

BOWNE & CO INC
Form 10-Q
August 08, 2005

Table of Contents

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

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

**For the quarterly period ended June 30, 2005
or**

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

For the transition period from to

**Commission File Number 1-5842
Bowne & Co., Inc.**

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

13-2618477
*(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)

Not Applicable
*(Former name, former address and former fiscal year,
if changed since last report)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

The Registrant had 34,088,963 shares of Common Stock outstanding as of July 29, 2005.

TABLE OF CONTENTS

**Form 10-Q
Item No.**

Page

PART I

<u>Item 1.</u>	<u>Financial Statements</u>	2
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	35
<u>Item 4.</u>	<u>Controls and Procedures</u>	36
<u>PART II</u>		
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	37
<u>Item 6.</u>	<u>Exhibits</u>	38
<u>EX-31.1: CERTIFICATION</u>		
<u>EX-31.2: CERTIFICATION</u>		
<u>EX-32.1: CERTIFICATION</u>		
<u>EX-32.2: CERTIFICATION</u>		

Table of Contents

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30,	
	2005	Restated 2004
	(Unaudited)	
	(In thousands, except per share amounts)	
Revenue	\$ 205,245	\$ 204,252
Expenses:		
Cost of revenue	(129,862)	(124,702)
Selling and administrative	(51,070)	(53,699)
Depreciation	(6,551)	(6,707)
Amortization	(235)	(165)
Gain on sale of building		896
Restructuring charges, integration costs and asset impairment charges	(1,532)	(641)
	(189,250)	(185,018)
Operating income	15,995	19,234
Interest expense	(1,308)	(2,701)
Other (expense) income, net	(200)	300
Income from continuing operations before income taxes	14,487	16,833
Income tax expense	(6,678)	(7,155)
Income from continuing operations	7,809	9,678
(Loss) income from discontinued operations, net of tax	(3,794)	1,510
Net income	\$ 4,015	\$ 11,188
Earnings per share from continuing operations:		
Basic	\$.22	\$.27
Diluted	\$.21	\$.25
(Loss) earnings per share from discontinued operations:		
Basic	\$ (.11)	\$.04
Diluted	\$ (.10)	\$.04
Total earnings per share:		
Basic	\$.11	\$.31
Diluted	\$.11	\$.29
Dividends per share	\$.055	\$.055

Table of Contents

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

	Six Months Ended June 30,	
	2005	Restated 2004
	(Unaudited)	
	(In thousands, except per share amounts)	
Revenue	\$ 373,226	\$ 382,336
Expenses:		
Cost of revenue	(237,284)	(230,651)
Selling and administrative	(95,546)	(106,115)
Depreciation	(13,133)	(13,598)
Amortization	(470)	(330)
Gain on sale of building		896
Restructuring charges, integration costs and asset impairment charges	(3,169)	(4,997)
	(349,602)	(354,795)
Operating income	23,624	27,541
Interest expense	(2,593)	(5,391)
Other income, net	1,162	695
Income from continuing operations before income taxes	22,193	22,845
Income tax expense	(10,160)	(9,961)
Income from continuing operations	12,033	12,884
(Loss) income from discontinued operations, net of tax	(4,100)	1,268
Net income	\$ 7,933	\$ 14,152
Earnings per share from continuing operations:		
Basic	\$.35	\$.36
Diluted	\$.34	\$.34
(Loss) earnings per share from discontinued operations:		
Basic	\$ (.12)	\$.04
Diluted	\$ (.11)	\$.03
Total earnings per share:		
Basic	\$.23	\$.40
Diluted	\$.23	\$.37
Dividends per share	\$.11	\$.11

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended June 30,	
	2005	Restated 2004
	(Unaudited) (In thousands)	
Net income	\$ 4,015	\$ 11,188
Foreign currency translation adjustment	(7,753)	(2,050)
Net unrealized losses arising from marketable securities during the period, after crediting taxes of \$12 and \$0 for 2005 and 2004, respectively	(19)	(1)
Comprehensive (loss) income	\$ (3,757)	\$ 9,137

	Six Months Ended June 30,	
	2005	Restated 2004
	(Unaudited) (In thousands)	
Net income	\$ 7,933	\$ 14,152
Foreign currency translation adjustment	(15,348)	(5,680)
Net unrealized (losses) gains arising from marketable securities during the period, after (crediting) deducting taxes of (\$12) and \$6 for 2005 and 2004, respectively	(18)	9
Comprehensive (loss) income	\$ (7,433)	\$ 8,481

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	June 30, 2005	December 31, 2004
(Unaudited)		
(In thousands, except share information)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,988	\$ 51,557
Marketable securities	91	20,371
Accounts receivable, less allowance for doubtful accounts of \$8,922 (2005) and \$9,879 (2004)	151,479	114,376
Inventories	33,590	20,559
Prepaid expenses and other current assets	26,078	28,941
Assets held for sale	233,000	79,822
Total current assets	472,226	315,626
Property, plant and equipment at cost, less accumulated depreciation of \$268,867 (2005) and \$269,174 (2004)	88,041	95,620
Other noncurrent assets:		
Goodwill, less accumulated amortization of \$9,939 (2005) and \$9,990 (2004)	38,449	38,649
Intangible assets, less accumulated amortization of \$1,914 (2005) and \$1,444 (2004)	14,558	15,028
Deferred income taxes	7,326	6,151
Other	13,883	16,968
Assets held for sale, non-current		166,567
Total assets	\$ 634,483	\$ 654,609
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt and other short-term borrowings	\$ 200	\$ 200
Accounts payable	33,233	32,208
Employee compensation and benefits	41,574	48,663
Accrued expenses and other obligations	31,208	39,441
Liabilities held for sale	39,621	37,093
Total current liabilities	145,836	157,605
Other liabilities:		
Long-term debt net of current portion	75,650	75,800
Deferred employee compensation and other	44,314	43,359
Liabilities held for sale, non-current		5,048

Total liabilities	265,800	281,812
Commitments and contingencies		
Stockholders' equity:		
Preferred stock:		
Authorized 1,000,000 shares, par value \$.01		
Issuable in series: none issued		
Common stock:		
Authorized 60,000,000 shares, par value \$.01		
Issued and outstanding 41,754,717 shares (2005) and 41,444,817 shares (2004)	417	414
Additional paid-in capital	79,450	75,368
Retained earnings	349,645	345,448
Treasury stock, at cost, 7,684,003 shares (2005) and 7,781,468 shares (2004)	(82,650)	(85,620)
Accumulated other comprehensive income, net	21,821	37,187
Total stockholders' equity	368,683	372,797
Total liabilities and stockholders' equity	\$ 634,483	\$ 654,609

See Notes to Condensed Consolidated Financial Statements

Table of Contents

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

	Six Months Ended June 30,	
	2005	Restated 2004
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Income from continuing operations	\$ 12,033	\$ 12,884
Adjustments to reconcile income from continuing operations to net cash used in operating activities:		
Depreciation	13,133	13,598
Amortization	470	330
Asset impairment charges	1,532	153
Gain on sale of building		(896)
Changes in other assets and liabilities, net of discontinued operations and certain non-cash transactions	(68,510)	(43,667)
Net cash used in operating activities	(41,342)	(17,598)
Cash flows from investing activities:		
Proceeds from the sale of marketable securities and fixed assets	20,495	71
Proceeds from the sale of building		6,731
Purchase of property, plant, and equipment	(7,529)	(6,873)
Net cash provided by (used in) investing activities	12,966	(71)
Cash flows from financing activities:		
Proceeds from borrowings	34,000	101,468
Payment of debt	(34,150)	(91,469)
Proceeds from stock options exercised	5,877	12,481
Payment of dividends	(3,736)	(3,797)
Net cash provided by financing activities	1,991	18,683
Net cash provided by (used in) discontinued operations	2,816	(7,432)
Net decrease in cash and cash equivalents	(23,569)	(6,418)
Cash and cash equivalents, beginning of period	51,557	10,738
Cash and cash equivalents, end of period	\$ 27,988	\$ 4,320
Supplemental cash flow information:		
Cash paid for interest from continuing operations	\$ 2,101	\$ 4,633

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

Cash paid for interest from discontinued operations	\$	27	\$	110
Net cash paid for income taxes from continuing operations	\$	8,159	\$	6,331
Net cash paid for income taxes from discontinued operations	\$	1,069	\$	2,624

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

BOWNE & CO., INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands, except share information and where noted)

Note 1. Basis of Presentation

The financial information as of June 30, 2005 and for the three and six month periods ended June 30, 2005 and 2004 has been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the consolidated financial position, results of operations and of cash flows for each period presented have been made on a consistent basis. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the Company's annual report on Form 10-K and consolidated financial statements for the year ended December 31, 2004. The Condensed Consolidated Financial Statements and Notes to the Condensed Consolidated Financial Statements have been presented to reflect the reclassification of the globalization business as assets and liabilities held for sale in the condensed consolidated balance sheets and as discontinued operations in the statements of operations for the three and six months ended June 30, 2005 and 2004, and statements of cash flows for the six months ended June 30, 2005 and 2004, and have also been presented to reflect the reclassification of the document outsourcing business as assets and liabilities held for sale in the condensed consolidated balance sheet for December 31, 2004 and as discontinued operations in the statements of operations for the three and six months ended June 30, 2004 and statement of cash flows for the six months ended June 30, 2004. Operating results for the three and six months ended June 30, 2005 may not be indicative of the results that may be expected for the full year.

