

BOWNE & CO INC  
Form 10-K405  
March 27, 2001  
Table of Contents

---

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D. C. 20549**

---

**Form 10-K**

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the fiscal year ended December 31, 2000, or  
Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the transition period from                   to  
Commission File No. 1-5842

**Bowne & Co., Inc.**

(Exact name of Registrant as specified in its charter)

Delaware 13-2618477 (State or other jurisdiction of incorporation  
or organization) (I.R.S. Employer Identification Number) 345  
Hudson Street  
New York, New York  
(Address of principal executive offices) 10014  
(Zip code)

(212) 924-5500

(Registrant's telephone number, including area code)

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, Par Value \$.01	New York Stock Exchange

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

None

(Title of class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant

was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

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

The aggregate market value of the Common Stock issued and outstanding and held by nonaffiliates of the Registrant, based upon the closing price for the Common Stock on the New York Stock Exchange on March 16, 2001, was \$333,965,732. For purposes of the foregoing calculation, the Registrant's Employees' Stock Purchase Plan and its Global Employees Stock Purchase Plan are deemed to be affiliates of the Registrant.

The number of shares outstanding of each of the Registrant's classes of common stock was 33,025,256 shares of Common Stock outstanding as at March 16, 2001.

### **Documents Incorporated by Reference**

Certain portions of the documents of the Registrant listed below have been incorporated by reference into the indicated parts of this Annual Report on Form 10-K:

Notice of Annual Meeting of Stockholders and Proxy Statement Anticipated to be dated March 30, 2001  
Part III, Items 11-12 Part IV, Item 14

---

---

---

### **TABLE OF CONTENTS**

#### **PART I**

Item 1. Business

Item 2. Properties

Item 3. Pending Legal Proceedings

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

#### **PART II**

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Item 6. Selected Financial Data

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 8. Financial Statements and Supplemental Data

Independent Auditors' Report

Notes to Consolidated Financial Statements

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

#### **PART III**

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management

Item 13. Certain Relationships and Related Transactions

#### **PART IV**

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

**SIGNATURES**

**SCHEDULE II**

**REVISED TERMINATION PROTECTION AGREEMENT**

SUBSIDIARIES OF THE COMPANY  
CONSENT OF KPMG LLP  
AUDITORS' REPORT ON SCHEDULE, KPMG, LLP  
POWERS OF ATTORNEY

---

**PART I**

**Item 1. Business**

The Registrant was established in 1775, incorporated in 1909, reincorporated in 1968 in the State of New York, and reincorporated again in 1998 in Delaware. (The Registrant and its subsidiaries are hereinafter collectively referred to as the Company, We or Our unless otherwise noted.)

During the past five years the Company has focused its business on the managing, repurposing and distribution of a client's information to any audience, through any medium, in any language, anywhere in the world. The Company now offers its customers an integrated way to design and manage their information flows to take advantage of the latest technologies for creating, storing, moving, presenting, and utilizing information in any combination of paper and electronic forms. It manages documents on a client's site or at its own facilities. It provides business services and solutions for transactional financial, corporate reporting and mutual fund printing, as well as providing digital database management and printing, document management outsourcing, globalization, translation and integrated Internet applications, among others.

The Company currently operates the following business segments:

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

*Outsourcing* Consisting of document management solutions primarily for the legal and financial communities.

*Globalization* Consisting of translation, localization and content reengineering of software and technology products.

*Internet Consulting and Development* Consisting of integrated Internet applications primarily for the financial services sector.

Segment revenues, operating results, identifiable assets and capital spending attributable to the Company's operations for the calendar years 2000, 1999 and 1998, are shown in Note 15 of the Notes to Consolidated Financial Statements.

*Financial Printing*

Transactional financial printing includes registration statements, prospectuses, debt agreements, special proxy statements, offering circulars, tender offer materials and other documents related to corporate financings, acquisitions and mergers. Corporate reporting includes interim reports, regular proxy materials prepared by corporations for distribution to stockholders, Securities and Exchange Commission reports on Form 10-K and other forms, and stock exchange listing applications. Mutual fund printing includes regulatory and shareholder communications such as annual or interim reports, prospectuses, information statements, and marketing-related materials.

The Company receives its clients' information in a myriad of formats and repurposes it for distribution typically in print, digital or Internet formats. One of the Company's newer print solution offerings, digital printing, assists

customers by providing their individual clients with high-speed, customized periodic statements or other on-demand printing. Such customers include mutual funds, stock brokers, investment banks, retail banks and other financial institutions that manage multi-option client portfolios as well as healthcare providers, insurance companies and others that manage 401(k) and other retirement plans, and employers that offer multiple benefit options to their employees.

The Company provides some commercial printing which consists of annual reports, sales and marketing literature, point of purchase materials, market letters, newsletters and other custom-printed matter.

The Company also provides language translation of written documents, including highly confidential legal and financial documents.

## **Table of Contents**

The Company's international financial printing business provides virtually identical services as those delivered by its domestic operations. International print capabilities are delivered either by the Company or through a number of strategic alliances.

### *Outsourcing*

By combining a 1998 acquisition, Donnelly Enterprise Solutions Incorporated (DESI), with its own unit, the Company offers outsourcing of document management principally to the financial services and legal communities. Outsourcing includes the on-site management of document-building and reproduction operations at customers facilities, off-site backup of those same services, specialized applications of graphics and presentation technologies, desktop publishing, systems management, scanning and coding services and digital file and case management systems. This segment is commonly referred to as Bowne Business Solutions (BBS).

### *Globalization*

The Company's globalization services principally focus on the worldwide technology industry providing linguistic and technical adaptation of software, hardware, multimedia products and websites, linguistic/usability testing and verification of end-customer ready products, design, development and systems integration expertise for multi-language web sites and the re-engineering software for use in countries other than the country of original development. This segment is commonly referred to as Bowne Global Solutions (BGS).

### *Internet Consulting and Development*

The domestic market for the services offered by this segment has been impacted by the collapse of many dot.com businesses, the slowing spending on Internet projects by established companies and an overall lengthening of the sales cycle of Internet consulting. In recognition of this slowdown, management has restructured this segment, decreased its resources, addressed the remaining carrying value of the business and repositioned its remaining business.

This segment, commonly referred to as Immersant, has been re-focused on opportunities in the market for global web development. Working in partnership with the globalization segment, Immersant has targeted customers who maintain a multi-cultural Internet presence.

This business manages the customer's Internet lifecycle that includes: e-business strategy consulting, web content management, creation, design, development and maintenance, useability research and analysis, personalization, and other services. This business provides services principally to the financial services, insurance and digital entertainment

and e-learning markets.

For each of the last three fiscal years, the Company's financial printing business segment has accounted for the largest share of consolidated total net sales, as shown below:

Type of Service	Year Ended December 31,		
	2000	1999	1998
Transactional financial printing	40%	42%	42%
Corporate reporting printing			
11 12 14			
Mutual fund printing			
13 12 12			
Commercial printing			
7 6 10			
Digital printing and other			
5 5 4			
<hr/>			
<hr/>			
<hr/>			
Financial Printing			
76 77 82			
Outsourcing			
17 16 10			
Globalization			
6 6 6			
Internet consulting and development			
1 1 2			
<hr/>			
<hr/>			
<hr/>			
100% 100% 100%			
<hr/>			
<hr/>			
<hr/>			

**Table of Contents**

We have facilities to serve customers throughout the United States, Canada, Europe, Latin America, South America and Asia.

Although substantial investment in equipment and facilities is required, the Company's business is principally service-oriented. In all our activities, speed, accuracy, and the need to preserve the confidentiality of the customers information is paramount.

The Company maintains conference rooms and telecommunications capabilities at many of its financial printing offices for use by customers while jobs are in progress. On-site conveniences are also provided to customers which promote speed and ease of editorial changes and otherwise facilitate the completion of jobs. For many of its outsourcing customers, the Company maintains facilities and stations staff at the customers' own premises. The Company's globalization activities are conducted in a number of countries around the world. The Company's Internet consulting activities are conducted in three primary locations. In addition, the Company uses an extensive electronic communications network which facilitates data handling and makes collaboration practicable among customers at different sites.

## **Competition**

The Company believes that it offers a unique array of information empowerment solutions to its clients. However, competition of the various individual services described above is intense, not only the speed and accuracy with which the Company can meet customer needs, but also the price of the services, quality of the product and supporting services are factors in this competition. The Company's customers include a wide variety of business corporations, law firms, investment banks, insurance companies, bond dealers, mutual funds and other financial institutions, as well as the leading software companies.

In transactional financial, corporate reporting and mutual fund printing, the Company competes directly with a number of other financial printers having the same degree of specialization. Some of those financial printers operate at multiple locations and some are subsidiaries or divisions of companies having greater financial resources than those of the Company. Although there is no published information available to determine its exact share of the total financial printing market, the Company believes it is the largest in terms of sales volume in this field. In addition to its customer base, the Company has experienced competition for sales, customer service and production personnel in financial printing.

In commercial printing, the Company competes with general commercial printers, which are far more numerous than those in the financial printing market. The digital printing unit faces diverse competition from a variety of industries including other printers, transfer agents, banks and Internet consultants.

The field of document management outsourcing also has a great deal of competition, with some participants having been established in this field much longer than the Company. Furthermore, the costs of entry into this market are much lower than those associated with the Company's other business activities.

Finally, with respect to its globalization and Internet service offerings, the Company has a large number of competitors. Some of them have offered their services to the same potential customers for a longer time, but none of them has acquired a dominant market position. Considerable consolidation is occurring presently in these business areas, and some of the organizations making acquisitions in these fields have resources comparable to or greater than those of the Company.

## **Cyclical, Seasonal and Other Factors Affecting the Company's Business**

The Company's transactional financial printing service is affected by conditions in the world's capital markets. Sales and net income depend upon the volume of public financings, particularly equity offerings which are influenced by corporate funding needs, stock market fluctuations, prevailing interest rates, and general economic and political conditions. The corporate reporting revenue is seasonal as the greatest number of proxy statements and regulatory reports are required to be printed during the Company's first fiscal quarter ending March 31 and the early part of the

Company's second quarter ending June 30. Because of these cyclical and seasonal factors, coupled with the general need to complete certain printing jobs quickly after delivery of copy by the customers, the Company must maintain physical plant and customer service staff

## **Table of Contents**

sufficient to meet maximum work loads. However, mutual fund printing, commercial printing and digital printing are not considered to be as cyclical or seasonal.

In the first quarter of the year, the globalization segment revenues are seasonally low due to the relatively high volume of consumer products that ship in the fourth quarter of any given year.

While the globalization segment and the previously discussed services of the financial printing segment are seasonal or cyclical, the Company's other business segments—outsourcing and Internet consulting—are less cyclical or seasonal.

## **Research and Development**

The Company maintains a research and development capability to evaluate, on an ongoing basis, advances in computer software, hardware and peripherals, computer networking, telecommunications systems and Internet-related technologies as they relate to the Company's business and to develop and install enhancements to the Company's proprietary systems. Like its principal competitors, the Company utilizes a computerized typesetting and telecommunications system in the process of preparing documents. In order to serve the customers of its globalization and Internet services, the Company continually tests new programs and often works directly with its customers in the design and development of new software and other technological products.

## **Patents and Other Rights**

The Company has no significant patents, licenses, franchises, concessions or similar rights other than certain trademarks. Except for a proprietary computer typesetting and telecommunication system, the Company does not have significant specialized machinery, facilities or contracts which are unavailable to other firms providing the same or similar services to customers. The Company has many trademarks and service marks worldwide, most of which are registered or pending registration. The most significant of these is the trademark and trade name Bowne. The Company owns the service marks Empowering Information and Empowering Your Information and trademarks BowneLink, FundSmith and Immersant.

## **Sales and Marketing**

The Company employs approximately 360 sales people. In addition to soliciting business from existing and prospective customers, the sales people act as a liaison between the customer and those in charge of service operations. They also provide advice and assistance to customers. The Company regularly advertises in financial newspapers and trade publications and conducts sales promotion by mail and by presentations at seminars and trade shows.

## **Customers and Backlog of Orders**

The Company has no significant long-term contracts with its customers. During the fiscal year ended December 31, 2000, no customer accounted for 10% or more of the Company's sales. However, one customer,

Microsoft, is significant to the globalization segment. The Company has no backlog, within the common meaning of that term, which is normal throughout the service offerings in which the Company is focused. However, within its financial printing segment, the Company maintains a backlog of customers preparing for initial public offerings ( IPOs ). This IPO backlog is highly dependent on the capital markets.

## Employees

At December 31, 2000, the Company had approximately 8,500 employees. Relations with the Company's employees are considered to be good. Less than three percent of the Company's employees are members of various unions. The Company provides pension, profit-sharing, certain insurance and other benefits to most non-union employees.

4

## Table of Contents

### Suppliers

The Company purchases various materials and services from a number of suppliers, of which the most important items are paper, computer hardware, copiers, software and peripherals, communication equipment and services, and electrical energy. The Company purchases paper from paper mills and from paper merchants. The Company has experienced no difficulty to date in obtaining an adequate supply of these materials and services. Alternate sources of supply are presently available. However, a severe paper or multi-market energy shortage could have an adverse effect upon many of the Company's operations.

