assets. To the extent there are fluctuations in equity values, the amount of the Company s annual contribution could be affected. For example, a decrease in equity prices could increase the amount of the Company s annual contributions to the plan.

## Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures. The Company maintains a system of disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls are also designed to reasonably assure that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Disclosure controls include components of internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States.

As reported in its annual report on Form 10-K and Form 10-K/ A for the year ended December 31, 2004, the Company s management identified material weaknesses in its internal control over financial reporting within the globalization segment relating to 1 ) the lack of sufficient reconciliation and review controls over purchase accounting adjustments and 2) the lack of sufficient reconciliation and review controls over the determination of legal entity profitability, income tax expense and the related income tax accounts. Specifically, the lack of sufficient reconciliation and review controls over purchase accounting adjustments for the globalization segment resulted in a failure to properly eliminate depreciation expense for an acquired entity, and the lack of sufficient reconciliation and review controls over the determination of legal entity profitability for the globalization segment resulted in the incorrect allocation of consolidated income to certain legal entities and the determination of income tax expense and the related income tax accounts within the globalization segment. As a result of these material weaknesses, management concluded in its 2004 annual report that the Company s disclosure controls and procedures were not effective as of December 31, 2004.

On September 1, 2005 the Company completed the sale of its globalization business and effective with the second quarter of 2005 the globalization business is reflected as a discontinued operation in the Condensed Consolidated Statement of Operations. The material weaknesses described above were all related to this business. Prior to the sale of the globalization business, the Company implemented additional controls and procedures (discussed further below) in order to remediate the material weaknesses. The Company continues to assess and implement additional controls and procedures in an effort to prevent material weaknesses from occurring in its remaining business. The Company s management, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures as of September 30, 2005, pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e) (the Exchange Act ). As part of its evaluation, management has evaluated whether the control deficiencies related to the reported material weaknesses in internal control over financial reporting continue to exist. The Company believes that the reported material weaknesses no longer exist as a result of the implementation of additional controls and procedures and the sale of its globalization business. Based upon this conclusion, the Company s Chief Executive Officer and Chief

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Financial Officer have concluded that the Company s disclosure controls and procedures are effective as of September 30, 2005.

The Company believes that the actions it has taken to date, including the sale of the globalization business and the changes outlined below, have remediated the material weaknesses with respect to the preparation of this quarterly report on Form $10-\mathrm{Q}$, such that the information contained in this quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented.
(b) Changes in Internal Control Over Financial Reporting. During the nine months ended September 30, 2005, management has taken the following actions listed below to remediate the material weaknesses described in the Company s annual report on Form 10-K and Form 10-K/A for the year ended December 31, 2004 and improve the controls and procedures related to its remaining business.

Formalized and enhanced processes and procedures for reconciling and reviewing the elimination of adjustments and entries related to purchase price adjustments for the discontinued globalization segment.

Formalized and enhanced processes and procedures for rolling forward balance sheet amounts from period to period to identify potential errors.

Implemented a more thorough and comprehensive reconciliation and review of the profitability, income tax expense and related income tax accounts associated with each legal entity within the discontinued globalization segment.

Implemented more thorough procedures around identification of amounts recorded in consolidation that need to be pushed down to the legal entity level.

Simplified the consolidation process by recording certain entries at the legal entity level, rather than as a consolidation adjustment.

Has begun implementation of new modules to its enterprise financial reporting system related to purchase orders and fixed assets, which is expected to be completed during 2006.
Other than the changes discussed above, there have not been any changes in the Company s internal control over financial reporting during the Company s most recently completed fiscal quarter that have materially affected, or are reasonably likely to affect, the Company s internal control over financial reporting.

PART II
OTHER INFORMATION

## Item 6. Exhibits

(a) Exhibits:
31.1 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002, signed by Philip E. Kucera, Chairman of the Board and Chief Executive Officer
31.2 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002, signed by C. Cody Colquitt, Senior Vice President and Chief Financial Officer
32.1 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, signed by Philip E. Kucera, Chairman of the Board and Chief Executive Officer
32.2 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, signed by C. Cody Colquitt, Senior Vice President and Chief Financial Officer

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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/ PHILIP E. KUCERA

Philip E. Kucera
Chairman of the Board and Chief Executive Officer (Principal Executive Officer)

Date: November 8, 2005

Date: November 8, 2005

Date: November 8, 2005
/s/ C. CODY COLQUITT
C. Cody Colquitt

Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ RICHARD BAMBACH JR.
Richard Bambach Jr.
Vice President and Corporate Controller
(Principal Accounting Officer)


[^0]:    See Notes to Condensed Consolidated Financial Statements.