Note 2. Reclassifications

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

Note 3. Restatement of 2004 Quarterly Financial Results

As previously disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2004, the Company's results for the three and six month periods ended June 30, 2004 have been restated to reflect the tax effect of corrections to intercompany adjustments related to foreign entities. While this restatement had no impact on results of operations for the full year in 2004, the impact on the 2004 second quarter and year-to-date was an increase in net income of \$427 (\$0.01 per share) and \$131 (\$0.00 per share), respectively. In addition, the 2004 results have been reclassified to exclude the discontinued globalization and outsourcing segments as discussed further in Note 4 to the Condensed Consolidated Financial Statements. A summary of the restated financial information for the three and six months ended June 30, 2004 is as follows:

Three Months Ended June 30, 2004	As Previously Reported	As Restated	As Reclassified to Reflect Discontinued Operations
Income from continuing operations before income taxes			\$ 16,833
Income tax expense			(7,155)
Income from continuing operations			9,678
Income before income taxes	\$ 19,124	\$ 19,124	
Income from discontinued operations, net of tax			1,510
Income tax expense	(8,363)	(7,936)	

Net income	\$ 10,761	\$ 11,188	\$ 11,188
------------	-----------	-----------	-----------

Table of Contents

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

Three Months Ended June 30, 2004	As Previously Reported	As Restated	As Reclassified to Reflect Discontinued Operations
Earnings per share from continuing operations:			
Basic	\$	\$	\$.27
Diluted	\$	\$	\$.25
Earnings per share from discontinued operations:			
Basic	\$	\$	\$.04
Diluted	\$	\$	\$.04
Total earnings per share:			
Basic	\$.30	\$.31	\$.31
Diluted	\$.28	\$.29	\$.29

Six Months Ended June 30, 2004	As Previously Reported	As Restated	As Reclassified to Reflect Discontinued Operations
Income from continuing operations before income taxes			\$ 22,845
Income tax expense			(9,961)
Net income from continuing operations			12,884
Income before income taxes	\$ 26,069	\$ 26,069	
Income from discontinued operations, net of tax			1,268
Income tax expense	(12,048)	(11,917)	
Net income	\$ 14,021	\$ 14,152	\$ 14,152
Earnings per share from continuing operations:			
Basic	\$	\$	\$.36
Diluted	\$	\$	\$.34
Earnings per share from discontinued operations:			

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

Basic	\$	\$	\$.04
Diluted	\$	\$	\$.03
Total earnings per share:				
Basic	\$.39	\$.40
Diluted	\$.37	\$.37

Diluted earnings per share for the three and six months ended June 30, 2004 has been restated from previously reported amounts to comply with the provisions of Emerging Issues Task Force (EITF) Issue No. 04-08 as discussed further in Note 9 to the Condensed Consolidated Financial Statements.

Table of Contents

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

Note 4. Assets Held for Sale and Discontinued Operations

On June 27, 2005, the Company entered into a definitive agreement to sell its globalization business, Bowne Global Solutions (BGS), to Lionbridge Technologies, Inc., (Lionbridge). In accordance with the sale agreement, the Company will receive total consideration with a value between \$180 million and \$198 million, consisting of \$130 million in cash, and 9.4 million shares of Lionbridge common stock. If the shares issued to the Company do not have a value of \$50 million at the time of closing, Lionbridge will issue a subordinated note to the Company of up to \$20 million to bring the value of the shares, together with the subordinated note, to \$50 million. If the shares have a value greater than \$68 million, the number of shares will be reduced so that the value is no greater than \$68 million. Upon consummation of the sale, the Company would be entitled to one seat on the Lionbridge Board of Directors. The Company anticipates that consummation of the sale will occur in the third quarter of 2005. Effective with the second quarter of 2005, this business is reflected as a discontinued operation in the condensed consolidated statement of operations. All prior period results have been reclassified to reflect this presentation. The assets and liabilities attributable to this business have been classified in the condensed consolidated balance sheets as assets and liabilities held for sale and consist of the following:

	June 30, 2005	December 31, 2004
Cash and marketable securities	\$ 13,620	\$ 9,671
Accounts receivable, net	65,276	62,804
Prepaid expenses and other assets	3,666	7,347
Property and equipment, net	18,444	20,401
Goodwill and intangible assets, net	131,994	144,074
Other non-current assets		2,092
Total assets held for sale	\$ 233,000	\$ 246,389
Long-term debt and other short-term borrowings	\$ 1,324	\$ 729
Accounts payable and accrued expenses	35,202	36,364
Deferred taxes and other	3,095	3,886
Long-term debt net of current portion		1,162
Total liabilities held for sale	\$ 39,621	\$ 42,141

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	Restated 2004	2005	Restated 2004
Revenue	\$ 65,222	\$ 57,442	\$ 124,139	\$ 112,085
Income (loss) before income tax expense	\$ 2,021	\$ 150	\$ 1,576	\$ (1,359)

Income tax (expense) benefit	(5,815)	188	(5,676)	8
Net (loss) income	\$ (3,794)	\$ 338	\$ (4,100)	\$ (1,351)

As a result of the Company's decision to sell BGS, the Company recognized a deferred tax liability and tax expense of approximately \$5.4 million in the second quarter of 2005 for basis differences which no longer meet the permanent reinvestment criteria of Accounting Principles Board Opinion No. 23, Accounting for Income Taxes Special Areas.

Table of Contents

BOWNE & CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On November 9, 2004 the Company sold its document outsourcing business, as described more fully in Note 3 to the Company's annual report on Form 10-K for the year ended December 31, 2004. The Company has recorded various liabilities related to the sale of the discontinued business in accrued expenses and other obligations in the accompanying Condensed Consolidated Balance Sheets. The amounts included in accrued expenses and other obligations is \$3,588 and \$7,654 as of June 30, 2005 and December 31, 2004, respectively. These amounts primarily relate to accrued employee compensation, which was paid in 2005, and sales tax liabilities associated with the discontinued business. The Condensed Consolidated Financial Statements and notes to the Condensed Consolidated Financial Statements have been presented to reflect the reclassification of the document outsourcing business as a discontinued operation.

The Company's discontinued Immersant operations had net liabilities (including accrued restructuring and discontinuance costs) of \$636 at June 30, 2005 and \$803 at December 31, 2004, which are included in accrued expenses and other obligations in the accompanying Condensed Consolidated Balance Sheets. These accruals consist primarily of the estimated remaining costs associated with leased facilities which were shut down. The payments on this accrual, net of expected payments from subleases, are expected to be made over the terms of the respective leases, the last of which expires in May 2008.

Note 5. Sale of Marketable Securities

During the fourth quarter of 2004, the Company purchased approximately \$20.3 million of auction rate securities, as described more fully in Note 6 of the Company's annual report on Form 10-K for the year ended December 31, 2004. During the first quarter of 2005, the Company sold all of its auction rate securities.

Note 6. Stock Repurchase Plans

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

During the fourth quarter of 2004, the Company's Board of Directors authorized an open market stock repurchase program to repurchase up to \$35 million of the Company's common stock. On July 29, 2005, the Company entered into a 10b5-1 trading plan with a broker to facilitate the purchases of shares under this program. Through December 2006, management is authorized to purchase shares from time to time at prevailing prices as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The program may be discontinued at any time. The Company has repurchased 127,600 shares under this plan through August 4, 2005.

Table of Contents

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

Note 7. Stock-Based Compensation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
		Restated		Restated
Income from continuing operations:				
As reported	\$ 7,809	\$ 9,678	\$ 12,033	\$ 12,884
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(312)	(535)	(612)	(1,079)
Pro forma income from continuing operations	\$ 7,497	\$ 9,143	\$ 11,421	\$ 11,805
As reported earnings per share from continuing operations:				
Basic	\$.22	\$.27	\$.35	\$.36
Diluted	\$.21	\$.25	\$.34	\$.34
Pro forma earnings per share from continuing operations:				
Basic	\$.21	\$.25	\$.33	\$.33
Diluted	\$.20	\$.24	\$.32	\$.32

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
		Restated		Restated
(Loss) income from discontinued operations:				
As reported	\$ (3,794)	\$ 1,510	\$ (4,100)	\$ 1,268
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(61)		(121)
Pro forma (loss) income from discontinued operations	\$ (3,794)	\$ 1,449	\$ (4,100)	\$ 1,147
As reported (loss) earnings per share from discontinued operations:				
Basic	\$ (.11)	\$.04	\$ (.12)	\$.04
Diluted	\$ (.10)	\$.04	\$ (.11)	\$.03
Pro forma (loss) earnings per share from discontinued operations:				
Basic	\$ (.11)	\$.04	\$ (.12)	\$.03
Diluted	\$ (.10)	\$.04	\$ (.11)	\$.03

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
		Restated		Restated
Net income:				
As reported	\$ 4,015	\$ 11,188	\$ 7,933	\$ 14,152
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(312)	(596)	(1,200)
Pro forma income	\$ 3,703	\$ 10,592	\$ 7,321	\$ 12,952
As reported earnings per share:				

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

Basic	\$.11	\$.31	\$.23	\$.40
Diluted	\$.11	\$.29	\$.23	\$.37
Pro forma earnings per share:				
Basic	\$.10	\$.29	\$.21	\$.36
Diluted	\$.10	\$.28	\$.21	\$.35

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005 Grants	2004 Grants	2005 Grants	2004 Grants
Stock Options from Continuing Operations				
Expected dividend yield	1.6%	1.3%	1.6%	1.3%
Expected stock price volatility	33.2%	31.4%	33.2%	31.4%
Risk-free interest rate	3.8%	2.8%	3.8%	2.8%
Expected life of options	5 years	3 years	5 years	3 years
Weighted-average fair value	\$3.71	\$3.52	\$3.71	\$3.52

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005 Grants	2004 Grants	2005 Grants	2004 Grants
Stock Options from Discontinued Operations				
Expected dividend yield		1.4%		1.4%
Expected stock price volatility		31.8%		31.8%
Risk-free interest rate		2.8%		2.8%
Expected life of options		3 years		3 years
Weighted-average fair value		\$3.30		\$3.30

The Company did not grant any options during the first three months of 2005 and 2004.