### Foreign Sales

The Company conducts foreign operations in Canada, Europe, Latin America, South America and Asia. In addition, the Company has affiliations with certain firms providing similar services abroad. Sales derived from foreign countries other than Canada were approximately 15% of the Company's total sales in 2000, 13% in 1999 and 11% in 1998. During 2000, 1999 and 1998 sales derived from foreign countries other than Canada totaled \$162, \$131 and \$96 million, respectively. The financial printing segment had \$109, \$87 and \$52 million in these years, respectively. The globalization segment had sales of \$52 million in 2000, and \$44 million each in 1999 and 1998. Canadian sales were approximately 6% of the Company's total sales in 2000, 7% in 1999, and 8% in 1998. During 2000, 1999, and 1998 sales derived from Canada totaled \$71, \$70, and \$70 million, respectively.

### Item 2. *Properties*

Information regarding the material facilities of the Company, as of December 31, 2000, five of which were leased and ten of which were owned in fee, is set forth below.

Location	Year Lease Expires	Description	Square Footage
345 Hudson Street New York, NY	2006	Customer service center, general office space, computer center, and corporate headquarters.	222,000
99 Caven Point			



2003  
Warehouse and  
fulfillment  
center.  
158,000  
Jersey City, NJ

800 Central  
Blvd.  
2009 Digital  
printing plant  
and 130,000  
Carlstadt, NJ

general  
office space.  
60 Gervais  
Drive  
2003

Typesetting,  
printing plant  
and 71,000  
Don Mills  
(Toronto),  
general  
office space.  
Ontario,  
Canada

60 Queen  
Victoria Street  
2020  
Customer  
service center  
and general  
30,000  
London,  
England  
office

space.  
5021 Nimtz  
Parkway  
Owned  
Printing plant  
and 127,000  
South Bend,  
IN

general  
office space.  
1200 Oliver  
Street  
Owned  
Typesetting,  
printing plant  
and 110,000  
Houston, TX

general  
office space.  
215 County  
Avenue  
Owned  
Printing plant  
and general

105,000  
 Secaucus, NJ  
 office  
 space.  
 2103 East  
 University  
 Drive  
 Owned  
 Printing plant  
 and general  
 103,000  
 Dominguez  
 Hills, CA  
 office  
 space.  
 325 West Ohio  
 Street  
 Owned  
 Typesetting,  
 printing plant  
 and 100,000  
 Chicago, IL  
 general  
 office space.  
 411 D Street  
 Owned  
 Typesetting,  
 printing plant  
 and 73,000  
 Boston, MA  
 general  
 office space.

**Table of Contents**

Location	Year Lease Expires	Description	Square Footage
1241 Superior Avenue Cleveland, OH	Owned	Typesetting, printing plant and general office space.	73,000
1931 Market Center Blvd. Owned Typesetting and general office space 68,000 Dallas, TX			
5400 Chemin SL François Owned Typesetting, printing plant and 55,000			

St. Laurent  
(Montreal),  
general  
office space.  
Quebec,  
Canada

1500 North  
Central  
Avenue  
Owned  
Typesetting,  
printing plant  
and 50,000  
Phoenix, AZ  
general  
office space.

All of the properties described above are well maintained, in good condition and suitable for all presently anticipated requirements of the Company. The majority of the Company's equipment is owned outright. The outsourcing solutions business leases most of its machinery and equipment over a term of three-five years. Reference is made to Note 13 of the Notes to Consolidated Financial Statements.

**Item 3. Pending Legal Proceedings**

The Company is involved in no pending legal proceedings other than routine litigation incidental to the conduct of its business which is not material to its business.

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

None.

**PART II**

**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

**Share Prices**

As of July 1, 1999, the Company's common stock is traded on the New York Stock Exchange under the symbol BNE; prior to this date the Company's stock traded on the American Stock Exchange. The following is the range of high and low share prices as reported by the New York Stock Exchange and American Stock Exchange and dividends paid per share for calendar 2000 and 1999 by year and quarters.

	Range of Share Prices High	Range of Share Prices Low	Dividends Per Share
	_____	_____	_____
<b>2000</b>			
Fourth quarter			
\$11 \$7 7/8 \$.055			

Third quarter  
 10 7/8 8 5/8 .055  
 Second quarter  
 13 1/4 9 1/16 .055  
 First Quarter  
 14 3/8 10 3/8 .055

---

Calendar year  
 14 3/8 7 7/8 \$.22

---

**1999**

Fourth quarter  
 \$13 3/4 \$10 3/8 \$.055  
 Third quarter  
 14 1/2 11 13/16 .055  
 Second quarter  
 19 7/16 11 1/2 .055  
 First Quarter  
 17 1/2 11 1/16 .055

---

Calendar year  
 19 7/16 10 3/8 \$.22

---

The number of holders of record of the Company's common stock on March 16, 2001 was approximately 1,396.

**Table of Contents**

**Item 6. Selected Financial Data**

**FIVE YEAR FINANCIAL SUMMARY**

(In thousands, except per share information)

	Year Ended December 31,				Year Ended	Two Months
	2000	1999	1998	1997	October 31, 1996	Ended December 31, 1996

**Operating Data**

Net sales  
 \$1,113,536 \$1,010,790 \$847,566 \$716,647 \$501,369 \$90,218

Expenses:

Cost of sales

Edgar Filing: BOWNE & CO INC - Form 10-K405

690,941	608,668	487,954	392,120	276,141	49,467
Selling and administrative					
316,298	291,137	251,632	203,362	133,194	26,831
Depreciation					
43,754	41,104	34,375	27,991	20,621	4,599
Amortization					
11,525	11,373	7,551	1,678	626	117
Restructuring and asset impairment charges					
19,200					
Purchased in-process research and development and other charges					
9,025	6,991				

Operating income					
31,818	58,508	57,029	84,505	70,787	9,204
Gain on sale of subsidiary					
	35,273				
Interest expense					
(7,254)	(6,282)	(5,492)	(1,621)	(677)	(120)
Other (expense) income, net					
(1,531)	1,010	2,878	2,456	4,905	228

Income before income taxes					
23,033	53,236	54,415	120,613	75,015	9,312
Income taxes					
16,025	25,423	27,288	51,070	32,512	4,128

---

Net income  
 \$7,008 \$27,813 \$27,127 \$69,543 \$42,503 \$5,184

---



---



---



---



---



---

**Balance Sheet Data**

Current assets  
 \$314,508 \$309,439 \$276,064 \$285,504 \$234,903 \$245,821  
 Current liabilities  
 \$180,966 \$193,690 \$160,638 \$120,639 \$87,541 \$98,966  
 Working capital  
 \$133,542 \$115,749 \$115,426 \$164,865 \$147,362 \$146,855  
 Current ratio  
 1.74 to 1 1.60 to 1 1.72 to 1 2.37 to 1 2.68 to 1 2.48 to 1  
 Net plant and equipment  
 \$171,938 \$173,293 \$166,367 \$138,933 \$128,583 \$131,983  
 Total assets  
 \$660,215 \$678,624 \$642,298 \$500,653 \$385,822 \$408,267  
 Long-term debt  
 \$85,676 \$47,281 \$74,887 \$2,537 \$2,495 \$2,424  
 Stockholders' equity  
 \$353,554 \$403,193 \$378,819 \$358,600 \$280,734 \$291,556

**Per Share (Adjusted for 1998 Stock Split)**

Net income:

Basic  
 \$.20 \$.76 \$.74 \$1.92 \$1.21 \$.15  
 Diluted  
 \$.20 \$.74 \$.72 \$1.87 \$1.20 \$.15  
 Dividends  
 \$.22 \$.22 \$.20 \$.18 \$.18

**Table of Contents**

**Item 7. 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.

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

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

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

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

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

General economic or capital market conditions affecting the demand for transactional financial printing.

### **Liquidity and Capital Resources**

The Company's financial position continues to reflect strong liquidity. On December 31, 2000, the Company had a working capital ratio of 1.74 to 1 and working capital of \$133,542. On December 31, 1999, the Company had a working capital ratio of 1.60 to 1 and working capital of \$115,749. The increase in working capital was primarily the result of cash generated from operations.

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

At December 31, 2000, capital commitments primarily consisted of the remaining balance to be expended on the Company's expansion of their New Jersey production facilities of approximately \$3 million. It is expected that cash generated from operations, working capital and the Company's borrowing capacity will be sufficient to finance these capital commitments, as well as our 2001 capital expenditures program. Over the last several years, the Company has had capital expenditures ranging from \$40 million to \$50 million; 2001 capital expenditures are also anticipated to be within that scope.

## **Table of Contents**

### **Cash Flows**

The Company had net cash provided by operating activities of \$56,652, \$96,770, and \$101,916 for the years ended December 31, 2000, 1999 and 1998, respectively. The decrease in 2000 reflects the impact of a lower net income of approximately \$21 million, an increase in prepaid expenses and other current assets during 2000 as opposed to a decrease during 1999 (accounting for a change of approximately \$22 million), and a decrease in accounts payable during 2000 as opposed to an increase in that category during 1999 (accounting for a change of approximately \$21 million). The increase in prepaid expenses and other current assets results from a net overpayment of estimated income taxes and equipment deposits awaiting reimbursement under the master lease agreement at December 31, 2000. The lower level of accounts payable results from the decreased sales in the fourth quarter of 2000 when compared to 1999. These are offset by a decrease in accounts receivable (net) during 2000 as opposed to an increase during 1999 (accounting for a change of approximately \$27 million). The decrease in accounts receivable at December 31, 2000 from 1999 reflects lower sales volume in the fourth quarter of 2000. The decrease in 1999 from 1998 reflects the impact of a higher level of accounts receivable at year-end 1999 resulting from increased sales levels, partially offset by a decrease in prepaid expenses and an increase in accounts payable and accrued employee compensation.

Net cash used in investing activities was \$44,809, \$56,213, and \$166,390 for the years ended December 31, 2000, 1999 and 1998, respectively. The decrease in 2000 was primarily a result of decreased capital expenditures, as well as the proceeds recognized from the sale of a subsidiary (see Note 2). The decrease in 1999 was primarily as a result of 1998 acquisitions (in excess of 1999 by approximately \$115,000).

Net cash (used in) provided by financing activities was \$(11,999), \$(33,900), and \$47,629 for the years ended December 31, 2000, 1999 and 1998, respectively. The change in 2000 is a result of higher net borrowings resulting from a lower level of cash provided by operations, partially offset by decreased cash used in investing activities. The change in 1999 was a result of the higher net repayments of debt in 1999, and the fact that higher proceeds from borrowings in 1998 were necessary to finance the Company's acquisitions.

During the year ended December 31, 2000, the Company used approximately \$43 million dollars to repurchase shares of its common stock, in accordance with the Board of Directors authorization of the Company's stock repurchase program. These funds were provided through net borrowings during 2000.

### **Foreign Exchange**

The Company derives a portion of its revenues from various foreign sources. The Company has not experienced significant gains or losses as a result of fluctuations in the exchange rates of the related foreign currencies, primarily denominated in euros, pound sterling and Canadian dollars. To date, the Company has not used foreign currency hedging instruments to reduce its exposure to foreign exchange fluctuations. The Company has a net translation loss of \$4,311 in its accumulated comprehensive income section of the Stockholder's Equity statement for the year 2000. This loss is primarily attributed to the fluctuation in value between the US dollar and the euro, pound sterling and Canadian dollar.

### **Prospective Accounting Pronouncements**

Statement of Financial Accounting Standards No. 133 ( SFAS 133 ), Accounting for Derivative Instruments and Hedging Activities, was issued in June 1998. SFAS 133 standardized the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, by requiring recognition of those instruments as assets and liabilities and to measure them at fair value. SFAS 133 was subsequently amended by Statement of Financial Accounting Standards No. 137 ( SFAS 137 ), Accounting for Derivative Instruments and Hedging Activities



Deferral of the Effective Date of Financial Accounting Standards Board (FASB) Statement 133, and will now be effective for fiscal years beginning after June 15, 2000. SFAS 133 will therefore be effective for the Company in the year 2001. The adoption of this pronouncement is not expected to have a material effect on the Company's consolidated financial statements.

## **Table of Contents**

In June, 2000, the FASB issued Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, which amends SFAS 133 and is to be adopted concurrently with SFAS 133. The new statement addresses a limited number of issues causing implementation difficulties for a large number of entities getting ready to apply SFAS 133. The adoption of this pronouncement is not expected to have a material effect on the Company's consolidated financial statements.

## **Impact of the Euro Conversion**

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

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

## **Results of Operations**

Historically, the Company has primarily provided financial printing and other related services. Revenues related to transactional financial printing services are affected by the cyclical nature of the capital markets. Over the past few years the Company has expanded its service offerings.

The Company decided to focus its business on empowering information to become a global market leader in this field by combining superior customer service with appropriate new technologies to manage, repurpose and distribute a client's information to any audience, through any medium, in any language, anywhere in the world. The Company is investing in building its resources outside the United States to enable it to provide worldwide information empowerment solutions to its global clients. While the Company is expanding and integrating these services inside and outside the United States, the newer information solution operations are anticipated to operate at a loss. We expect to continue to invest outside the United States as the Company builds the information solution offerings.

Management evaluates the performance of its operating segments separately to monitor the different factors affecting financial results. In addition to measures of operating performance determined in accordance with generally accepted accounting principles, management also uses EBITDA and EBITA to evaluate performance. EBITDA is defined as earnings before interest, income taxes, depreciation and amortization expense. EBITA is defined as earnings before interest, income taxes and amortization expense. Other income and expense and one-time charges are components of EBITDA and EBITA that are generally not used by management to monitor the operating results of a segment. EBITDA and EBITA are measured because management believes that such information is useful in

evaluating the results of certain segments relative to other entities which operate within these industries and to its affiliated segments. EBITDA and EBITA are alternatives to and not a replacement measure of operating performance as determined in accordance with generally accepted accounting principles.

Consistent with its focus on expanding various service offerings to clients and empowering information, the Company made a number of acquisitions in 1998 in the outsourcing, globalization and Internet consulting and development business segments. These acquisitions, along with the resources allocated to integrate these services, had an impact on the results of operations during 2000 and 1999. Revenues (as a percentage of the total Company's revenues) relating to the financial printing segment represent 76% in 2000, compared to 77% and 82% in 1999 and 1998, respectively.

## **Table of Contents**

### **Year ended December 31, 2000 compared to Year ended December 31, 1999**

#### **Financial Printing**

Sales increased \$60,626, or 8% for the year ended December 31, 2000. The largest class of service in this segment, transactional financial, grew 4% or \$15,982 to \$441,330 in 2000 sales. During the first six months of the year, this service experienced revenue growth of 22% over the same period in the prior year. Most of the growth is attributed to the robust domestic capital markets during the first four months of the year. Conversely, during the second half of the year this service offering decreased 9% compared to the same period in the prior year. We believe this is consistent with the overall contraction in the market. The international capital markets sustained growth over the entire year and is the primary reason that our international (overseas) revenues, which grew at a 25% rate, grew at a faster rate than our overall revenue growth rate for the segment. We believe that our share of the international transactional financial printing market has grown.

The domestic capital market has experienced a significant reduction in the number of transactions being successfully completed. In particular, the market for initial public offerings has severely constricted. While we continue to maintain our share of this market, the reduced activity has impacted our revenues particularly in the last six months of 2000. While the market may not necessarily return to its previous level, we don't believe this decline is permanent; however it is expected to continue into 2001. The resources that the Company commits to the transactional financial market are significant and management continues to balance our resources with these market conditions. During the fourth quarter, the Company responded to the lower levels of activity in the capital markets by reducing its staffing and other operating expenses. A restructuring charge of \$2,106 was incurred to implement this program.

Mutual fund services and digital printing sales increased by \$27,508 over the prior year as these groups grew 19% over 1999 for a 2000 total of \$173,484. These services continue to be the fastest growing service offerings in the financial printing segment. These services are important because they provide a more stable volume of work than transactional financial and we expect these services to be less cyclical. Most of the work performed for clients in these markets is driven by long term partnerships and supported by contract. While the market for mutual fund printing is relatively stable and mature, the market for our digital services is growing significantly. In the mutual fund market, we continue to build our share of the business while in the digital market, the Company is participating in a growing market.

Commercial printing revenues increased by \$19,529 or 31% over the prior year as a result of the Company's efforts to maintain pressroom utilization.

Gross margin contributed by this segment increased by \$10,614 while the margin percentage slid two percentage points to 43%. The margins in the transactional financial service were negatively impacted by inconsistent resource utilization due to the volatility of the capital markets. In particular, our utilization declined as the domestic capital markets experienced a significant slowdown during the second half of the year. In addition, the faster growing services of mutual fund and digital printing contributed at a lower marginal rate. The gross margin percentage of mutual fund services remained consistent while digital printing gross margin percentage improved as a result of higher utilization of its productive capacity.

Selling and administrative expenses increased \$11,876, or 5%, to \$242,988; however, as a percent of sales, these expenses decreased by approximately one percentage point to 29%. The increase was primarily due to costs directly related to increased sales, such as selling expenses (including commissions) and certain variable administrative expenses. Administrative expenses that are not tied to sales volume decreased as a result of our cost containment programs implemented throughout the second half of the year.

EBITDA before the restructuring charge of \$2,106 decreased \$1,262 to \$120,450 as a result of the foregoing.

### **Outsourcing**

Sales increased \$31,793, or 20% for the year ended December 31, 2000. A number of significant new clients were contracted with during 2000. We continue to increase our share of our target market, the

### **Table of Contents**

professional services industry, including law firms, investment banks and consulting firms. Within existing customers, we benefited from increased volumes in unit-driven services.

Gross margin from this segment increased \$3,583 while the margin percentage decreased by approximately two percentage points to 19%. The decrease in margin percentage is attributed in part to contract renewals at lower margin levels due to competitive pricing pressure during the latter part of 1999.

Selling and administrative expenses increased \$2,229 or 9%, but as a percent of sales actually decreased one percentage point, from 16% of sales in 1999 to 15% of sales in 2000. Administrative expenses grew during 2000 as we focused on developing our product offerings in higher value services such as desktop publishing, litigation support and information technology services. This investment is expensed as incurred but is expected to result in overall higher margins as the Company successfully markets these services to both new and existing customers.

EBITDA increased \$1,354 to \$8,969 as a result of the foregoing.

### **Globalization**

Sales increased by \$10,043, or 17% from 1999. Our globalization segment provides two primary services, software localization and web site content management. Our revenue growth in this market was consistent throughout the year except in the first quarter due to two factors: this is typically a seasonally slow quarter, and a large project was delayed by a customer. The content management service focuses on customers who require an ongoing localization of new content for their web-site. The globalization market appears to be growing significantly, and the Company is successfully winning a share of this growth.

Gross margin increased 35% or \$5,248 to \$20,251, while the margin percentage increased by three percentage points from 1999 to 29%. This was achieved by the streamlining of certain processes, improving our resource utilization and focusing on our more profitable services and customer contracts.

Selling and administrative expenses increased \$2,343; however, as a percent of sales, these expenses decreased by approximately one percentage point to 32%.

As a result of the foregoing, the EBITDA loss for the segment decreased \$2,904 to a loss of \$1,508.

### **Internet Consulting and Development**

Sales increased by \$3,907, or 31% from 1999. In the first nine months of the year, this segment experienced revenue growth of \$3,799 or 39%. The rapid growth of demand for Internet consulting slowed during the third quarter as customers became more deliberate with their spending and the sales cycle lengthened. This slowdown continued throughout the fourth quarter of 2000.

Gross margin was \$2,227, an increase of \$1,028 from the prior year, while gross margin percentage increased by approximately four percentage points from 10% in the prior year to 14% in 2000.

Selling and administrative expenses increased by \$8,712 to \$23,841. The increase in expense is related to our investment in production management systems, integration and repositioning costs related to our restructuring of this unit, and costs related to the increase in sales.

The EBITDA loss before restructuring and impairment charges of \$17,094 increased by \$7,684 to \$21,614 in 2000 primarily as a result of the increase in selling and administrative expenses.

In response to decreased activity in this market, management determined that a reduction in its staffing and related office closings were required. In addition, the carrying value of its intangible assets was deemed impaired. As outlined below, the Company incurred an impairment charge related to its goodwill.

### **Other, including Restructuring and Impairment Charges**

In the fourth quarter of 2000, the Company recorded \$19,200 in pre-tax restructuring and goodwill impairment charges in connection with the Company's plans to align its cost structure with customer demand,

### **Table of Contents**

as well as combining the operations of the content business unit of the globalization segment with those of the Internet consulting and development segment. The charges included an impairment charge of \$13,660 to goodwill and other intangibles of the Internet consulting and development segment recorded in connection with certain of the Company's acquisitions, based on an evaluation of the recoverability of carrying amounts. During this quarter, conditions were identified by the Company which necessitated this impairment assessment for these assets. Among these conditions, the significant deterioration of the market value of our publicly traded competitors is noted. The estimated fair value of these assets was evaluated using the market value method. The remaining carrying value of the intangible assets of the Internet segment is approximately \$10 million. Management will continue to evaluate and monitor this carrying value as this business is repositioned with the globalization segment, as previously discussed.

The restructuring charges totaled \$5,540 with the Internet segment recognizing \$3,434 and the financial printing segment recognizing \$2,106. The restructuring included a reduction in workforce of approximately 100 employees in the Internet consulting and development business and approximately 200 in the financial print group. The restructuring also included the closing of two of Immersant's offices, including write-downs of property and equipment. These reductions in fixed and variable costs are expected to lead to cost savings in excess of \$20 million in 2001.

### **Summary**

As a result of the foregoing, overall sales increased by 10% to \$1,113,536, an increase of \$102,746. Most of the increase was related to the financial printing and outsourcing segments. The increase in sales contributed to a \$20,473 growth in gross margin. However, the gross margin percentage decreased by two percentage points to 38%, primarily as a result of our lower margins in the financial print and outsourcing segments.

Selling and administrative expenses increased \$25,161 to \$316,298. The increase was due to costs related to increased sales. As a percentage of total sales, these expenses were reduced by one percentage point to 28%.

Depreciation and amortization expense increased \$2,802, or approximately 5%, principally resulting from the expansion of facilities, the acquisition of equipment and additional investments in technology.

There were \$19,200 in restructuring and impairment charges in 2000, as previously explained.

Operating income was \$31,818 for 2000, compared with \$58,508 in 1999, a decrease of \$26,690 primarily related to the restructuring and impairment charges.

Interest expense increased by \$972, a 15% increase, resulting primarily from higher interest rates in the current year.

Other expense (net) was \$1,531, as compared to other income (net) of \$1,010 in the prior year primarily due to an accrual in connection with a matter in litigation.

The effective overall income tax rate increased from 48% to 70% because the Company incurred a non-deductible goodwill impairment charge and the other permanent differences remained constant while growing as a percentage of the decreased pre-tax income from 1999 to 2000.

As a result of the foregoing, net income was \$7,008 compared to \$27,813 for the same period last year, a decrease of \$20,805.

### **Year ended December 31, 1999 compared to Year ended December 31, 1998**

#### **Financial Printing**

Sales increased \$84,718, or 12% for the year ended December 31, 1999. The largest class of service in this segment, transactional financial, grew 21% or \$73,095 to \$425,348 in 1999 sales. Mutual fund services and digital printing sales increased by \$32,180 over the prior year as these groups grew 28% over 1998 for a 1999 total of \$145,976. Corporate reporting revenues grew at a slower rate than the segment as a whole, and commercial printing revenues decreased.

## **Table of Contents**

Gross margin contributed by this segment increased by \$23,309 while the margin percentage slid two percentage points to 45%. The margins in the transactional financial service remained constant while the faster growing services of mutual fund and digital contributed at a lower marginal rate. The gross margin of mutual fund services grew in proportion to its growth in sales. Digital printing gross margin was negatively impacted by increases in costs as its productive capacity was expanded to meet growing customer demand.

Selling and administrative expenses increased \$38,772, or 20%, to \$231,112. The increase was primarily due to costs directly related to increased sales, such as selling expenses including commissions and certain administrative expenses. Administrative expenses also increased as a result of our Year 2000 program, marketing campaign, training, research and development and staffing increases.

The digital printing unit experienced an increase in selling and administrative expenses due to its growth in sales and the expenses related to the establishment of its production facility. Prior to October 1999, the Company relied on vendors to complete the production of documents.

EBITDA decreased \$15,463 to \$121,712 as a result of the foregoing.

### **Outsourcing**

Sales increased \$78,209, or 95%. This was primarily the result of having the full year impact of the DESI acquisition in 1999. The DESI acquisition was completed on July 1, 1998. Sales increased 22% in the second half of 1999 compared with the second half of 1998.

Gross margin from this segment increased \$16,822 while the margin percentage increased by one percentage point to 21%. The increase in gross margin is attributed to the increase in sales.

Selling and administrative expenses increased \$2,689 or 12%, but as a percent of sales actually decreased 12 percentage points, from 28% of sales in 1998 to 16% of sales in 1999. This is a result of the better leveraging of certain selling and administrative expenses by integrating the DESI acquisition with the Company's own outsourcing business.

This segment achieved positive EBITDA of \$7,615 in 1999, an increase of \$14,133 over the prior year's EBITDA loss.

### **Globalization**

Sales increased by \$3,300, or 6% from 1998. Management focused on improving gross margin during 1999; therefore the increase in revenue was smaller than prior periods.

Gross margin increased 33% or \$3,738 to \$15,003, while the margin percentage increased by over five percentage points from 1998 to 26%. This was achieved by the streamlining of certain processes and focusing on our more profitable services.

Selling and administrative expenses decreased \$2,968 and decreased seven percentage points as a percent of sales. This is mainly due to staffing reductions.

As a result of the foregoing, the EBITDA loss for the segment decreased \$6,706 to a loss of \$4,412.

### **Internet Consulting and Development**

Sales decreased by \$1,994, or 14% from 1998. Sales volume was affected as attention was taken away from sales and marketing and directed toward integration efforts and strengthening the senior management team.