Note 8. Effect of Recent Accounting Pronouncements

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

In December 2004, the FASB issued SFAS 123 (revised 2004), Share-Based Payment (SFAS 123(R)) which replaces SFAS 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. Among other items, SFAS 123(R) eliminates the use of APB Opinion No. 25 and the intrinsic method of accounting, and requires all share-based payments, including grants of employee stock options, to be recognized in the financial statements based on their fair values. In April 2005, the Securities and Exchange Commission adopted a new rule deferring the effective date of SFAS 123(R) for public companies until the first

interim or annual reporting period of the first fiscal year that begins after June 15, 2005. In accordance with the new rule, the Company expects to adopt SFAS 123(R) in the first quarter of 2006 and will recognize compensation expense for all share-based payments and employee stock options based on the grant-date fair value of those awards. The Company is currently evaluating the impact of the statement on its financial statements. As the Company currently accounts for share-based payments using the intrinsic value method as allowed by APB Opinion No. 25, the

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

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

In December 2004, the FASB issued FASB Staff Position 109-2 (FSP FAS 109-2), Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 . The American Jobs Creation Act of 2004 introduces a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision), provided certain criteria are met. FSP FAS 109-2 gives a company additional time to evaluate the effects of the legislation on any plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109, Accounting for Income Taxes. The deduction is subject to a number of limitations, and uncertainty remains as to how to interpret numerous provisions in the Act. As such, the Company is not in a position to decide on whether, and to what extent, it might repatriate foreign earnings that have not yet been remitted to the U.S. based on its analysis to date. The Company therefore cannot reasonably estimate the income tax effect of such repatriation. The Company expects to be in a position to finalize its assessment by December 31, 2005.

Note 9. Earnings (Loss) Per Share

Shares used in the calculation of basic earnings per share are based on the weighted-average number of shares outstanding, and for diluted earnings per share after adjustment for the assumed exercise of all potentially dilutive stock options. Basic and diluted loss per share is calculated by dividing the net loss by the weighted-average number of shares outstanding during each period. The weighted-average diluted shares outstanding for the three months ended June 30, 2005 and 2004 excludes the dilutive effect of approximately 2,104,159 and 507,934 stock options, respectively, and the weighted-average diluted shares outstanding for the six months ended June 30, 2005 and 2004 excludes the dilutive effect of approximately 1,017,168 and 535,235 stock options, respectively, since such options have an exercise price in excess of the average market value of the Company's common stock during the respective periods. In accordance with Emerging Issues Task Force (EITF) Issue No. 04-08, the weighted-average diluted shares outstanding for the three and six months ended June 30, 2005 and 2004 includes the effect of approximately 4,058,445 shares that could be issued upon the conversion of the Company's convertible subordinated debentures under certain circumstances and the numerator used in the calculation of diluted earnings per share was increased by an amount equal to interest cost, net of tax, on the convertible subordinated debentures of approximately \$581 for the three months ended June 30, 2005 and 2004, and approximately \$1,163 for the six months ended June 30, 2005 and 2004, since the effect is dilutive to the earnings per share calculation for all periods.

	Three Months Ended June 30,	
	2005	2004
Basic shares	34,927,068	35,977,397
Diluted shares	39,303,953	41,261,287

	Six Months Ended June 30,	
	2005	2004

Basic shares	34,794,786	35,612,247
Diluted shares	39,342,416	40,926,346

Table of Contents

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

Note 10. Inventories

Inventories of \$33,590 at June 30, 2005 included raw materials of \$4,267, and work-in-process of \$29,323. At December 31, 2004, inventories of \$20,559 included raw materials of \$3,615 and work-in-process of \$16,944.

Note 11. Accrued Restructuring and Integration Charges

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

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

During the first and second quarters of 2005, the Company continued to implement further cost reductions. These restructuring charges included (i) the reduction of headcount in certain corporate management and administrative functions that will not be replaced, (ii) revisions to estimates of costs associated with leased facilities which were exited in prior periods, and (iii) the impairment of costs associated with the redesign of the Company's Intranet. These actions resulted in restructuring, integration and asset impairment charges totaling \$1,532 for the quarter ended June 30, 2005, and \$3,169 for the six months ended June 30, 2005.

The following information summarizes the costs incurred during the second quarter of 2005:

	Severance and Personnel- Related Costs	Occupancy Costs	Asset Impairments	Other	Total
Financial printing	\$ 13	\$ (15)	\$	\$ 2	\$
Corporate/ Other			1,532		1,532
Total	\$ 13	\$ (15)	\$ 1,532	\$ 2	\$ 1,532

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

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

	Severance and Personnel- Related Costs	Occupancy Costs	Other	Total
Balance at December 31, 2003	\$ 1,927	\$ 4,035	\$ 326	\$ 6,288
2004 Expenses	2,588	3,550	1,841	7,979
Paid in 2004	(3,406)	(2,358)	(2,140)	(7,904)
Balance at December 31, 2004	1,109	5,227	27	6,363
2005 Expenses	909	725	2	1,636
Paid in 2005	(1,056)	(891)	(29)	(1,976)
Balance at June 30, 2005	\$ 962	\$ 5,061	\$	\$ 6,023

The majority of the remaining accrued severance and personnel-related costs are expected to be paid by the end of 2005, and the Company expects to incur total restructuring and integration charges in the full year 2005 of approximately \$3 to \$8 million.

Note 12. Debt

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

	June 30, 2005	December 31, 2004
Convertible subordinated debentures	\$ 75,000	\$ 75,000
Senior revolving credit facility		
Other	850	1,000
	\$ 75,850	\$ 76,000

On May 11, 2005, the Company completed its new \$150 million five-year senior, unsecured revolving credit facility (the Facility) with a bank syndicate. The Facility replaced the \$115 million 3-year senior unsecured revolving credit facility that was scheduled to expire in July 2005. Interest on borrowings under the Facility is payable at rates that are based on the London InterBank Offered Rate (LIBOR) plus a premium that can range from 67.5 basis points to 137.5 basis points depending on the Company's ratio of Consolidated Total Indebtedness to Consolidated EBITDA (Leverage Ratio) for the period of four consecutive fiscal quarters of the Company. The Company also pays quarterly facility fees, regardless of borrowing activity under the Facility. The quarterly facility fees can range from 20 basis points to 37.5 basis points of the Facility amount, depending on the Company's Leverage Ratio. The Facility expires in May 2010. The Company had \$150 million of borrowings available under this revolving credit facility as of June 30,

2005.

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

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

Table of Contents

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

Note 13. Postretirement Benefits

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

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

	Pension Plan		SERP	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2005	2004	2005	2004
Service cost	\$ 1,651	\$ 1,518	\$ 96	\$ 168
Interest cost	1,696	1,684	351	409
Expected return on plan assets	(1,760)	(1,335)		
Amortization of transition (asset) liability	(80)	(80)	25	25
Amortization of prior service cost	80	80	378	337
Amortization of actuarial loss	118	280	218	152
Net periodic cost of defined benefit plans	1,705	2,147	1,068	1,091
Union plans	103	94		
Other retirement plans	380	354		
Total cost	\$ 2,188	\$ 2,595	\$ 1,068	\$ 1,091

	Pension Plan		SERP	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Service cost	\$ 3,302	\$ 3,036	\$ 192	\$ 336
Interest cost	3,392	3,368	702	818

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

Expected return on plan assets	(3,520)	(2,670)		
Amortization of transition (asset) liability	(160)	(160)	50	50
Amortization of prior service cost	160	160	756	674
Amortization of actuarial loss	236	560	436	304
Net periodic cost of defined benefit plans	3,410	4,294	2,136	2,182
Union plans	185	189		
Other retirement plans	794	741		
Total cost	\$ 4,389	\$ 5,224	\$ 2,136	\$ 2,182

The Company is not required to make any contributions to its pension plan in 2005.

Table of Contents

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

Note 14. Income Taxes

Income tax expense for the quarter ended June 30, 2005 was \$6,678 on pre-tax income from continuing operations of \$14,487 compared to income tax expense of \$7,155 on pre-tax income from continuing operations of \$16,833 for the quarter ended June 30, 2004. Income tax expense for the six months ended June 30, 2005 was \$10,160 on pre-tax income from continuing operations of \$22,193, compared to income tax expense for the same period in 2004 of \$9,961 on pre-tax income from continuing operations of \$22,845. The size of the non-deductible expenses are relatively unchanged from year to year, and the rate applied to U.S. taxable income was approximately 38% for all periods.