Gross margin was \$1,199, a decrease of \$1,359 from the prior year, while gross margin percentage decreased by almost nine percentage points from 19% in the prior year to 10% in 1999.

Selling and administrative expenses increased by \$1,011, or seven percentage points over the prior year. The increase in expense is related to investment in network integration, training and fixed overhead costs.

## **Table of Contents**

Recruiting costs were also significant in comparison to the prior year as a result of staff turnover and putting senior management in place.

The EBITDA loss increased by \$2,371 to \$13,930 in 1999 primarily as a result of the decrease in gross margin and the increase in selling and administrative expenses.

### **Summary**

As a result of the foregoing, overall sales increased by 19% to \$1,010,790, an overall increase of \$163,224. Most of the increase was related to the financial printing and outsourcing segments. The overall increase in sales contributed to a \$42,510 growth in gross margin. However, the gross margin percentage on an overall basis went down by two percentage points to 40%, since a greater percentage of overall sales was related to lower margin products as explained above.

Selling and administrative expenses increased \$39,505 to \$291,137. The increase was due to costs related to increased sales and other increases explained above. As a percentage of total sales, these expenses were reduced by one percentage point to 29%.

Depreciation expense increased 20% to \$41,104, principally resulting from the expansion of facilities, depreciation related to the new businesses (primarily DESI), and the acquisition of equipment, including computer systems.

Amortization increased 51% to \$11,373, principally resulting from having the DESI acquisition included in results for the full year of 1999 and the full year impact of the shorter amortization period for the Globalization segment.

There was no purchased in-process research and development or other one-time charges in 1999 as compared to \$9,025 in 1998. The 1998 results included \$7,200 for purchased in-process research and development (primarily related to the DESI acquisition), and \$1,825 relating to the write-off of goodwill and certain assets related to Linguistix, Inc.

Operating income was \$58,508 for fiscal 1999, which was flat when compared to \$57,029 for fiscal 1998.

Interest expense increased by \$790, a 14% increase, primarily from borrowings under the revolving credit agreement to finance certain prior year acquisitions.

Other income decreased by \$1,868 due to decreased interest income and lower gains on the sales of marketable securities and other assets.

The effective overall income tax rate decreased from 50% to 48% because the Company did not have any research and development charges in 1999. The effective income tax rate on pre-tax income before charges for purchased in-process research and development and amortization of intangibles was 39% in each year.

As a result of the foregoing, net income was \$27,813 compared to \$27,127 for the same period last year, an increase of \$686.

**Item 7A: Market Risk Exposure**

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

**Table of Contents**

**Item 8. Financial Statements and Supplemental Data**

**INDEPENDENT AUDITORS' REPORT**

**The Board of Directors and Stockholders**

**Bowne & Co., Inc.:**

We have audited the accompanying consolidated balance sheets of Bowne & Co., Inc. and subsidiaries as of December 31, 2000, and 1999 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bowne & Co., Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

New York, New York  
February 14, 2001



**Table of Contents**

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

	Year Ended December 31,		
	2000	1999	1998
	(In thousands, except per share information)		
Net sales	\$1,113,536	\$1,010,790	\$847,566
Expenses:			
Cost of sales	690,941	608,668	487,954
Selling and administrative	316,298	291,137	251,632
Depreciation	43,754	41,104	34,375
Amortization	11,525	11,373	7,551
Restructuring and asset impairment charges	19,200		
Purchased in-process research and development and other charges	9,025		
	1,081,718	952,282	790,537
Operating income	31,818	58,508	57,029
Interest expense	(7,254)	(6,282)	(5,492)
Other (expense) income, net	(1,531)	1,010	2,878

Income before income taxes

23,033 53,236 54,415

Income taxes

16,025 25,423 27,288

Net income

\$7,008 \$27,813 \$27,127

**Net Income Per Share:**

Basic

\$ .20 \$.76 \$.74

Diluted

\$ .20 \$.74 \$.72

See Notes to Consolidated Financial Statements

**Table of Contents**

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

**CONSOLIDATED BALANCE SHEETS**

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
	(In thousands, except share information)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents		
\$30,302 \$30,458		
Marketable securities		
1,645 7,585		
Accounts receivable, less allowance for doubtful accounts of \$15,206 (2000) and \$13,547 (1999)		

Edgar Filing: BOWNE & CO INC - Form 10-K405

215,897	219,271
Inventories	
32,560	29,791
Prepaid expenses and other current assets	
34,104	22,334

---

---

Total current assets	
314,508	309,439
Property, plant and equipment at cost, less accumulated depreciation of \$222,936 (2000) and \$192,757 (1999)	
171,938	173,293

Other assets:

Goodwill and other intangible assets, net of accumulated amortization of \$34,140 (2000) and \$26,244 (1999)	
159,100	183,846
Deferred income taxes	
6,461	4,420
Other	
8,208	7,626

---

---

Total assets	
\$660,215	\$678,624

---

**Liabilities and Stockholders Equity**

Current liabilities:

Current portion of long-term debt and other short-term borrowings	
\$1,546	\$2,026
Accounts payable	
47,759	56,814
Employee compensation and benefits	
71,945	74,086
Accrued expenses and other obligations	
59,716	60,764

---

---

Total current liabilities

Edgar Filing: BOWNE & CO INC - Form 10-K405

180,966 193,690

Other liabilities:

Long-term debt net of current  
portion

85,676 47,281

Deferred employee compensation  
and benefits

40,019 34,460

---



---

Total liabilities

306,661 275,431

---



---

Commitments and contingencies

Stockholders' equity:

Preferred stock:

Authorized 2,000,000 shares, par  
value \$.01

Issuable in series none issued

Common stock:

Authorized 60,000,000 shares, par  
value \$.01

Issued 39,656,460 shares

(2000) and 39,606,810 shares

(1999)

397 396

Additional paid-in capital

41,172 40,294

Retained earnings

378,273 378,885

Treasury stock, at cost, 6,684,128

shares (2000) and 2,693,175

shares (1999)

(58,898) (16,347)

Accumulated other comprehensive

loss, net

(7,390) (35)

---



---

Total stockholders' equity

353,554 403,193

---



---

Total liabilities and stockholders  
equity  
\$660,215 \$678,624

---



---

See Notes to Consolidated Financial Statements

18

**Table of Contents**

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

**Year Ended December 31,**

2000	1999	1998
------	------	------

(In thousands)

**Cash flows from operating activities:**

Net income	\$7,008	\$27,813	\$27,127
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	43,754	41,104	34,375
Amortization	11,525	11,373	7,551
Asset impairment charges	13,660		
Provision for doubtful accounts	10,634	7,004	7,414
Loss on disposal of fixed assets	661	419	1,162
Gain on sales of securities and other investments	(104)	(417)	(1,592)
Provision for deferred employee compensation	6,643	6,256	3,997
Deferred income taxes	(2,041)	(1,613)	(2,709)
Other	1,112	(4,434)	4,189
Increase (decrease) in cash resulting from changes in:			
Accounts receivable	(7,260)	(37,805)	10,131
Inventories	(2,769)	802	6,048
Prepaid expenses and other current assets	(11,770)	10,475	(11,661)

Accounts payable	(9,055)	11,507	10,996
Employee compensation and benefits	(2,141)	14,483	11,103
Accrued expenses and other obligations	(3,205)	9,803	(6,215)

---



---



---

Net cash provided by operating activities	56,652	96,770	101,916
---	--------	--------	---------

---



---



---

**Cash flows from investing activities:**

Purchase of property, plant and equipment	(44,114)	(49,881)	(50,218)
Proceeds from the sale of fixed assets	1,127	867	678
Acquisition of businesses, including covenants not to compete, net of proceeds from sale of LANSystems division and cash acquired	(5,937)	(6,467)	(120,323)
Proceeds from sale of subsidiary	5,000		
Purchase of marketable securities and other investments	(1,000)	(1,412)	(3,275)
Proceeds from sales of marketable securities and other investments	115	680	6,748

---



---



---

Net cash used in investing activities	(44,809)	(56,213)	(166,390)
---------------------------------------	----------	----------	-----------

---



---



---

**Cash flows from financing activities:**

Proceeds from borrowings	223,166	118,951	162,844
Payment of debt	(185,185)	(145,222)	(109,870)
Proceeds from stock options exercised	414	484	2,682

Payment of dividends  
 (7,620) (8,113) (7,349)  
 Purchase of treasury stock  
 (42,774) (678)

---



---



---

Net cash (used in) provided by financing activities  
 (11,999) (33,900) 47,629

---



---



---

Net (decrease) increase in cash and cash equivalents  
 (156) 6,657 (16,845)  
 Cash and Cash Equivalents Beginning  
 30,458 23,801 40,646

---



---



---

**Cash and Cash Equivalents End**  
 \$30,302 \$30,458 \$23,801

See Notes to Consolidated Financial Statements

**Table of Contents**

**BOWNE & CO., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

**Year Ended December 31, 2000, 1999, and  
 1998**

---

**Additional Accumulated  
 Common Paid-In Retained Other Comprehensive Treasury**

Stock Capital Earnings Income Stock Total  
 (In thousands, except per share information)

**Balance January 1, 1998**

\$392 \$36,489 \$339,407 \$(1,734) \$(15,954) \$358,600

---



---



---



---



---



---

Comprehensive income:

Net income

27,127 27,127

Foreign currency translation adjustment

(996) (996)

Unrealized losses on securities:

Unrealized holding losses arising during the period

(129) (129)

Less: reclassification adjustment for gains included in net income

(1,592) (1,592)

Income tax expense related to items of other comprehensive income

730 730

---

Comprehensive income

25,140

---

Cash dividends (\$.20 per share)

(7,349) (7,349)

Issuance of stock for acquisitions

153 118 271

Acquisition of treasury stock

(678) (678)

Noncash stock compensation

153 153

Exercise of stock options

3 2,679 2,682

---



---



---



---



---



---



**Balance December 31, 1998**

395 39,474 359,185 (3,721) (16,514) 378,819

---



---



---



---



---



---



---

Comprehensive income:

Net income

27,813 27,813

Foreign currency translation adjustment

375 375

Unrealized gains on securities:

Unrealized holding gains arising during the period

6,784 6,784

Less: reclassification adjustment for gains included in net income

(417) (417)

Income tax expense related to items of other comprehensive income

(3,056) (3,056)

---

Comprehensive income

31,499

---

Cash dividends (\$.22 per share)

(8,113) (8,113)

Issuance of stock for acquisitions

149 406 555

Acquisition of treasury stock

(255) (255)

Noncash stock compensation

188 16 204

Exercise of stock options

1 483 484

---



---



---



---



---



---



---

**Balance December 31, 1999**

Edgar Filing: BOWNE & CO INC - Form 10-K405

396 40,294 378,885 (35) (16,347) 403,193

Comprehensive income:

Net income

7,008 7,008

Foreign currency translation adjustment

(4,311) (4,311)

Unrealized losses on securities:

Unrealized holding losses arising during the period

(5,751) (5,751)

Less: reclassification adjustment for gains included in net income

(104) (104)

Income tax benefit related to items of other comprehensive income

2,811 2,811

Comprehensive loss

(347)

Cash dividends (\$.22 per share)

(7,620) (7,620)

Acquisition of treasury stock

(42,774) (42,774)

Noncash stock compensation

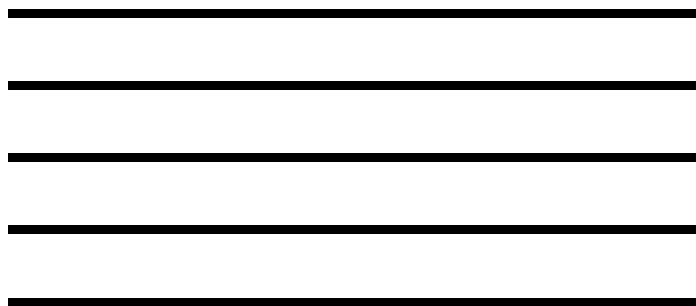
465 223 688

Exercise of stock options

1 413 414

**Balance December 31, 2000**

\$397 \$41,172 \$378,273 \$(7,390) \$(58,898) \$353,554



See Notes to Consolidated Financial Statements

---

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**(In thousands, except per share information and where noted)**

**Note 1 Summary of Accounting Policies**

A summary of the Company's significant accounting policies followed in the preparation of the accompanying financial statements is set forth below:

*Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its subsidiaries. All of the significant intercompany accounts and transactions are eliminated in consolidation.

*Revenue Recognition*

For substantially all services, revenues are recognized when products or services are delivered to customers or completed. Revenues for the Internet segment are recognized as services are rendered or as our fees are collected when there is uncertainty as to the customers' ability to pay.

*Inventories*

Inventories are valued at the lower of cost or market. Cost is determined by using purchase cost (first-in, first-out method) for materials and standard costs for labor, which approximate actual costs, for work-in-process.

*Property, Plant and Equipment*

Property, plant and equipment are carried at cost. Maintenance and repairs are expensed as incurred. Depreciation for financial statement purposes is provided on the straight-line method. The following table summarizes the

components of property, plant and equipment:

	December 31,	
	2000	1999
Land and buildings	\$78,767	\$77,256
Machinery and plant equipment		
85,494 85,751		
Computer equipment and software		
133,923 115,204		
Furniture, fixtures and vehicles		
41,426 40,236		
Leasehold improvements		
55,264 47,603		
<hr/>		
394,874 366,050		
Less accumulated depreciation		
(222,936) (192,757)		
<hr/>		
<hr/>		
Net		
\$171,938 \$173,293		
<hr/>		
<hr/>		

Estimated lives used in the calculation of depreciation for financial statement purposes are:

Buildings	10-40 years
Machinery and plant equipment	3-12 1/2 years
Computer equipment and software	1-5 years
Furniture and fixtures	3-12 1/2 years
Vehicles	3-5 years
Leasehold improvements	Shorter of useful life or term of lease

The Company follows American Institute of Certified Public Accountants (AICPA) Statement of Position ( SOP ) No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**BOWNE & CO., INC. AND SUBSIDIARIES (Continued)**

Internal Use. SOP No. 98-1 requires certain costs in connection with developing or obtaining internally used software to be capitalized that previously would have been expensed as incurred. Capitalized software totaled approximately \$13 million in both 2000 and 1999 and \$8 million in 1998 related to software development costs pertaining to improvements in the financial printing business typesetting, pricing, and billing systems, as well as the development of a workflow system for its localization business and the installation of a financial reporting system.

*Intangible Assets*

Intangible assets acquired in business combinations accounted for by the purchase method of accounting are capitalized and amortized over their expected useful life as a noncash charge against future results of operations.

The Company amortizes goodwill using the straight-line method over forty years for its printing acquisitions, thirty years for its outsourcing acquisitions, and twenty-five years for its globalization acquisitions. Through the end of 2000, fifteen years was used by the Company for its Internet solutions acquisitions; however, in connection with the Company's assessment of this business and goodwill, the amortization period was revised to five years. This revised period will be applied prospectively, and will result in an increase in goodwill amortization expense of approximately \$300 after giving effect to the goodwill impairment charge. Noncompete agreements are amortized over the life of the agreement, which is three to five years. The realizability of goodwill and other intangibles is evaluated periodically to determine the recoverability of carrying amounts. During the fourth quarter of 2000, the Company determined that goodwill at its Internet solutions segment was impaired and provided for an impairment charge of \$13,660 (see Note 16). The evaluation, based on various analyses including cash flow and profitability projections, addresses the impact on the existing Company business. The evaluation necessarily involves significant management judgment.

*Stock-Based Compensation*

The Company adopted SFAS No. 123, Accounting for Stock-Based Compensation, which permits entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method, as defined in SFAS No. 123, had been applied. The Company has elected to continue to apply provisions of APB Opinion No. 25 and provide the pro forma disclosure required by SFAS No. 123. See Note 8.

*Income Taxes*

The Company uses the liability method to account for income taxes. Under the liability method, deferred income taxes reflect tax carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates.

United States income tax has not been provided on the unremitted earnings of the Company's foreign operations since the Company intends to continue to reinvest its undistributed foreign earnings to expand its foreign operations. In addition, applicable foreign taxes have been provided and credits for foreign income taxes will be available to significantly reduce any U.S. tax liability if foreign earnings are remitted. At December 31, 2000, the cumulative amount of undistributed foreign earnings was approximately \$68 million.

*Net Income Per Share*

The Company applies FASB Statement 128 Earnings per Share. Net income is calculated for *basic* earnings per share based on the average number of shares outstanding and for *diluted* earnings per share as

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**BOWNE & CO., INC. AND SUBSIDIARIES (Continued)**

adjusted for the assumed conversion of all potentially dilutive securities. All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the Statement 128 requirements.

The following table sets forth the basic and diluted average share amounts, adjusted for the August, 1998 2-for-1 stock split:

	Year Ended December 31,		
	2000	1999	1998
Average shares outstanding basic shares	34,577,126	36,837,063	36,655,821
Potential dilutive effect of stock options and deferred stock units			
771,256 804,775 968,908			
<hr/>			
<hr/>			
<hr/>			
Average shares outstanding diluted shares			
35,348,382 37,641,838 37,624,729			
<hr/>			
<hr/>			
<hr/>			

*Foreign Currency Translation*

Financial statements of international subsidiaries are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and a weighted-average exchange rate for each period of revenues, expenses, gains and losses. Where the local currency is the functional currency, translation adjustments are recorded as a separate component of stockholders' equity and comprehensive income. Where the U.S. dollar is the functional currency, translation adjustments are recorded in income.

*Fair Value of Financial Instruments*

The Company defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximates the fair value because of the short maturity of those instruments. The carrying amounts of notes payable (see Note 10) approximates the fair value since these debt instruments have variable interest rates similar to those that are currently available to the Company.

#### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results can differ from those estimates.

#### *Comprehensive Income*

The Company applies FASB Statement No. 130, Reporting Comprehensive Income. This statement establishes standards for the reporting and display of comprehensive income, requiring its components to be reported in a financial statement that is displayed with the same prominence as other financial statements.

#### *Segment Information*

The Company applies FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information, which requires the Company to report information about its operating segments according to the management approach for determining reportable segments. This approach is based on the way management organizes segments within a company for making operating decisions and assessing performance. FAS No. 131 also establishes standards for supplemental disclosure about products and services, geographical areas and major customers. Segment results have been reported for the years presented and are described in Note 15.

### **Table of Contents**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **BOWNE & CO., INC. AND SUBSIDIARIES (Continued)**

#### *Recent Accounting Pronouncements*

Statement of Financial Accounting Standards No. 133 ( SFAS 133 ), Accounting for Derivative Instruments and Hedging Activities, was issued in June 1998. SFAS 133 standardized the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, by requiring recognition of those instruments as assets and liabilities and to measure them at fair value. SFAS 133 was subsequently amended by Statement of Financial Accounting Standards No. 137 ( SFAS 137 ), Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of FASB Statement 133 , and will now be effective for fiscal years beginning after June 15, 2000. SFAS 133 will therefore be effective for the Company in the year 2001. The adoption of this pronouncement is not expected to have a material effect on the Company's consolidated financial statements.

In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities , which amends SFAS 133 and is to be adopted concurrently with SFAS 133. The new statement addresses a limited number of issues causing implementation difficulties for a

large number of entities getting ready to apply SFAS 133. The adoption of this pronouncement is not expected to have a material effect on the Company's consolidated financial statements.

In December, 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, Revenue Recognition in Financial Statements, which provides guidance related to revenue recognition based on interpretations and practices followed by the SEC. SAB 101, as amended by SAB101A and SAB101B, was effective for the Company's fourth quarter of 2000. It requires companies to report any changes in revenue recognition as a cumulative change in accounting principles at the time of implementation in accordance with Accounting Principles Board Opinion 20, Accounting Changes. The Company has adopted SAB101 effective for the fourth quarter of 2000 and it has not had a material impact on the Company's consolidated financial position or results of operations, nor did it result in the Company reporting a change in accounting principles from its application.

On March 31, 2000 the FASB issued interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation an interpretation of APB Opinion No. 25 (FIN 44). FIN 44 generally applies prospectively to new awards, exchanges of awards in a business combination, modifications to outstanding awards, and changes in grantee status that occur on or after July 1, 2000, except for the provision related to repricings and the definition of an employee which apply to awards issued after December 15, 1998. To the extent that events covered by FIN 44 occur after the applicable date but prior to July 1, 2000, the effects of applying FIN 44 shall be recognized on a prospective basis. Accordingly, no adjustments were to be made upon initial application of Fin 44 to financial statements for periods prior to July 1, 2000. Effective July 1, 2000, the Company adopted FIN 44 and it has not had a material impact on the Company's consolidated financial position or results of operations.

## **Note 2 Acquisitions**

The Company made certain acquisitions, as follows:

During the first quarter of 1998, the Company acquired 80% of Quadravision Communications Limited and 100% of Sitewerks, Inc. (Internet segment). The total purchase price of these two companies, including related acquisition costs, approximated \$13,300, of which goodwill and other intangible assets were approximately \$11,400. In addition, the Company and the selling shareholders entered into noncompete agreements totaling \$6,000. During the second quarter of 1999, the Company recorded approximately \$3,000 as goodwill in connection with the purchase of the remaining 20% of Quadravision.

---

## **Table of Contents**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **BOWNE & CO., INC. AND SUBSIDIARIES (Continued)**

During the second and third quarters of 1998, the Company acquired several globalization companies. The total purchase price of these companies, including related acquisition costs, approximated \$4,546, of which goodwill and other intangible assets were approximately \$3,200.

Also during the second quarter of 1998, the Company acquired 86.5% of Mountain Lake Software Corporation and the assets of Open Sesame, formerly a division of Charles River Analytics, Inc., now part of the Company's Internet segment. The total purchase price for these two companies, including related acquisition costs, approximated \$12,900. Goodwill and other intangible assets, including noncompete agreements were approximately \$12,800. The noncompete agreements are paid in equal annual installments over a period of three to five years. The remaining



13.5% of Mountain Lake Software Corporation was acquired during 2000 for \$1,269.

In July 1998, the Company acquired all of the outstanding shares of Donnelley Enterprise Solutions Incorporated (DESI), pursuant to a tender offer price of \$21 per share, aggregating to \$105 million. This acquisition added to the Company's outsourcing segment. Goodwill and other intangible assets were approximately \$95 million. DESI provides a comprehensive array of business outsourcing services, including document services, desktop publishing, and imaging services. The cost of this, and some of the other acquisitions, was financed through borrowings under the Company's revolving credit agreement. DESI's operations included the LANSystems division, which the Company sold in August 1998.

The following unaudited pro forma summary presents the consolidated results of operations of the Company as if the acquisition of DESI and the sale of LANSystems had occurred at the beginning of 1998 and does not purport to be indicative of what would have occurred had the acquisition been made as of that date:

	<b>Year Ended December 31, 1998</b>
	<hr/>
Total net sales	\$893,660
Net income	
\$18,324	
Net income per common share Basic	
\$ .50	
	Diluted
\$ .49	

During 1999, the Company acquired KAPA International, a Korean based company, for approximately \$1,200 to enhance the Company's global solutions services.

During 2000, the Company acquired Record Technologies, Inc. (RTI), a document imaging, database and consulting company that provides litigation imaging for leading law firms. It was acquired for approximately \$2.5 million and became part of the outsourcing segment. Goodwill was recorded in an amount approximately equal to the purchase price.

All of the acquisitions were accounted for using the purchase method of accounting and the results from these operations were included in the statements of income and cash flows after the date of acquisition. The Company recorded \$7,200 in 1998 of purchased in-process research and development as an operating expense. These amounts were recorded in connection with the DESI and QuadraVision 1998 acquisitions.

Some of the Company's acquisitions provide for additional purchase payouts based on achieving certain earnings levels, which amounts will be included as goodwill in the period earned.

### **Note 3 Sale of a Subsidiary**

During the first quarter of 2000, the Company sold the net assets of one of its divisions in the Internet segment for approximately \$5 million. The proceeds approximated the net book value of the assets, comprised primarily of goodwill and other intangible assets.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****BOWNE & CO., INC. AND SUBSIDIARIES (Continued)****Note 4 Cash and Cash Equivalents**

Cash equivalents of \$168 and \$4,483 at December 31, 2000 and 1999, respectively, are carried at cost, which approximates market, and include certificates of deposit and money market accounts, substantially all of which have maturities of three months or less when purchased.

**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. The fair value of marketable securities exceeded cost by \$707 and \$6,563, at December 31, 2000 and 1999, respectively. Most of this reduction in unrealized gain came as a result of the Company's investment in EDGAR On-Line, whose market value at December 31, 2000 was lower than at December 31, 1999.

**Note 6 Inventories**

Inventories consist of the following:

	<b>December 31,</b>	
	<b>2000</b>	<b>1999</b>
Raw materials	\$8,966	\$8,065
Work-in-process		
23,594 21,726		
<hr/>		
\$32,560 \$29,791		
<hr/>		
<hr/>		

**Note 7 Employee Benefit Plans***Pension Plans*

The Company sponsors a defined benefit pension plan which covers most of its United States employees not covered by union agreements. Benefits are based upon salary and years of service under the projected unit benefit method. The Company's policy is to fund each year's pension expense to the maximum allowable level. The Company also has an unfunded supplemental retirement program for certain management employees. 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 Canadian employees are covered by defined contribution retirement plans.