In October 2004, the American Jobs Creation Act of 2004 (the Act) was enacted. The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations, and uncertainty remains as how to interpret numerous provisions in the Act. As such, the Company is not in a position to decide on whether, and to what extent, it might repatriate foreign earnings that have not yet been remitted to the U.S. based on its analysis to date. The Company therefore cannot reasonably estimate the income tax effect of such repatriation. The Company expects to be in a position to finalize its assessment by December 31, 2005.

Note 15. Accumulated Other Comprehensive Income

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

	June 30, 2005	December 31, 2004
Foreign currency translation adjustment	\$ 24,729	\$ 40,077
Minimum pension liability adjustment (net of tax effect)	(2,870)	(2,870)
Unrealized losses on marketable securities (net of tax effect)	(38)	(20)
	\$ 21,821	\$ 37,187

Note 16. Segment Information

The Company is the world's largest financial printer. Bowne empowers clients' information by combining superior customer service with advanced technologies to manage, repurpose and distribute that information to any audience, through any medium, in any language, anywhere in the world. The Company is also a leader in providing litigation support services to law firms and corporate law departments.

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

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

Litigation Solutions consulting, electronic discovery and software solutions, including DecisionQuest®, one of the nation's largest trial research firms.

As discussed in Note 4 to the Condensed Consolidated Financial Statements, the Company announced plans to sell its globalization segment (BGS) to Lionbridge. The results from this business are not included in the segment results below. Segment information for the three months and six months ended June 30, 2004 has been reclassified to reflect this presentation.

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

Also discussed in Note 4 to the Condensed Consolidated Financial Statements, the Company sold its document outsourcing business in November of 2004. The results from this business are not included in the segment results presented below. The results for its litigation solutions business which historically has been presented in the outsourcing segment are now reflected as a separate reportable business segment. Segment information for the three months and six months ended June 30, 2004 has been reclassified to reflect this presentation.

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

	Three Months Ended June 30,	
	2005	2004
	Restated (In thousands) (Unaudited)	
Revenue from external customers:		
Financial print	\$ 197,628	\$ 194,501
Litigation solutions	7,617	9,751
	\$ 205,245	\$ 204,252
Segment profit:		
Financial print	\$ 28,967	\$ 31,279
Litigation solutions	829	526
Corporate/Other (see detail below)	(7,215)	(5,399)
	22,581	26,406
Depreciation expense	\$ (6,551)	\$ (6,707)
Amortization expense	(235)	(165)
Interest expense	(1,308)	(2,701)
Income from continuing operations before income taxes	\$ 14,487	\$ 16,833
Corporate/Other (by type):		
Shared corporate expenses	\$ (5,195)	\$ (5,754)
Other (expense) income, net	(488)	100
Gain on sale of building		896

Restructuring charges, integration costs and asset impairment charges	(1,532)	(641)
	\$ (7,215)	\$ (5,399)

Table of Contents

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

	Six Months Ended June 30,	
	2005	2004
	Restated (In thousands) (Unaudited)	
Revenue from external customers:		
Financial printing	\$ 357,552	\$ 364,024
Litigation solutions	15,674	18,312
	\$ 373,226	\$ 382,336
Segment profit:		
Financial printing	\$ 49,651	\$ 55,841
Litigation solutions	1,542	1,068
Corporate/Other (see detail below)	(12,804)	(14,745)
	38,389	42,164
Depreciation expense	\$ (13,133)	\$ (13,598)
Amortization expense	(470)	(330)
Interest expense	(2,593)	(5,391)
Income from continuing operations	\$ 22,193	\$ 22,845
Corporate/Other (by type):		
Shared corporate expenses	\$ (10,273)	\$ (10,813)
Other income, net	638	169
Gain on sale of building		896
Restructuring charges, integration costs and asset impairment charges	(3,169)	(4,997)
	\$ (12,804)	\$ (14,745)

Table of Contents

Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations (In thousands, except per share information and where noted)*

Cautionary Statement Concerning Forward Looking Statements

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

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

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

Actual results and trends in the future may differ materially from those suggested or implied by the forward-looking statements depending on a variety of factors including, but not limited to:

- general economic or capital market conditions affecting the demand for transactional financial printing or the Company's other services;

- competition based on pricing and other factors;

- fluctuations in the cost of paper, other raw materials and utilities;

- fluctuations in foreign currency rates;

- changes in air and ground delivery costs and postal rates and postal regulations;

- seasonal fluctuations in overall demand for the Company's services;

- changes in the printing market;

- the Company's ability to integrate the operations of acquisitions into its operations;

- the financial condition of the Company's clients;

- the Company's ability to continue to obtain improved operating efficiencies;

- the Company's ability to continue to develop services for its clients;

changes in the rules and regulations to which the Company is subject and the cost of complying with these rules and regulations, including environmental and health and welfare benefit regulations;

changes in the rules and regulations to which the Company's clients are subject, such as the Sarbanes-Oxley Act of 2002, which may result in decreased capital markets activity as issuers weigh enhanced liabilities against the benefits of conducting securities offerings;

Table of Contents

the effects of war or acts of terrorism affecting the overall business climate;

loss or retirement of key executives or employees; and

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

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

Overview

On June 27, 2005, the Company announced that it had entered into a definitive agreement to sell its globalization business, Bowne Global Solutions, to Lionbridge Technologies, Inc., a provider of globalization and testing services, for a total sale price with a value between \$180 million and \$198 million. The sale is expected to close during the third quarter of 2005. Effective with the second quarter of 2005, the globalization segment is reflected as a discontinued operation and all prior periods have been reclassified to reflect this presentation.

The Company's results of operations for the three and six months ended June 30, 2005 were impacted by the effects of the continuing slowdown in capital markets activity. For the quarter ended June 30, 2005, total revenue increased slightly to \$205.2 million, while segment profit declined 14% to \$22.6 million. For the six months ended June 30, 2005, total revenue declined 2% to \$373.2 million, while segment profit decreased 9% to \$38.4 million.

The results of the Company's two reporting segments are discussed below.

Financial Print. Revenue increased \$3.1 million, or 1.6%, to \$197.6 million and segment profit decreased \$2.3 million, or 7.4%, to \$29.0 million for the second quarter of 2005 as compared to the same period last year. For the first half of 2005, revenue decreased \$6.5 million, or 1.8%, to \$357.6 million and segment profit decreased \$6.2 million, or 11.1%, to \$49.7 million as compared to the same period in 2004. These results are primarily due to a 10% and 16% decrease in transactional revenue for the quarter and six months ended June 30, 2005 as compared to the same period in the prior year. Offsetting the decrease in transactional print business are increases in non-transactional revenue, which includes mutual fund and compliance revenue, for the quarter and six months ended June 30, 2005 as compared to 2004. The Company is cautious about the remainder of 2005 in Financial Print due to the continuing decline in overall transactional filings in 2005.

Litigation Solutions. Revenue decreased \$2.1 million and \$2.6 million for the three and six months ended June 30, 2005, respectively, as compared to the same periods in 2004. Segment profit increased \$0.3 million and \$0.5 million for the three and six months ended June 30, 2005, respectively, as compared to the same periods in 2004.

As discussed in Note 4 to the Condensed Consolidated Financial Statements, the Company sold its document outsourcing business in November of 2004. The results for the three and six months ended June 30, 2004 have been reclassified to reflect this business as a discontinued operation and the results for the litigation support services business which historically has been presented in the outsourcing segment are now presented as a separate reportable segment.

Items Affecting Comparability

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

Table of Contents

The following tables summarize the amounts incurred for restructuring, integration and asset impairment charges for each operating unit for the quarter and six months ended June 30, 2005 and 2004:

	Quarters Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Financial Print	\$	\$ 583	\$ 942	\$ 4,076
Litigation Solutions		28	11	28
Corporate/ Other	1,532	30	2,216	893
Total	\$ 1,532	\$ 641	\$ 3,169	\$ 4,997
After-tax impact	\$ 942	\$ 406	\$ 1,996	\$ 3,148
Per share impact	\$ 0.02	\$ 0.01	\$ 0.05	\$ 0.08

The charges taken in the three and six months ended June 30, 2005 reflect (i) the reduction of headcount in certain corporate management and administrative functions that will not be replaced, (ii) revisions to estimates of costs associated with leased facilities which were exited in prior periods, and (iii) the impairment of costs associated with the redesign of the Company's Intranet. Further discussion of the restructuring activities is included in the segment information which follows, as well as in Note 11 to the Condensed Consolidated Financial Statements.

The Company expects to incur total restructuring and integration charges for the full year 2005 of approximately \$3 to \$8 million.

In May 2004, the Company sold its financial print facility in Dominguez Hills, California for net proceeds of \$6,731, recognizing a gain on the sale of \$896 (\$551 after tax, or \$0.01 per share) during the quarter ended June 30, 2004.

Results of Operations

Management evaluates the performance of its operating segments separately to monitor the different factors affecting financial results. Each segment is subject to review and evaluation as management monitors current market conditions, market opportunities and available resources. The performance of each segment is discussed over the next few pages.