Pension costs, including the Supplementary Employee Retirement Plan, are summarized as follows:

	Year Ended December 31,		
	2000	1999	1998
Service cost	\$6,478	\$6,425	\$5,413
Interest cost			
5,712 4,462 3,759			
Expected return on plan assets			
(6,497) (5,330) (4,534)			
Amortization of transition asset			
(220) (220) (220)			
Amortization of prior service cost			
1,032 466 370			
Actuarial gain			
(1,395) (272) (401)			
<hr/>			
<hr/>			
<hr/>			
Net periodic pension cost of defined benefit plans			
5,110 5,531 4,387			
Union plans			
580 476 642			
Defined contribution retirement plans			
1,167 1,084 932			
<hr/>			
<hr/>			
<hr/>			
Total pension cost			
\$6,857 \$7,091 \$5,961			
<hr/>			
<hr/>			
<hr/>			

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**BOWNE & CO., INC. AND SUBSIDIARIES (Continued)**

The status of the Company's funded defined benefit pension plan is as follows:

Edgar Filing: BOWNE & CO INC - Form 10-K405

	December 31,	
	2000	1999
Projected benefit obligation at beginning of year	\$56,616	\$55,178
Service cost		
5,992 5,888		
Interest cost		
4,266 3,514		
Actuarial gain		
(488) (4,752)		
Benefits paid		
(6,473) (3,212)		
<hr/>		
Projected benefit obligation at end of year		
59,913 56,616		
<hr/>		
Fair value of plan assets at beginning of year		
69,628 57,328		
Actual return on plan assets		
5,021 15,367		
Employer contributions		
145		
Benefits paid		
(6,473) (3,212)		
<hr/>		
Fair value of plan assets at end of year		
68,176 69,628		
<hr/>		
Plan assets in excess of projected benefit obligation		
8,263 13,012		
Unrecognized net transition asset		
(2,843) (3,164)		
Unrecognized prior service cost		
451 497		
Unrecognized net actuarial gain		
(22,113) (24,543)		
<hr/>		
Net accrued pension cost		
\$16,242 \$14,198		
<hr/>		

At December 31, 2000 and 1999, the projected net liability under the unfunded supplemental retirement program amounted to \$8,968 and \$7,401, respectively, which amounts are included in current and long-term liabilities for employee compensation and benefits. The plan contains covenants which prohibit retired participants from engaging in competition with the Company.

The discount rate used to calculate the projected benefit obligations was 7.75% for the years ended December 31, 2000 and 1999. The rate used to project future salary increases was 4.5% for the years ended December 31, 2000 and 1999. The expected long-term rate of return on plan assets was 9.5% for the years ended December 31, 2000 and 1999. The assets of the funded plan consist primarily of equity and fixed income securities.

#### *Defined Contribution Plans*

The Company and its domestic financial printing subsidiaries are participating in a qualified profit sharing plan covering most employees of those subsidiaries who are not covered by union agreements. Amounts charged to income for the Profit Sharing Plan were \$6,511, \$9,154, and \$9,596 for the years ended December 31, 2000, 1999 and 1998, respectively.

The remaining domestic subsidiaries participate in a qualified 401(k) Plan that is available to substantially all their non-union employees. Amounts charged to income for the 401(k) Plan were \$556, \$1,159, and \$559 for the years ended December 31, 2000, 1999 and 1998, respectively.

Under the Employees' Stock Purchase Plan, the Company and participating subsidiaries match 50% of amounts contributed (after-tax) by employees up to twelve hundred dollars per employee per year. All contributions are invested in the common stock of the Company. The plan acquired 464,800, 290,342, and 145,115 shares in the years ended December 31, 2000, 1999, and 1998 respectively, of the Company's common stock on the open market. At December 31, 2000 and 1999, the Stock Purchase Plan held 1,764,154 shares and 1,449,541 shares of the Company's common stock, respectively. Charges to income amounted to \$1,388, \$1,736 and \$1,433 for the years ended December 31, 2000, 1999, and 1998, respectively. The shares

---

#### **Table of Contents**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **BOWNE & CO., INC. AND SUBSIDIARIES (Continued)**

held by the plan are considered outstanding in computing the Company's basic earnings per share, and dividends paid to the plan are charged to retained earnings.

#### *Health Plan*

The Company maintains a voluntary employee benefit health and welfare plan (Plan) covering substantially all of its employees. Until mid-1999, the Company used a VEBA (Voluntary Employees' Beneficiary Association) trust to fund its medical and related costs. During 1998, the Company reviewed the trust's funded status and determined that it had over-estimated plan funding requirements by approximately \$4 million (after-tax). The Company recognized such amount as income in the fourth quarter of 1998. The trust was liquidated during 1999. The Company now funds the

disbursements as incurred. At December 31, 2000 and 1999, accrued expense for Plan participants incurred but not reported claims was \$5,020 and \$3,675, respectively.

**Note 8 Stock Option Plans**

The Company has five stock option plans: a 1981 Plan, a 1992 Plan, a 1997 Plan, a 1999 Plan, and a 2000 Plan.

The 1981 Plan, which provided for the granting of options to purchase 2,800,000 shares (post-split) of the Company's common stock, expired December 15, 1991 except as to options then outstanding. The Company's 1992 and 1997 Stock Option Plans both provide for the granting of options to purchase 1,700,000 shares (each plan post-split) to officers and key employees at a price not less than the fair market value on the date each option is granted. The Company's 1999 Incentive Compensation Plan provides for the granting of options to purchase 3,450,000 shares to officers, key employees, non-employee directors, and others who provide substantial services to the Company, also at a price not less than the fair market value on the date each option is granted. Of these 3,450,000 shares reserved under the 1999 Plan, 300,000 may be issued as awards other than options and stock appreciation rights (SARs). The Company's 2000 Incentive Compensation Plan provides for the granting of options to purchase 3,000,000 shares to officers, key employees, non-employee directors, and others who provide substantial services to the Company, also at a price not less than the fair market value on the date each option is granted. Of these 3,000,000 shares reserved under the 2000 Plan, 300,000 may be issued as awards other than options and SARs.

All plans except the 2000 Plan permit grants of either Incentive Stock Options or Nonqualified Options. Options become exercisable as determined at the date of grant by a committee of the Board of Directors. Options expire ten years after the date of grant unless an earlier expiration date is set at the time of grant. The 1997 Plan permits the issuance of SARs, limited stock appreciation rights (LSARs) and awards that are valued in whole or in part on the fair value of the shares. SARs, LSARs and awards may be paid in shares, cash or combinations thereof. The 1999 Plan allows for those awards previously mentioned under the 1997 Plan, as well as restricted stock, deferred stock, stock granted as a bonus, dividend equivalent, performance award or annual incentive award. The 2000 Plan permits the issuance of Nonqualified Options, SARs, LSARs, restricted stock, deferred stock, stock granted as a bonus, dividend equivalent, other stock-based award or performance award. The Committee designated by the Board governs most of the parameters of the 1999 and 2000 Plans including exercise dates, expiration dates, and other awards.

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**BOWNE & CO., INC. AND SUBSIDIARIES (Continued)**

Details of stock options are as follows:

	<u>Number of Shares</u>	<u>Weighted Average Option Price</u>
<b>Year Ended December 31, 1998</b>		
Granted		
820,000		\$16.11

Exercised  
 358,350 7.48  
 Cancelled  
 207,500 17.24  
 Outstanding, end of year  
 2,824,000 14.13  
 Exercisable, end of year  
 840,150 11.42  
**Year Ended December 31,  
 1999**

Granted  
 1,367,600 \$12.32  
 Exercised  
 59,950 8.07  
 Cancelled  
 165,000 15.77  
 Outstanding, end of year  
 3,966,650 13.54  
 Exercisable, end of year  
 1,455,100 12.93  
**Year Ended December 31,  
 2000**

Granted  
 1,107,450 \$8.93  
 Exercised  
 49,650 8.35  
 Cancelled  
 463,600 14.66  
 Outstanding, end of year  
 4,560,850 12.35  
 Exercisable, end of year  
 2,161,081 13.22

Options to purchase 4,793,200 shares were available for grant under the Plans at December 31, 2000.

The following table summarizes weighted average option exercise price information:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding December 31, 2000	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable December 31, 2000	Weighted Average Exercise Price
\$ 5.57 - 9.53	1,466,850	8 years	\$ 8.75	424,750	\$ 8.52
6 604,950 - 6 years 10.55 - 545,950					
9.54 - 11.1					
11.17 - 13.7					
5 1,143,500 - 9 years 12.24 - 287,781					
12.25 - 13.76					
13.76 - 18.2					
5 527,500 - 8 years 14.27 - 299,000					
14.19 - 18.26					
18.26 - 22.5					

0 818,050 7  
 years 19.07 603,600 18.91

---

4,560,850 8  
 years \$12.35 2,161,081 \$13.22

---



---

In accordance with APB Opinion No. 25 and related interpretations, no compensation cost has been recognized for the Company's stock option plans. Had compensation cost been based upon the fair value at the

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**BOWNE & CO., INC. AND SUBSIDIARIES (Continued)**

grant dates for all awards granted, the impact on net income and earnings per share during the years ended December 31, 2000, 1999 and 1998, would have been reduced on a pro forma basis as follows:

	<b>Year Ended December 31,</b>		
	<b>2000</b>	<b>1999</b>	<b>1998</b>
Net Income:			
As Reported			
\$7,008 \$27,813 \$27,127			
Pro Forma			
\$5,193 \$25,420 \$24,989			
Pro Forma Per Share:			
Basic			
\$.15 \$.69 \$.68			
Diluted			
\$.15 \$.68 \$.66			

In accordance with SFAS No. 123, the pro forma information excludes options granted prior to December 31, 1994. The grants issued during the year ended October 31, 1995 were issued on December 14, 1994. Since the compensation expense associated with the grants would have been recognized generally over a four year vesting period, the initial impact of applying Statement No. 123 on pro forma net income is not representative of the potential impact on pro forma net income in future years, when the pro forma effect would be fully reflected.

These pro forma amounts may not be representative of future disclosures 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:

	<u>2000 Grants</u>	<u>1999 Grants</u>	<u>1998 Grants</u>
Expected dividend yield	2.4%	1.8%	1.4%
Expected stock price volatility			
48.9% 51.5% 37.1%			
Risk-free interest rate			
5.3% 6.0% 4.7%			
Expected life of options			
5 years 5 years 5 years			
Weighted average fair value			
\$3.70 \$5.56 \$5.62			

*Subsidiaries Option Plans*

During 1999, the Company adopted the 1999 Stock Option Plans for Bowne Internet Solutions ( BIS Plan ) and BGS Companies, Inc. ( BGS Plan ), each of which is a wholly-owned subsidiary of the Company. The Plans provide for the granting of nonqualified stock options, incentive stock options and restricted stock units of the underlying subsidiary's stock to employees of the Company and its affiliates and advisors. Both Plans authorized the granting of three million options, which are to be granted at not less than the fair market value as of the date of grant and are for periods not to exceed ten years. During 2000, the Company adopted the 2000 Stock Option Plan for Bowne Internet Solutions. This Plan provides for the granting of incentive stock options and restricted stock units of Bowne Internet Solutions' stock to employees of the Company and its affiliates and advisors. This Plan authorized the granting of 2.6 million options, which are to be granted at not less than the fair market value as of the date of grant and are for periods not to exceed ten years.

The BGS Plan granted 1,684,400 stock options at an average exercise price of \$2.54 during 1999. No additional grants were made during 2000 from this Plan, and the options outstanding at December 31, 2000 under this Plan are 1,421,100. The 1999 BIS Plan granted 1,408,300 stock options at an average exercise price of \$2.67 during 1999. The 2000 BIS Plan granted 2,332,500 stock options at an average price of \$3.00 during 2000. The options outstanding under these two Plans at December 31, 2000 are 2,789,775. The options

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**BOWNE & CO., INC. AND SUBSIDIARIES (Continued)**

generally vest over a four-year period; however, no options will become exercisable prior to the earlier of an initial public offering of the respective subsidiary, or January 26, 2002. Under certain circumstances, certain vested shares become eligible to be put back to the Company and the Company will have the right to buy such shares from the holders at an amount no greater than the then fair market value. No compensation expense has been recognized in either 2000 or 1999.

*Deferred Stock Awards*

In October 1996, the Company initiated a program for certain key executives, and in 1997 for directors, that provided for the conversion of a portion of their cash bonuses or directors' fees into deferred stock units. These units are convertible into the Company's common stock on a one-for-one basis, generally at the time of retirement or earlier under certain specific circumstances, and are included as shares outstanding in computing the Company's diluted earnings per share. The Company currently satisfies these liabilities with the issuance of stock, however, the Company may elect to satisfy these obligations in cash. At December 31, 2000 and 1999, there were 647,348 and 426,527 units outstanding, respectively.

**Note 9 Income Taxes**

The provision for income taxes is summarized as follows:

	Year Ended December 31,		
	2000	1999	1998
<b>Current:</b>			
U.S. federal			
\$9,704	\$18,285	\$23,090	
Foreign			
7,476	7,238	4,422	
State and local			
886	1,513	2,485	
<hr/>			
<hr/>			
<hr/>			
18,066	27,036	29,997	
<hr/>			
<hr/>			
<b>Deferred:</b>			
U.S. federal			
(1,982)	(2,183)	(1,305)	
Foreign			
757	(1,115)		
State and local			
(59)	(187)	(289)	
<hr/>			
<hr/>			
<hr/>			
(2,041)	(1,613)	(2,709)	
<hr/>			
<hr/>			

---

\$16,025 \$25,423 \$27,288

---



---



---

Income taxes paid during the years ended December 31, 2000, 1999 and 1998 were \$24,148, \$14,032 and \$44,926, respectively.