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

Table of Contents**Quarter Ended June 30, 2005 Compared to Quarter Ended June 30, 2004****Financial Print**

Financial Print Results:	Quarters Ended June 30,				Quarter Over Quarter	
	2005	% of Revenue	2004	% of Revenue	\$ Change	% Change
(Dollars in thousands)						
Revenue:						
Transactional financial printing	\$ 65,295	33%	\$ 72,217	37%	\$ (6,922)	(10)%
Compliance reporting	62,579	32	57,989	30	4,590	8
Mutual funds	45,797	23	42,945	22	2,852	7
Commercial	12,425	6	10,981	6	1,444	13
Other	11,532	6	10,369	5	1,163	11
Total revenue	197,628	100	194,501	100	3,127	2
Cost of revenue	(123,635)	(63)	(116,837)	(60)	(6,798)	6
Gross margin	73,993	37	77,664	40	(3,671)	(5)
Selling and administrative	(45,026)	(23)	(46,385)	(24)	1,359	(3)
Segment profit	\$ 28,967	14%	\$ 31,279	16%	(2,312)	(7)%
Other Items:						
Depreciation	\$ (6,080)	(3)%	\$ (6,028)	(3)%	\$ (52)	1%
Restructuring, integration and asset impairment charges			(583)	(0)	583	(100)
Gain on sale of building			896	0	(896)	(100)

Financial Print revenue increased 2% for the quarter ended June 30, 2005, with the largest class of service in this segment, transactional financial printing, down 10% as compared to 2004. This decline in revenue from transactional financial printing is consistent with the overall decline in capital market activity as measured by the number of Securities and Exchange Commission filings, which also declined year over year. Partially offsetting the decrease in transactional printing revenue was the increase in revenue generated from non-transactional printing services.

Revenue from the international markets increased 38% to approximately \$41,146 for the quarter ended June 30, 2005, as compared to \$29,709 for the quarter ended June 30, 2004. This increase is primarily due to increases in transactional and compliance revenue from Europe, Canada, and Asia. The increase is also partially due to the weakness in the U.S. dollar compared to foreign currencies. At constant exchange rates, revenue from international markets increased 32% for the quarter ended June 30, 2005 compared to 2004.

Compliance reporting revenue increased 8% compared to last year's second quarter due in part to the new Securities and Exchange Commission regulations and more extensive disclosure requirements. Mutual fund services revenue increased 7% and commercial revenue increased 13% for the quarter ended June 30, 2005, which is primarily due to the addition of several new clients and additional work from existing clients.

Other revenue increased 11% for the quarter ended June 30, 2005, compared to the same period in 2004. This increase resulted from increases in fulfillment services compared to last year's second quarter.

Gross margin of the financial print segment decreased by 5%, and the margin percentage decreased by approximately three percentage points to 37%. The decreased activity in transactional financial printing negatively impacts gross margins since, historically, transactional financial printing is our most profitable class of service. The growth in non-transactional work (mutual fund, commercial, other) also impacts gross margin percentage since this work is not as profitable as transactional work. Gross margins were also negatively impacted due to competitive pricing pressure.

Table of Contents

Selling and administrative expenses decreased 3%. This decrease is primarily due to reductions in incentive compensation expense and certain variable administrative expenses. As a percent of revenue, selling and administrative expenses decreased approximately one percentage point to 23% for the quarter ended June 30, 2005 as compared to the same period in the prior year.

The resources that the Company commits to the transactional financial printing market are significant and management continues to balance these resources with market conditions. In the second quarter of 2004, the Company incurred costs associated with the consolidation of certain administrative functions and the consolidation of the Company's fulfillment operations with its digital print facility totaling \$583. There were no restructuring and asset impairment charges related to the financial print segment in the second quarter of 2005.

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

Segment profit (as defined in Note 16 to the Condensed Consolidated Financial Statements) from this segment decreased 7% for the quarter ended June 30, 2005 compared to 2004. The decrease in segment profit is primarily a result of the decreased transactional print revenues in 2005. Segment profit as a percentage of revenue decreased approximately two percentage points from 2004 to 2005. Refer to Note 16 of the Condensed Consolidated Financial Statements for additional segment financial information and reconciliation of segment profit to income from continuing operations before income taxes.

Litigation Solutions

Litigation Solutions Results:	Quarters Ended June 30,				Quarter Over Quarter	
	2005	% of Revenue	2004	% of Revenue	\$ Change	% Change
(Dollars in thousands)						
Revenue	\$ 7,617	100%	\$ 9,751	100%	\$ (2,134)	(22)%
Cost of revenue	(6,227)	(82)	(7,834)	(80)	1,607	(21)
Gross margin	1,390	18	1,917	20	(527)	(27)
Selling and administrative	(850)	(11)	(1,591)	(17)	741	(47)
Other income	289	4	200	2	89	44
Segment profit	\$ 829	11%	\$ 526	5%	\$ 303	58%
Other Items:						
Depreciation	\$ (143)	(2)%	\$ (212)	(2)%	\$ 69	(33)%
Restructuring, integration and asset impairment charges			(28)	(0)	28	(100)

Revenue decreased 22% and gross margin decreased 27% for the quarter ended June 30, 2005 as compared to the same period in 2004. The gross margin percentage decreased two percentage points to approximately 18% for the quarter ended June 30, 2005. The decline in revenue and gross margin is due to a decrease in higher margin transactional consulting services revenue in 2005, partially offset by an increase in lower margin graphics services revenue. In addition, a large consulting project was completed in June 2004 and this revenue has not been replaced during 2005.

Selling and administrative expenses decreased 47%, while decreasing six percentage points as a percentage of revenue. The reduction in selling and administrative expenses is primarily due to lower headcount, as well as a reduction in rent expense and discretionary spending. Also contributing to the decrease in 2005 as compared to 2004 was a decrease in marketing expenses at DecisionQuest due to expenses incurred in 2004 related to a large marketing and promotional campaign. The decrease in selling and administrative expenses is also generally related to reductions in those expenses directly associated with sales, such as selling expenses (including commissions and bonuses), and certain variable administrative expenses.

Table of Contents

Other income increased 44% primarily related to the increase in income from the Company's equity share of income associated with the CaseSoft joint venture investment for the quarter ended June 30, 2005 as compared to 2004.

As a result of the foregoing, segment profit (as defined in Note 16 to the Condensed Consolidated Financial Statements) for this segment increased \$303 for the quarter ended June 30, 2005 compared to the same period in 2004. Segment profit as a percentage of revenue increased six percentage points to 11% for the quarter ended June 30, 2005. Refer to Note 16 of the Condensed Consolidated Financial Statements for additional segment financial information and reconciliation of segment profit to income from continuing operations before taxes.

Summary

Overall revenue increased slightly by \$993, to \$205,245 for the quarter ended June 30, 2005. The slight increase is attributed to the increase in financial printing, specifically non-transactional financial printing, and was offset by the decrease in revenue from the litigation solutions segment for the quarter ended June 30, 2005 as compared to 2004. There was a \$4,167, or 6%, decrease in gross margin, and the gross margin percentage decreased approximately two percentage points to 37%. This decrease in gross margin percentage was primarily attributable to the impact of lower transactional financial printing activity, which historically is the most profitable class of service within the financial print segment.

Selling and administrative expenses on a company-wide basis decreased by \$2,629, or 5%. This decrease is due to a combination of lower incentive compensation expense in the financial print segment, and lower labor costs, rent expense, marketing costs and discretionary spending in the litigations solutions segment, and the Company's continual effort to manage expenses. Shared corporate expenses were \$5,195 in the quarter ended June 30, 2005 compared to \$5,754 in the same period in 2004, a decrease of \$559, primarily due to a decreases in incentive compensation expense and recruiting fees in 2005 as compared to 2004. As a percentage of revenue, overall selling and administrative expenses decreased by approximately one percentage point, to 25% for the quarter ended June 30, 2005.

Depreciation decreased slightly by \$156 or 2%, primarily as a result of reduced capital expenditures in recent years.

There were \$1,532 in restructuring, integration, and asset impairment charges for the quarter ended June 30, 2005, as compared to \$641 in the quarter ended June 30, 2004, as discussed in Note 11 to the Condensed Consolidated Financial Statements.

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

Interest expense decreased \$1,393, a 52% decrease, primarily as a result of the early retirement of the Company's senior notes in December 2004, as described in the Company's annual report on Form 10-K for the year ended December 31, 2004. Interest expense related to these notes was approximately \$1.2 million for the quarter ended June 30, 2004. Also contributing to the decrease in interest expense was a decrease in the amortization of deferred financing costs for the quarter ended June 30, 2005 as compared to 2004, which is also related to the early retirement of the Company's senior notes, and less borrowings on the revolving credit facility during the quarter ended June 30, 2005.

Income tax expense for the quarter ended June 30, 2005 was \$6,678 on pre-tax income from continuing operations of \$14,487, compared to income tax expense in 2004 of \$7,155 on pre-tax income from continuing operations of \$16,833. The effective overall income tax rate was impacted by lower pre-tax income in 2005 as compared to higher pre-tax income in 2004. The size of the non-deductible expenses are relatively unchanged from year to year, and the rate applied to U.S. taxable income remained at approximately 38%.

Loss from discontinued operations, net of tax for the quarter ended June 30, 2005 was \$3,794 and consists of the results of the discontinued globalization business as compared to income from discontinued operations

Table of Contents

of \$1,510 for the quarter ended June 30, 2004, which includes the results of the discontinued globalization and outsourcing businesses. The 2005 results from discontinued operations include certain costs related to the sale of the globalization segment, including a \$5.4 million tax charge to record deferred income taxes related to basis differences which no longer meet the permanent reinvestment criteria of Accounting Principles Board Opinion No. 23.

As a result of the foregoing, net income for the quarter ended June 30, 2005 was \$4,015 as compared to \$11,188 for the same period of 2004.

Domestic Versus International Results of Operations

The Company has operations in the United States, Canada, Europe, Mexico, South America and Asia. Both of the Company's segments have operations in the United States. The Company's international operations are derived from its financial print segment. United States and foreign components of income from continuing operations before income taxes for the quarters ended June 30, 2005 and 2004 are as follows:

	Quarters Ended June 30,	
	2005	2004
United States	\$ 9,283	\$ 15,536
Foreign	5,204	1,297
Income from continuing operations before taxes	\$ 14,487	\$ 16,833

Foreign pre-tax income from continuing operations improved significantly in the quarter ended June 30, 2005, compared to the same period in 2004. This increase is primarily due to increases in transactional and compliance revenue from Europe, Canada and Asia. In addition, the foreign results for the quarter ended June 30, 2004 included approximately \$.4 million of restructuring charges, which were primarily related to changes in prior assumptions regarding the subleasing of a portion of the London financial print facility and headcount reductions at the Paris financial print facility. There were no restructuring charges included in the foreign results for the quarter ended June 30, 2005. The decrease in domestic pre-tax income from continuing operations is primarily due to the decrease in transactional print revenue within the financial print segment for the quarter ended June 30, 2005 as compared to 2004. The domestic results for the quarter ended June 30, 2005 included approximately \$1.5 million in restructuring charges, integration costs and asset impairment charges related to the impairment of costs associated with the redesign of the Company's Intranet. The domestic results for the quarter ended June 30, 2004 included approximately \$.2 million of restructuring charges consisting of the consolidation of certain administrative functions and the consolidation of the Company's fulfillment operations with its digital print facility within the financial print segment.

Table of Contents**Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004****Financial Print**

Financial Print Results:	Six Months Ended June 30,				Period Over Period	
	2005	% of Revenue	2004	% of Revenue	\$ Change	% Change
(Dollars in thousands)						
Revenue:						
Transactional financial printing	\$ 117,322	33%	\$ 138,943	38%	\$ (21,621)	(16)%
Compliance reporting	106,610	30	102,383	28	4,227	4
Mutual funds	84,138	24	78,486	22	5,652	7
Commercial	22,537	6	19,555	5	2,982	15
Other	26,945	7	24,657	7	2,288	9
Total revenue	357,552	100	364,024	100	(6,472)	(2)
Cost of revenue	(224,768)	(63)	(215,991)	(60)	(8,777)	4
Gross margin	132,784	37	148,033	40	(15,249)	(10)
Selling and administrative	(83,133)	(23)	(92,192)	(25)	9,059	(10)
Segment profit	\$ 49,651	14%	\$ 55,841	15%	(6,190)	(11)%
Other Items:						
Depreciation	\$ (12,136)	(3)%	\$ (12,307)	(3)%	\$ 171	(1)%
Restructuring, integration and asset impairment charges	(942)	(0)	(4,076)	(1)	3,134	(77)
Gain on sale of building			896	0	(896)	(100)

Financial Print revenue decreased 2% for the six months ended June 30, 2005, with the largest class of service in this segment, transactional financial printing, down 16% as compared to 2004. This decline in revenue from transactional financial printing is consistent with the overall decline in capital market activity as measured by the number of Securities and Exchange Commission filings, which also declined year over year. Partially offsetting the decrease in transactional printing revenue was the increase in revenue generated from non-transactional printing services.

Revenue from the international markets increased 26% to approximately \$64,498 for the six months ended June 30, 2005, as compared to \$51,122 for the six months ended June 30, 2004. This increase is primarily due to increases in transactional and compliance revenue from Europe, Canada and Asia. The increase is also partially due to the weakness in the U.S. dollar compared to foreign currencies. At constant exchange rates, revenue from international markets increased 19% for the six months ended June 30, 2005 compared to 2004.

Compliance reporting revenue increased 4% for the six months ended June 30, 2005 as compared to the prior year due in part to the new Securities and Exchange Commission regulations and more extensive disclosure requirements. Mutual fund services revenue increased 7% and commercial revenue increased 15% for the six months ended June 30, 2005, which is primarily due to the addition of several new clients and additional work from existing clients.

Other revenue increased 9% for the six months ended June 30, 2005, compared to the same period in 2004. This increase resulted primarily from increases in fulfillment services compared to the same period in 2004.

Gross margin of the financial print segment decreased by 10%, and the gross margin as a percentage of revenue decreased by approximately three percentage points to 37%. The decreased activity in transactional financial printing negatively impacts gross margins since, historically, transactional financial printing is our most profitable class of service. The growth in non-transactional work (mutual fund, commercial, other) also

Table of Contents

impacts gross margin percentage since this work is not as profitable as transactional work. Gross margins were also negatively impacted due to competitive pricing pressure.

Selling and administrative expenses decreased 10%. This decrease is primarily due to reductions in those expenses directly associated with sales, such as selling expenses (including commissions and bonuses) and certain variable administrative expenses. Also contributing to the decrease in selling and administrative costs was the collection of approximately \$2.0 million of amounts which had previously been written off to bad debt expense. As a percent of revenue, selling and administrative expenses decreased approximately two percentage points to 23% for the six months ended June 30, 2005 as compared to the same period in the prior year.

The resources that the Company commits to the transactional financial printing market are significant and management continues to balance these resources with market conditions. In the first half of 2005, the Company incurred additional restructuring charges within its financial print segment related to changes in the previous assumptions associated with the subleasing of a portion of the London financial print facility, and headcount reductions related to the continued consolidation of the Company's fulfillment operations with its digital print facility which began during 2004, as well as the reduction of certain administrative positions which will not be replaced. Total restructuring and asset impairment charges related to the financial print segment for the six months ended June 30, 2005 were \$942 compared to \$4,076 for the same period in 2004.

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

Segment profit (as defined in Note 16 to the Condensed Consolidated Financial Statements) from this segment decreased 11% for the six months ended June 30, 2005 compared to 2004. The decrease in segment profit is primarily a result of the decreased transactional print revenues in 2005. Segment profit as a percentage of revenue decreased approximately one percentage point from 2004 to 2005. Refer to Note 16 of the Condensed Consolidated Financial Statements for additional segment financial information and reconciliation of segment profit to income from continuing operations before income taxes.

Litigation Solutions

Litigation Solutions Results:	Six Months Ended June 30,				Period Over Period	
	2005	% of Revenue	2004	% of Revenue	\$ Change	% Change
(Dollars in thousands)						
Revenue	\$ 15,674	100%	\$ 18,311	100%	\$ (2,637)	(14)%
Cost of revenue	(12,514)	(80)	(14,583)	(80)	2,069	(14)
Gross margin	3,160	20	3,728	20	(568)	(15)
Selling and administrative	(2,142)	(14)	(3,188)	(17)	1,046	(33)
Other income	524	4	527	3	(3)	(1)
Segment profit	\$ 1,542	10%	\$ 1,067	6%	\$ 475	44%
Other Items:						
Depreciation	\$ (340)	(2)%	\$ (421)	(2)%	\$ 81	(19)%
Restructuring, integration and asset impairment charges	(11)	(0)	(28)	(0)	17	(61)

Revenue decreased 14% and gross margin decreased 15% for the six months ended June 30, 2005 as compared to the same period in 2004. The gross margin as a percentage of revenue remained constant at approximately 20% for the six months ended June 30, 2005. The decline in revenue is due to a decrease in higher margin transactional consulting services revenue in 2005, partially offset by an increase in lower margin graphics services revenue. In addition, a large consulting project was completed in June 2004 and this revenue has not been replaced during 2005. Gross margin was positively impacted during 2005 by improved utilization of courtroom technologists.

Table of Contents

Selling and administrative expenses decreased 33%, while decreasing three percentage points as a percentage of revenue. The reduction in selling and administrative expenses is primarily due to lower headcount, as well as a reduction in rent expense and discretionary spending. Also contributing to the decreased expenses in 2005 as compared to 2004 was a decrease in marketing expenses at DecisionQuest due to expenses incurred in 2004 related to a large marketing and promotional campaign. The decrease in selling and administrative expenses is also generally related to reductions in those expenses directly associated with sales, such as selling expenses (including commissions and bonuses), and certain variable administrative expenses.

Other income remained relatively constant in 2005 as compared to 2004 and is primarily related to the income from the Company's equity share of income associated with the CaseSoft joint venture investment.

As a result of the foregoing, segment profit (as defined in Note 16 to the Condensed Consolidated Financial Statements) for this segment increased \$475 for the six months ended June 30, 2005 compared to the same period in 2004. Segment profit as a percentage of revenue increased four percentage points to 10% for the six months ended June 30, 2005. Refer to Note 16 of the Condensed Consolidated Financial Statements for additional segment financial information and reconciliation of segment profit to income from continuing operations before taxes.