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**BOWNE & CO., INC. AND SUBSIDIARIES (Continued)**

The provision for income taxes differed from the U.S. federal statutory rate for the following reasons:

	<b>Year Ended December 31,</b>		
	<b>2000</b>	<b>1999</b>	<b>1998</b>
Statutory tax rate	35.0%	35.0%	35.0%
Increase in tax resulting from:			
State and local taxes			
2.3 1.6 2.6			
Foreign taxes			
2.1 2.1 0.3			
Nondeductible items:			
Purchased in process research and development			
4.8			
Goodwill and other intangibles			
10.1 4.5 2.8			
Asset impairment charge			
13.7			
Other nondeductible items			
6.4 4.6 4.6			
Effective income tax rate			
69.6% 47.8% 50.1%			

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. Significant components of the Company's deferred tax assets and liabilities at December 31, 2000 and 1999 are as follows:

	<u>2000</u>	<u>1999</u>
Noncurrent deferred tax assets (liabilities):		
Deferred compensation and benefits	\$15,207	\$13,800
Depreciation	(8,510)	(7,600)
Deferred taxes on intangibles, other than goodwill	(5,200)	(5,200)
Other	5,864	4,320
Valuation allowance	(900)	(900)
	<hr/>	<hr/>
	<hr/>	<hr/>
Total net noncurrent asset	\$6,461	\$4,420
	<hr/>	<hr/>
	<hr/>	<hr/>

The Company has, as of December 31, 2000, approximately \$110 million of state and local net operating losses estimated to expire in years 2006 through 2020, and approximately \$14 million of foreign net operating losses, some of which do not expire, and none of which are estimated to expire before 2003.

**Note 10 Debt**

In July 1997, the Company entered into an unsecured five-year revolving credit agreement (expiring in July 2002) for \$200,000 with a consortium of banks. The maximum available credit under the agreement was increased to \$300,000 in November 1998. Under the credit agreement, interest is charged at London Interbank Offered Rate

(LIBOR) plus 25 to 50 basis points depending on certain leverage ratios plus ten basis points on the unused portion. During 2000, the average interest rate approximated 7%. The purpose of the revolving credit agreement is for general corporate purposes, including acquisitions. The Company was in compliance with all loan covenants as of December 31, 2000. Amounts outstanding under this agreement are

32

---

**Table of Contents**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**BOWNE & CO., INC. AND SUBSIDIARIES (Continued)**

classified as long-term debt and were \$85,000 at December 31, 2000 and \$45,000 at December 31, 1999. In addition, the Company had \$1,655 of capital leases and \$567 of notes payable at December 31, 2000.

Aggregate annual installments of both notes payable and long-term debt (other than the revolving credit agreement) due for the next five years are \$1,546, and \$676, respectively, with no amounts due in the third, fourth and fifth years.

Interest paid was \$7,816, \$6,114, and \$5,391 for the years ended December 31, 2000, 1999 and 1998, respectively.

**Note 11 Deferred Employee Compensation and Benefits**

Liabilities for deferred employee compensation and benefits consist of the following:

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
Pension and other retirement costs	\$ 16,242	\$ 14,198
Supplemental retirement, long-term		
7,594 6,992		
Deferred compensation and other long-term benefits		
16,183 13,270		
<hr/>		
<hr/>		
\$40,019 \$34,460		
<hr/>		
<hr/>		

Deferred compensation and other long-term benefits of \$16,183 includes the liability for the deferred stock units outstanding as described in Note 8.

**Note 12 Other Income**

The components of other (expense) income are summarized as follows:

	Year Ended December 31,		
	2000	1999	1998
Interest income	\$630	\$710	\$1,531
Realized (losses) gains on sales of marketable securities and other assets (557) (2) 1,789			
Other (expense) income, net (1,604) 302 (442)			
<hr/>			
<hr/>			
<hr/>			
	\$(1,531)	\$1,010	\$2,878
<hr/>			
<hr/>			
<hr/>			

**Note 13 Commitments and contingencies***Lease commitments*

The Company and its subsidiaries occupy premises and utilize equipment under leases which are classified as operating leases and expire at various dates to 2020. Many of the leases provide for payment of certain expenses and contain renewal and purchase options.

One operating lease is for equipment funded through a master agreement administered by a commercial bank. At the expiration of the lease (April 2003), the Company has the right to purchase the equipment for a guaranteed residual value. As of December 31, 2000, the rental payments were based on the cost of the equipment plus LIBOR plus 35 basis points. The equipment under this lease as of December 31, 2000 has an aggregate residual value of approximately \$8.3 million, all of which is included below in the future minimum lease payment amounts. Equipment with an aggregate residual value of approximately \$8.7 million was added to this lease in January, 2001, and is also included below in the future minimum lease payment amounts.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****BOWNE & CO., INC. AND SUBSIDIARIES (Continued)**

As of January 2001, the Company has borrowed the maximum under the agreement, leasing equipment with an aggregate initial cost of approximately \$22 million. Beginning in January 2001, rental payments are based upon a rate of LIBOR plus 150 basis points.

## Edgar Filing: BOWNE & CO INC - Form 10-K405

Rent expense relating to premises and equipment amounted to \$42,181, \$33,129, and \$22,893 for the years ended December 31, 2000, 1999 and 1998, respectively. The minimum annual rental commitments under noncancelable leases as of December 31, 2000, are summarized as follows:

2001
\$37,636
2002
34,182
2003
43,731
2004
18,302
2005
7,826
2006-2020
51,030
<hr/>
Total
\$192,707
<hr/>

### *Contingencies*

The Company is involved in certain litigation as part of its ordinary course of business and believes that the various asserted claims and litigation would not materially affect its financial position, operating results or cash flows.

### **Note 14 Stockholders Equity**

The Company adopted a Stockholder Rights Plan that granted a Right to each Stockholder of record on February 10, 1997 and all shares issued thereafter to purchase 1/1000th of a share of the Preferred Stock for each share of common stock owned when certain events occur. When the Company reincorporated in Delaware in 1998, a new Rights Agreement dated June 19, 1998 was adopted in place of the earlier plan. This plan is triggered when certain events that involve the acquisition, tender offer or exchange of 20% or more of the Common Stock by a person or group of persons, without the approval of the Company's Board of Directors, occur. Prior to the event, the Rights will be linked to the underlying shares of the Common stock and may not be transferred by themselves.

In 1998, the Board of Directors approved a 2-for-1 stock split to Shareholders of record as of the close of business on August 14, 1998. The shares were distributed on August 26, 1998. Share and per share amounts for prior periods have been adjusted to reflect the stock split.

In January, 2000 the Board of Directors authorized the expenditure of up to \$40 million to repurchase shares of the Company's common stock, representing approximately 10% of the total shares outstanding at that time. Subject to applicable securities law, such purchases occur at times and in amounts that the Company deems appropriate. The shares will be available for general corporate purposes including acquisitions, the employee stock purchase plan and stock option plans. In August, 2000 the Board of Directors authorized an extension of the Company's stock repurchase program to acquire up to an additional \$20 million of outstanding common stock. During 2000, the Company purchased approximately 4 million shares, at an average price of \$10.63.

### **Note 15 Segment Information**

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

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**BOWNE & CO., INC. AND SUBSIDIARIES (Continued)**

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

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

*Outsourcing* document management solutions primarily for the legal and financial communities.

*Globalization* translation, localization and content reengineering of software and technology products.

*Internet Consulting and Development* integrated Internet applications primarily for the financial services sector.

Information as to the operations of each business segment is set forth below. Performance is evaluated based on several factors, of which the primary financial measure is business segment earnings before interest, income taxes, depreciation and amortization of intangible assets ( EBITDA ). The Company also uses earnings before interest, income taxes and amortization expenses ( EBITA ), as a measure of performance; therefore, this information is also presented. The Company manages income taxes on a global basis. Segment performance is evaluated exclusive of the disposal of business units, purchased in-process research and development and other charges, and other income. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies.

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**BOWNE & CO., INC. AND SUBSIDIARIES (Continued)**

**Year Ended December 31**

	2000	1999	1998
--	------	------	------

**Net Sales From External Customers:**

Financial printing  
 \$843,278 \$782,652 \$697,934  
 Outsourcing



Edgar Filing: BOWNE & CO INC - Form 10-K405

192,731	160,938	82,729
Globalization		
69,068	59,025	55,725
Internet consulting & development		
16,346	12,439	14,433

---



---



---

1,121,423	1,015,054	850,821
Elimination of intersegment sales		
(7,887)	(4,264)	(3,255)

---



---



---

\$1,113,536	\$1,010,790	\$847,566
-------------	-------------	-----------

---



---



---

**EBITDA:**

Financial printing		
\$120,450	\$121,712	\$137,175
Outsourcing		
8,969	7,615	(6,518)
Globalization		
(1,508)	(4,412)	(11,118)
Internet consulting & development		
(21,614)	(13,930)	(11,559)
Other, including restructuring and impairment charges		
(20,731)	1,010	(6,147)

---



---



---

\$85,566	\$111,995	\$101,833
----------	-----------	-----------

---



---



---

**Depreciation expense:**

Financial printing		
\$32,483	\$30,112	\$27,337
Outsourcing		
6,265	6,330	3,502
Globalization		

Edgar Filing: BOWNE & CO INC - Form 10-K405

3,472 3,129 2,704  
 Internet consulting & development  
 1,534 1,533 832

---



---



---

\$43,754 \$41,104 \$34,375

---



---



---

**EBITA:**

Financial printing  
 \$87,967 \$91,600 \$109,838  
 Outsourcing  
 2,704 1,285 (10,020)  
 Globalization  
 (4,980) (7,541) (13,822)  
 Internet consulting & development  
 (23,148) (15,463) (12,391)  
 Other, including restructuring and impairment charges  
 (20,731) 1,010 (6,147)

---



---



---

41,812 70,891 67,458  
 Amortization expense  
 (11,525) (11,373) (7,551)  
 Interest expense  
 (7,254) (6,282) (5,492)

---



---



---

Income before income taxes  
 \$23,033 \$53,236 \$54,415

---



---



---

**Intersegment sales:**

Financial printing  
 \$588 \$727 \$292  
 Outsourcing

2,524 2,094 1,367  
 Globalization  
 173 266 359  
 Internet consulting & development  
 4,602 1,177 1,237

---



---



---

\$7,887 \$4,264 \$3,255

---



---



---

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**BOWNE & CO., INC. AND SUBSIDIARIES (Continued)**

	Year Ended December 31		
	2000	1999	1998
<b>Assets:</b>			
Financial printing			
\$420,274 \$429,543 \$379,979			
Outsourcing			
147,629 143,646 146,486			
Globalization			
72,958 68,040 75,587			
Internet consulting & development			
19,354 37,395 40,246			

---



---



---

\$660,215 \$678,624 \$642,298

---



---



---

**Capital Spending:**

Financial printing  
 \$33,780 \$41,080 \$38,299  
 Outsourcing  
 4,649 3,474 4,041  
 Globalization  
 2,983 2,816 5,971  
 Internet consulting & development  
 2,702 2,511 1,907

---



---



---

\$44,114 \$49,881 \$50,218

---



---



---

Geographic information about the Company's net sales, which is principally based on the location of the selling organization, and long-lived assets, is presented below:

	Year Ended December 31,		
	2000	1999	1998
<b>Net sales by source:</b>			
United States	\$879,977	\$809,753	\$681,402
Canada	71,456	70,055	69,813
Other foreign, primarily Europe	162,103	130,982	96,351
	\$1,113,536	\$1,010,790	\$847,566

**Long-Lived Assets, net:**

United States  
 \$287,055 \$314,284 \$306,390  
 Canada  
 10,065 12,052 11,873  
 Other foreign, primarily Europe  
 46,562 42,850 47,971

---



---



---

\$343,682 \$369,186 \$366,234

---



---



---

**Note 16 Restructuring and Asset Impairment Charges**

In the fourth quarter of 2000, the Company recorded \$19,200 in pre-tax restructuring and asset impairment charges in connection with the Company's plans to align its cost structure with customer demand, as well as combining the operations of the content business unit of the globalization segment with those of the Internet consulting and development segment. The charges included a restructuring charge of \$5,540 and an impairment charge of \$13,660 related to the goodwill of the Internet consulting and development segment. The impairment charge was based on an evaluation of the recoverability of carrying amounts. The restructuring included a reduction in workforce of approximately 100 employees in the Internet consulting and development business, and approximately 200 in the financial print group. The restructuring also included the closing of two of Immersant's offices, including write-downs of property and equipment.

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**BOWNE & CO., INC. AND SUBSIDIARIES (Continued)**

Pre-tax restructuring charges include a write-down of property and equipment of \$2,007. The remaining \$3,533 in expense is summarized below:

	<u>2000 Expense</u>	<u>Paid in 2000</u>	<u>December 31, 2000 Balance</u>
Severance and personnel-related costs	\$2,608	\$597	\$2,011
Occupancy costs			
770 8 762			
Other			
155 35 120			
<hr/>			
<hr/>			
<hr/>			
\$3,533 \$640 \$2,893			



Severance and personnel-related costs include severance and other benefits paid to terminated employees. The amounts include employees who received notice or had otherwise been identified prior to December 31, 2000. Occupancy costs represent facility exit costs associated with the closing of the Immersant offices. The remaining liability of \$2,893 is expected to be paid prior to June 30, 2001.