Summary

Overall revenue decreased by \$9,110, or 2%, to \$373,226 for the six months ended June 30, 2005. This decrease is primarily attributed to the decrease in financial printing, specifically transactional financial printing and was offset slightly by the increase in revenue from non-transactional financial print revenue. Also contributing to the decrease in revenue for the six months ended June 30, 2005 as compared to 2004 was a decrease in the revenue from the litigation solutions segment for the six months ended June 30, 2005 as compared to 2004. There was a \$15,743, or 10% decrease in gross margin, and the gross margin as a percentage of revenue decreased approximately four percentage points to 36%. This decrease in gross margin percentage was primarily attributable to the impact of lower transactional financial printing activity, which historically is the most profitable class of service within the financial print segment.

Selling and administrative expenses on a company-wide basis decreased by \$10,569, or 10%. This decrease is due primarily to the result of expenses that are directly associated with sales, such as selling expenses (including commissions and bonuses) and certain variable administrative expenses, the collection of previously written off account receivables, lower labor costs, rent expense, marketing costs and discretionary spending in the litigation solutions business, and the Company's continual effort to manage expenses. Shared corporate expenses were \$10,273 in the six months ended June 30, 2005 compared to \$10,813 in the same period in 2004, a decrease of \$540. This decrease is primarily due to decreases in incentive compensation and recruiting fees. As a percentage of revenue, overall selling and administrative expenses decreased by approximately two percentage points, to 26% for the six months ended June 30, 2005.

Depreciation decreased by \$465 or 3%, primarily as a result of reduced capital expenditures in recent years.

There were \$3,169 in restructuring, integration, and asset impairment charges for the six months ended June 30, 2005, as compared to \$4,997 in the six months ended June 30, 2004, as discussed in Note 11 to the Condensed Consolidated Financial Statements.

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

Interest expense decreased \$2,798, a 52% decrease, primarily as a result of the early retirement of the Company's senior notes in December 2004, as described in the Company's annual report on Form 10-K for the year ended December 31, 2004. Interest expense related to these notes was approximately \$2.3 million for the quarter ended June 30, 2004. Also contributing to the decrease in interest expense was a decrease in the amortization of deferred financing costs for the six months ended June 30, 2005 as compared to 2004, also

Table of Contents

related to the early retirement of the Company's senior notes, and less borrowings on the revolving credit facility during the six months ended June 30, 2005 as compared to the same period last year.

Income tax expense for the six months ended June 30, 2005 was \$10,160 on pre-tax income from continuing operations of \$22,193, compared to income tax expense in 2004 of \$9,961 on pre-tax income from continuing operations of \$22,845. The size of the non-deductible expenses are relatively unchanged from year to year, and the rate applied to U.S. taxable income remained at approximately 38%.

Loss from discontinued operations, net of tax for the six months ended June 30, 2005 was \$4,100 and consists of the results of the discontinued globalization business as compared to income from discontinued operations of \$1,268 for the six months ended June 30, 2004, which includes the results of the discontinued globalization and outsourcing businesses. The 2005 results from discontinued operations include certain costs related to the sale of the globalization segment, including a \$5.4 million tax charge to record deferred income taxes related to basis differences which no longer meet the permanent reinvestment criteria of Accounting Principles Board Opinion No. 23.

As a result of the foregoing, net income for the six months ended June 30, 2005 was \$7,933 as compared to \$14,152 for the same period of 2004.

Domestic Versus International Results of Operations

The Company has operations in the United States, Canada, Europe, Mexico, South America and Asia. Both of the Company's segments have operations in the United States. The Company's international operations are derived from its financial print segment. United States and foreign components of income from continuing operations before income taxes for the six months ended June 30, 2005 and 2004 are as follows:

	Six Months Ended June 30,	
	2005	2004
United States	\$ 15,710	\$ 22,423
Foreign	6,483	422
Income from continuing operations before taxes	\$ 22,193	\$ 22,845

Foreign pre-tax income from continuing operations improved significantly in the first half of 2005 compared to the same period in 2004. This increase is primarily due to increases in transactional and compliance revenue from Europe, Canada and Asia. In addition the foreign results for the six months ended June 30, 2004 included approximately \$1.0 million of restructuring charges, which were primarily related to headcount reductions at the financial print facilities in Paris and Canada. The foreign results for the six months ended June 30, 2005 included approximately \$.6 million of restructuring charges, which were primarily related to changes in the previous assumptions associated with the subleasing of a portion of the London financial print facility. The decrease in domestic pre-tax income from continuing operations is primarily due to the decrease in transactional print revenue within the financial print segment for the first half of 2005 as compared to 2004. The domestic results for the six months ended June 30, 2005 included approximately \$2.6 million in restructuring charges, integration costs and asset impairment charges related primarily to the impairment of costs associated with the redesign of the Company's Intranet, and the reduction of headcount in certain corporate management and administrative functions that will not be replaced. The domestic results for the six months ended June 30, 2004 included approximately \$4.0 million of restructuring charges consisting of the consolidation of certain administrative functions and the consolidation of the Company's fulfillment operations with its digital print facility within the financial print segment.

Table of Contents**Liquidity and Capital Resources**

Liquidity and Cash Flow Information:	Six Months Ended June 30,	
	2005	2004
Working capital	\$ 326,390	\$ 146,698
Current ratio	3.24 to 1	1.84 to 1
Net cash used in operating activities	\$ (41,342)	\$ (17,598)
Net cash provided by (used in) investing activities	\$ 12,966	\$ (71)
Net cash provided by financing activities	\$ 1,991	\$ 18,683
Net cash provided by (used in) discontinued operations	\$ 2,816	\$ (7,432)
Capital expenditures	\$ 7,529	\$ 6,873
Average days sales outstanding	66	64

Overall working capital increased approximately \$179.7 million at June 30, 2005 as compared to the same period in 2004. The increase in working capital results from several factors. The primary reason for the increase in working capital as of June 30, 2005 as compared to June 30, 2004 is because the assets of the discontinued globalization segment are reflected as current assets held for sale as of June 30, 2005 due to the expected close of the sale during the third quarter of 2005. In 2004 the assets of the discontinued businesses are segregated between current and non-current assets held for sale. The fluctuation in current assets held for sale as of June 30, 2005 as compared to June 30, 2004 is approximately \$113.1 million. Also contributing to the increase in working capital is an increase of approximately \$23.7 million in cash and marketable securities as of June 30, 2005 as compared to June 30, 2004, and increases in accounts receivable and inventory of approximately \$7.0 million and \$8.1 million, respectively, as of June 30, 2005 as compared to 2004. In addition, accounts payable and accrued liabilities decreased approximately \$10.6 million primarily related to a decrease in accrued compensation and benefits of approximately \$10.3 million largely in connection with the decrease in current accrued pension costs resulting from the significant amount of pension contributions made during 2004, a decrease in current accrued supplemental executive retirement plan (SERP) expenses in 2005, and a decrease in accrued expenses associated with the decreased revenue and profitability of the financial print segment (including accrued commissions and bonuses) for the six months ended June 30, 2005 as compared to 2004. Also, current liabilities held for sale decreased approximately \$18.5 million as of June 30, 2005 as compared to June 30, 2004.

During the fourth quarter of 2004, the Company's Board of Directors authorized an open market stock repurchase program to repurchase up to \$35 million of the Company's common stock. On July 29, 2005, the Company entered into a 10b5-1 trading plan with a broker to facilitate the purchases of shares under this program. Through December 2006, management is authorized to purchase shares from time to time at prevailing prices as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The program may be discontinued at any time. The Company has repurchased 127,600 shares under this plan through August 4, 2005.

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

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

this seasonal increase.

Table of Contents

Capital expenditures for the six months ended June 30, 2005 were \$7,529. For the full year 2005, the Company plans capital spending of approximately \$20 million.

Cash Flows

The Company continues to focus on cash management, including managing receivables and inventory. Year-to-date average days sales outstanding increased to 66 days from 64 days for the six months ended June 30, 2005 as compared to the same period last year. The Company had net cash used in operating activities of \$41,342 and \$17,598 for the six months ended June 30, 2005 and 2004, respectively. The increase in net cash used in operating activities in the first half of 2005 as compared to 2004 is primarily attributable to the larger amount of bonuses and commissions paid during the six months ended 2005 as compared to 2004. Also contributing to the increase in cash used in operating activities was the increase in cash used to pay income taxes, and an increase in work-in-process inventory in 2005. Offsetting these increases was a decrease in the change in accounts receivable for the six months ended June 30, 2005 as compared to June 30, 2004. The Company had income from continuing operations of \$12,033 in the six months ended June 30, 2005 as compared to income from continuing operations of \$12,884 for the same period in 2004. Overall, cash used in operating activities increased by approximately \$23.7 million from 2004 to 2005.

Net cash provided by investing activities was \$12,966 for the six months ended June 30, 2005 as compared to net cash used in investing activities for the six months ended June 30, 2004 of \$71. The change from 2004 to 2005 was primarily the result of \$20,280 received from the sale of marketable securities during the six months ended June 30, 2005 as compared to the receipt of \$6,731 related to the sale of the Company's facilities in Dominguez Hills, California during the second quarter of 2004. Offsetting the increase in cash provided by investing activities was a slight increase in cash used in the acquisition of property, plant and equipment during the first half of 2005 as compared to the prior year.