**Table of Contents**

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

**SUMMARY OF QUARTERLY DATA**

**(In thousands, except per share information)**

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Full Year</b>
	_____	_____	_____	_____	_____
<b>Year Ended December 31, 2000</b>					
Net sales	\$285,148	\$301,532	\$266,080	\$260,776	\$1,113,536
Gross margin	110,479	121,088	98,551	92,477	422,595
Income (loss) before income taxes	12,159	19,462	10,768	(19,356)	23,033
Income taxes (benefit)	5,898	8,733	5,249	(3,855)	16,025
<hr/>					
<hr/>					
<hr/>					
<hr/>					
<hr/>					
<hr/>					
Net income (loss)	\$6,261	\$10,729	\$5,519	\$(15,501)	\$7,008



---

---

Net income (loss) per share:

Basic

\$.17 \$.30 \$.16 \$(.47) \$.20

---

---

---

---

---

---

Diluted

\$.17 \$.30 \$.16 \$(.47) \$.20

---

---

---

---

---

---

Average shares outstanding:

Basic

36,462 35,255 33,626 33,088 34,577

---

---

---

---

---

---

Diluted

37,318 36,042 34,360 33,088 35,348

---

---

---

---

---

---



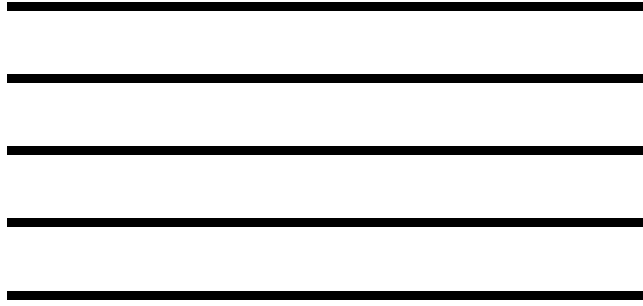
First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
------------------	-------------------	------------------	-------------------	--------------

**Year Ended December 31, 1999**

Net sales	\$218,647	\$272,509	\$240,350	\$279,284	\$1,010,790
Gross margin	83,525	116,353	96,559	105,685	402,122
Income before income taxes	4,588	23,054	11,636	13,958	53,236
Income taxes	2,849	9,887	5,992	6,695	25,423



Net income	\$1,739	\$13,167	\$5,644	\$7,263	\$27,813
------------	---------	----------	---------	---------	----------



Net income per share:

Basic	\$.05	\$.35	\$.15	\$.20	\$.76
-------	-------	-------	-------	-------	-------



Diluted	\$.05	\$.35	\$.15	\$.19	\$.74
---------	-------	-------	-------	-------	-------



---

---

---

---

---

Average shares outstanding:

Basic

36,778 36,834 36,863 36,867 36,837

---

---

---

---

Diluted

37,529 37,888 37,630 37,543 37,642

---

---

---

---

---

Net income (loss) per share amounts for each quarter are required to be computed independently, and may not equal the amount computed for the full year.

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

Not applicable.

---

**Table of Contents**

**PART III**

**Item 10. Directors and Executive Officers of the Registrant**

Regarding the directors of the Company, reference is made to the information set forth under the caption "Election of Directors" in the Company's definitive Proxy Statement anticipated to be dated March 30, 2001, which information is incorporated by reference herein.

The executive officers of the Company and their recent business experience are as follows:

Name	Principal Occupation During Past Five Years	Age
Robert M. Johnson	Chairman of the Board and Chief Executive Officer of the Company since June 1996; also, President from February 2000 through December 2000. Previously Vice Chairman, President and Chief Executive Officer of the Company from January 1996	55
Carl J. Crosetto President since January 2001; previously Executive Vice President since December 1998; previously Senior Vice President since May 1998; prior to that Director of Sales of the Company 52		
C. Cody Colquitt Senior Vice President and Chief Financial Officer since March 2001, Corporate Controller since February 1999; previously Vice President, Finance and Controller from September 1996 of Bowne of Dallas, L.P., a subsidiary of the Company; theretofore Controller for Sammons Communications, Inc. 39		
Susan W. Cummiskey Senior Vice President, Human Resources since December 1998; previously Vice President, Human Resources, from January 1998, and Director, Human Resources from February 1997; theretofore Vice President, Human Resources for the Chemical Group of Degussa Corporation 47		
Carl D. Glaeser Senior Vice President, since May 1999; also Chief Executive Officer of Immersant, Inc. and Bowne Global Solutions, Inc., subsidiaries of the Company; theretofore, Vice President and General Manager at Lucent Technologies 46		
Philip E. Kucera Senior Vice President and General Counsel since December 1998; previously Deputy General Counsel of The Times Mirror Company 58		
Joseph O. Miles Senior Vice President, Marketing since January 2001; previously Vice President, Corporate Marketing for The Bisys Group; previously Marketing Director for KPMG L.L.P.; theretofore Managing Director for Business Development for Dun & Bradstreet 50		
Judith Shapiro Senior Vice President and Chief Information Officer since July 1998; formerly a director of the Company from November 1997 until		

July 1998 and also Senior Vice President for Management Information Systems, Joseph E. Seagram & Sons, Inc. 54

Kenneth W. Swanson

Senior Vice President, Manufacturing since December 1998; also President of Bowne Business Communications, Inc. and Bowne of South Bend 44

**Table of Contents**

Name	Principal Occupation During Past Five Years	Age
Duncan P. Varty	Senior Vice President, Operations since December 1998; also President, Financial Print Operations since April 2000; previously President of Bowne of Cleveland, Inc.	56
Douglas F. Bauer Counsel and Corporate Secretary since 1986		58
William J. Coote Treasurer since December 1998; formerly Assistant Treasurer from January 1998; previously Manager, Financial Analysis		46

There are no family relationships among any of the executive officers, and there are no arrangements or understandings between any of the executive officers and any other person pursuant to which any of such officers was selected. The executive officers are normally elected by the Board of Directors at its first meeting following the Annual Meeting of Stockholders for a one-year term or until their respective successors are duly elected and qualify.

To the best of the Company's knowledge, none of the directors and officers of the Company failed to file on a timely basis any report on Forms 3, 4 and 5 which was required pursuant to Section 16(a) of the Securities Exchange Act of 1934 with respect to the Company's most recent fiscal year.

**Item 11. *Executive Compensation***

Reference is made to the information set forth under the caption "Executive Compensation" appearing in the Company's definitive Proxy Statement anticipated to be dated March 30, 2001, which information is incorporated herein by reference.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management***

Reference is made to the information contained under the captions "Principal Stockholders" and "Executive Compensation" in the Company's definitive Proxy Statement anticipated to be dated March 30, 2001, which information is incorporated herein by reference.

**Item 13. *Certain Relationships and Related Transactions***

Not applicable.

**Table of Contents**

**PART IV**

**Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K**

(a) *Documents filed as part of this Report:*

(1) Financial Statements:

	<b>Page Number In This Report</b>
Independent Auditors Report	16
Consolidated Statements of Income Years Ended December 31, 2000, 1999 and 1998	17
Consolidated Balance Sheets as of December 31, 2000 and 1999	18
Consolidated Statements of Cash Flows Years Ended December 31, 2000, 1999 and 1998	19
Consolidated Statements of Stockholders Equity Year Ended December 31, 2000, 1999 and 1998	20
Notes to Consolidated Financial Statements	21-38

(2) Financial Statement Schedule Years Ended December 31, 2000, 1999 and 1998

Schedule II Valuation and Qualifying Accounts	S-1
---	-----

All other schedules are omitted because they are not applicable.

(3) Exhibits:

3.1	Certificate of Incorporation (incorporated by reference to Exhibit 3 to the Company's current report on Form 8-K dated June 23, 1998)
3.2	Certificate of Designations (incorporated by reference to Exhibit 2 to the Company's current report on Form 8-K dated June 23, 1998)
3.5	By-Laws (incorporated by reference to Exhibit 4 to the Company's current report on Form 8-K dated June 23, 1998)
4.1	Rights Agreement dated June 19, 1998 (incorporated by reference to Exhibit 5 to the Company's current report on Form 8-K dated June 23, 1998)
10.1	Amended and Restated 1981 Stock Option Plan (incorporated by reference to the Company's definitive Proxy Statement dated January 30, 1985)
10.2	Amendment to 1981 Stock Option Plan (incorporated by reference to the Company's Post-Effective Amendment No. 1 on Form S-8 relating to the Company's Stock Option Plan dated April 16, 1987)
10.3	Amendment to 1981 Stock Option Plan (incorporated by reference to the Company's Post-Effective Amendment No. 2 on Form S-8 relating to the Company's Stock Option Plan dated October 19, 1988)

## Edgar Filing: BOWNE & CO INC - Form 10-K405

10.4	1992 Stock Option Plan (incorporated by reference to Exhibit A to the Company's definitive Proxy Statement dated February 10, 1992)
10.5	1997 Stock Incentive Plan (incorporated by reference to Exhibit A to the Company's definitive Proxy Statement dated February 6, 1997)
10.6	1999 Incentive Compensation Plan (incorporated by reference to Exhibit A to the Company's definitive proxy statement dated April 7, 1999)
10.7	Supplemental Executive Retirement Plan effective as of January 1, 1999 (incorporated by reference to Exhibit 10.7 to the Company's annual report on Form 10-K for the year ended December 31, 1999)
10.8	Form of Termination Protection Agreement for selected key employees providing for a possible change in ownership or control of the Company (incorporated by reference to Exhibit 10.8 to the Company's annual report on Form 10-K for the year ended October 31, 1995)
10.9	Revised Termination Protection Agreement as of August 23, 1995

42

---

### Table of Contents

10.10	Letter agreement dated January 29, 1996 between the Company and Robert M. Johnson relating to restricted stock and certain compensation and benefits matters (incorporated by reference to Exhibit 10.10 to the Company's annual report on Form 10-K/ A for the year ended December 31, 1997)
10.11	Amendment dated September 1, 1998 to the letter agreement in Exhibit 10.9 above (incorporated by reference to Exhibit 10.13 in the Company's annual report on Form 10-K for the year ended December 31, 1998)
21	Subsidiaries of the Company
23.1	Consent of KPMG LLP, Independent Auditors
23.2	Auditors' Report on Schedule, KPMG, LLP
24	Powers of Attorney
99	Master Agreement to Credit Agreement dated July 7, 1997 (incorporated by reference to the Company's annual report on Form 10-K/ A for the year ended December 31, 1997)
99.1	Amendment #1 to Master Agreement to Credit Agreement dated July 7, 1997 (incorporated by reference to Exhibit 99 in the Company's annual report on Form 10-K/ A for the year ended December 31, 1997)

(b) *No reports on Form 8-K were filed by the Company during the quarter ended December 31, 2000.*

43

---

### Table of Contents

## 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.

By: /s/ROBERT M. JOHNSON

---

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

Dated: March 26, 2001

Edgar Filing: BOWNE & CO INC - Form 10-K405

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
_____ /s/ ROBERT M. JOHNSON _____ (Robert M. Johnson)	Chairman of the Board and Chief Executive Officer and President (and Director)	March 26, 2001
_____ * _____ (Carl J. Crosetto)	President (and Director)	March 26, 2001
_____ /s/ C. CODY COLQUITT _____ (C. Cody Colquitt)	Senior Vice President and Chief Financial Officer (Principal Accounting Officer)	March 26, 2001
_____ * _____ (Douglas B. Fox)	Director	March 26, 2001
_____ * _____ (H. Marshall Schwarz)	Director	March 26, 2001
_____ * _____ (Wendell M. Smith)	Director	March 26, 2001
_____ * _____ (Lisa A. Stanley)	Director	March 26, 2001
_____ * _____ (Vincent Tese)	Director	March 26, 2001
_____ * _____ (Harry Wallaesa)	Director	March 26, 2001

44

**Table of Contents**

Signature	Title	Date
_____ * _____ (Richard R. West)	Director	March 26, 2001
_____ *By /s/ ROBERT M. JOHNSON _____	Attorney-in-Fact	

**Table of Contents****BOWNE & CO., INC. AND SUBSIDIARIES****SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

Column A	Column B	Column C	Column D	Column E
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions/ (Additions) (a)	Balance at End of Period
(in thousands)				

Allowance for doubtful accounts:

Year Ended December 31, 2000	\$13,547	\$10,634	\$8,975	\$15,206
Year Ended December 31, 1999	\$12,264	\$7,004	\$5,721	\$13,547
Year Ended December 31, 1998	\$12,441	\$7,414	\$7,591	\$12,264

(a) Uncollectible accounts written off, net of recoveries.

S-1

**Table of Contents****EXHIBIT INDEX**

Exhibit No.	Description
10.9	Revised Termination Protection Agreement as of August 23, 1995
21	Subsidiaries of the Company
23.1	Consent of KPMG LLP, Independent Auditors
23.2	Auditors Report on Schedule, KPMG, LLP
24	Powers of Attorney