Net cash provided by financing activities was \$1,991 and \$18,683 for the six months ended June 30, 2005 and 2004, respectively. The change in 2005 compared to 2004 primarily resulted from net payments of debt in 2005 of approximately \$150, as compared to net borrowings of \$9,999 in 2004, and proceeds from stock option exercises of \$5,877 in 2005 as compared to \$12,481 in 2004.

Net cash provided by discontinued operations was \$2,816 as compared to cash used in discontinued operations of \$7,432 for the six months ended June 30, 2005 and 2004, respectively. The cash provided by discontinued operations for the six months ended June 30, 2005 primarily represents cash provided by the operations of the discontinued globalization business, offset by the payment of accrued expenses (primarily employee compensation and benefits) related to the sale of the Company's document outsourcing business in November 2004. The cash used in discontinued operations in 2004 primarily represents cash used in the operations of the discontinued outsourcing and globalization businesses during the first half of 2004.

2005 Outlook

The following statements and certain statements made elsewhere in this document are based upon current expectations. These statements are forward looking and are subject to factors that could cause actual results to differ materially from those suggested here, including demand for and acceptance of the Company's services, new technological developments, competition and general economic or market conditions, particularly in the domestic and international capital markets, and regulatory approval of the sale of the Company's globalization business. Refer also to the Cautionary Statement Concerning Forward Looking Statements included at the beginning of this Item 2.

The guidance for the full year 2005 results has been changed from the estimates provided in the Company's annual report on Form 10-K for the year ended December 31, 2004, and Form 10-Q for the quarter ended March 31, 2005. The changes in the outlook reflect the removal of the results of BGS operations from continuing operations, and the Financial Print and Litigation Solutions businesses have lowered and narrowed their revenue and segment profit projections and the range of corporate spending has been narrowed. The outlook also excludes the effect of potential dilution from the Convertible Subordinated

Table of Contents

Debentures and the impact from any future purchases under the Company's share repurchase program. The Company now estimates that full year 2005 results will be in the ranges shown below.

	Previous Full Year 2005 Outlook	Current Full Year 2005 Outlook
Revenue:	\$900 million to \$1.0 billion	\$650 to \$695 million
Financial Print	\$640 to \$715 million	\$620 to \$660 million
Globalization	\$225 to \$265 million	
Litigation Solutions	\$40 to \$50 million	\$30 to \$35 million
Segment Profit:		
Financial Print	\$70 to \$95 million	\$65 to \$75 million
Globalization	\$19 to \$24 million	
Litigation Solutions	\$5 to \$8 million	\$3 to \$5 million
Corporate/ Other:		
Corporate Spending	\$(17) to \$(23) million	\$(17) to \$(21) million
Restructuring charges	\$(3) to \$(8) million	\$(3) to \$(8) million
Depreciation and amortization	\$35 million	\$28 million
Interest expense	\$5.5 million	\$5.5 million
Diluted earnings from continuing operations per share	\$0.50 to \$1.00	\$0.14 to \$0.33
Diluted earnings from continuing operations per share, excluding restructuring charges	\$0.60 to \$1.08	
Diluted earnings per share from continuing operations, excluding restructuring charges, adjusted for the sale of the globalization business	\$0.35 to \$0.72	\$0.30 to \$0.40
Diluted shares	35.1 million shares	35.2 million shares
Capital expenditures	\$25 million	\$20 million

Recent Accounting Pronouncements

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

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

Table of Contents

accounts for share-based payments using the intrinsic value method as allowed by APB Opinion No. 25, the adoption of the fair value method under SFAS 123(R) will have an impact on its results of operations. However, the extent of the impact cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. Had the Company adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in Note 7 to the Condensed Consolidated Financial Statements.

In December 2004, the FASB issued FASB Staff Position 109-2 (FSP FAS 109-2), Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 . The American Jobs Creation Act of 2004 introduces a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision), provided certain criteria are met. FSP FAS 109-2 gives a company additional time to evaluate the effects of the legislation on any plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109, Accounting for Income Taxes. The deduction is subject to a number of limitations, and uncertainty remains as to how to interpret numerous provisions in the Act. As such, the Company is not in a position to decide on whether, and to what extent, it might repatriate foreign earnings that have not yet been remitted to the U.S. based on its analysis to date. The Company therefore cannot reasonably estimate the income tax effect of such repatriation. The Company expects to be in a position to finalize its assessment by December 31, 2005.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

The Company's market risk is principally associated with trends in the domestic and international capital markets, particularly in the financial print segment. This includes trends in the initial public offerings and mergers and acquisitions markets, both important components of the financial print segment. The Company also has market risk tied to interest rate fluctuations related to a portion of its debt obligations and fluctuations in foreign currency, as discussed below.

Interest Rate Risk

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

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

Foreign Exchange Rates

The Company derives a portion of its revenues from various foreign sources. The Company's discontinued globalization segment is impacted by foreign currency fluctuations since its labor costs are predominantly denominated in foreign currencies, while a significant portion of its revenue is denominated in U.S. dollars. This is somewhat mitigated by the fact that revenue from the Company's international financial print operations is denominated in foreign currencies, while some of its costs are denominated in U.S. dollars. To date, the Company has not used foreign currency hedging instruments to reduce its exposure to foreign exchange fluctuations. The Company has reflected translation adjustments of (\$15,348) and (\$5,680) in its Condensed Consolidated Statements of Comprehensive (Loss) Income for the six months ended June 30,

Table of Contents

2005 and 2004, respectively. These adjustments are primarily attributed to the fluctuation in value between the U.S. dollar and the euro, pound sterling and Canadian dollar.

Equity Price Risk

The Company currently does not have any significant investments in marketable equity securities. The Company's defined benefit pension plan holds investments in both equity and fixed income securities. The amount of the Company's annual contribution to the plan is dependent upon, among other things, the return on the plan's assets. To the extent there are fluctuations in equity values, the amount of the Company's annual contribution could be affected. For example, a decrease in equity prices could increase the amount of the Company's annual contributions to the plan.

Item 4. Controls and Procedures

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

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

During the six months ended June 30, 2005, the Company has implemented additional controls and procedures (discussed further below) in order to remediate the material weaknesses discussed above, and it is continuing to assess additional controls that may be required to remediate these weaknesses. Furthermore, the Company announced on June 27, 2005 that it has entered into a definitive agreement to sell its globalization business, which is expected to close during the third quarter of 2005. Effective with the second quarter of 2005, the globalization business is reflected as a discontinued operation in the Condensed Consolidated Statement of Operations. The Company's management, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2005, pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e) (the "Exchange Act"). As part of its evaluation, management has evaluated whether the control deficiencies related to the reported material weaknesses in internal control over financial reporting continue to exist. Although the Company believes that it has designed a process which has remediated its reported material weaknesses, it has not completed implementation and testing of the changes in controls and procedures which it believes are necessary to conclude that the material weaknesses have been remediated. As a result, the Company's management has concluded that it cannot assert that the control deficiencies relating to the reported material weaknesses within the globalization segment have been effectively remediated as of June 30, 2005. Based upon this conclusion, the Company's Chief Executive

Table of Contents

Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2005.

The Company believes that the actions it has taken to date, including the changes outlined below, have mitigated the material weaknesses with respect to the preparation of this quarterly report on Form 10-Q, such that the information contained in this quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented.

(b) *Changes in Internal Control Over Financial Reporting.* During the six months ended June 30, 2005, management has taken the following actions listed below to remediate the material weaknesses described in the Company's annual report on Form 10-K and Form 10-K/A for the year ended December 31, 2004

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

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

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

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

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

The Company believes the steps outlined above and the expected sale of the globalization segment will strengthen the Company's internal control over financial reporting and address the material weaknesses described above.

During the second quarter of 2005, the Company began implementing new modules to its enterprise financial reporting system relating to purchase orders and fixed assets. The Company expects to complete the implementation of these new modules during 2006. The Company believes these new modules will enhance its financial information systems and internal controls over financial reporting.

Other than the changes discussed above, there have not been any changes in the Company's internal control over financial reporting during the Company's most recently completed fiscal quarter that have materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting.

**PART II
OTHER INFORMATION**

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

At the Company's Annual Meeting of Shareholders held on May 26, 2005, the following actions were taken:

1. Election of Directors

Nominee	Votes for	Votes Against/Withheld/ Abstentions
Philip E. Kucera	31,494,114	413,875
H. Marshall Schwarz	31,402,224	505,765
David J. Shea	31,474,655	433,334
Wendell M. Smith	31,491,631	416,358

Table of Contents

2. To ratify the selection of KPMG LLP as independent auditors for the Company for the fiscal year ending December 31, 2005.

Votes for	Votes Against/ Withheld	Abstentions/ Broker Non-Votes
31,701,085	168,859	38,045

Item 6. Exhibits

(a) *Exhibits:*

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

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.

/s/ PHILIP E. KUCERA

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

Date: August 8, 2005

/s/ C. CODY COLQUITT

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

Date: August 8, 2005

/s/ RICHARD BAMBACH JR.

Richard Bambach Jr.
Vice President and Corporate Controller
(Principal Accounting Officer)

Date: August 8, 2005