BOWNE & CO INC
Form 10-Q
November 15, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2002

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 þ No o

The number of shares outstanding of each of the issuer s classes of common stock was 33,554,308 shares of common stock, par value $.01, outstanding as of November 8, 2002.

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BOWNE & CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001
	(Unaudited) (000 s omitted except per share amounts)	
Revenue	$214,156	$242,055
Expenses:		
Cost of revenue	151,041	173,534
Selling and administrative	58,079	58,082
Depreciation	10,033	9,617
Amortization	430	2,427
Restructuring and asset impairment charges	3,605	
Purchased in-process research and development		800
	223,188	244,460
Operating loss	(9,032)	(2,405)
Interest expense	(1,844)	(1,446)
Gain on sale of subsidiary	14,869	
Gain on sale of building	4,889	
Other (expense) income, net	(683)	387
Income (loss) before income taxes	8,199	(3,464)
Income tax expense	(3,550)	(239)
Net income (loss)	$ 4,649	$ (3,703)
Earnings (loss) per share:		
Basic	$ .14	$ (.11)
Diluted	$ .13	$ (.11)
Dividends per share	$ .055	$ .055

See Notes to Condensed Consolidated Financial Statements.

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BOWNE & CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Nine Months Ended September 30,	
	2002	**2001**
	(Unaudited) (000 s omitted except per share amounts)	
Revenue	$ 767,107	$ 823,149
Expenses:		
Cost of revenue	509,360	561,952
Selling and administrative	202,299	202,326
Depreciation	31,351	31,602
Amortization	1,290	6,133
Restructuring and asset impairment charges	3,605	8,228
Purchased in-process research and development		800
	747,905	811,041
Operating income	19,202	12,108
Interest expense	(4,951)	(4,741)
Gain (loss) on sale of subsidiary	14,869	(1,858)
Gain on sale of building	4,889	
Other (expense) income, net	(224)	1,014
Income from continuing operations before income taxes	33,785	6,523
Income tax expense	(14,527)	(5,558)
Income from continuing operations	19,258	965
Loss from discontinued operations (less applicable tax benefit of $9,060)		(16,363)
Net income (loss)	$ 19,258	$ (15,398)
Earnings per share from continuing operations:		
Basic	$ .58	$ .03
Diluted	$ .54	$ .03
Loss per share from discontinued operations:		
Basic	$	$ (.50)
Diluted	$	$ (.50)
Total earnings (loss) per share:		
Basic	$ .58	$ (.47)
Diluted	$ .54	$ (.47)
Dividends per share	$ .165	$ .165

See Notes to Condensed Consolidated Financial Statements.

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BOWNE & CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended September 30,	
	2002	**2001**
	(Unaudited) (000 s omitted)	
Net income (loss)	$ 4,649	$ (3,703)
Foreign currency translation adjustment	(1,194)	1,338
Net unrealized losses arising from marketable securities during the period, after crediting taxes of $129 and $999 for 2002 and 2001, respectively	(195)	(1,497)
Comprehensive income (loss)	$ 3,260	$ (3,862)

	Nine Months Ended September 30,	
	2002	**2001**
	(Unaudited) (000 s omitted)	
Net income (loss)	$ 19,258	$ (15,398)
Foreign currency translation adjustment, net of $1,262 reclassification adjustment in 2001 for the recognized loss relating to the sale of subsidiary	7,083	(339)
Net unrealized losses arising from marketable securities during the period, after crediting taxes of $576 and $235 for 2002 and 2001, respectively	(865)	(211)
Comprehensive income (loss)	$ 25,476	$ (15,948)

See Notes to Condensed Consolidated Financial Statements.

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BOWNE & CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2002	December 31, 2001
	(Unaudited)	
	(000 s omitted except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 47,791	$ 27,769
Marketable securities	1,707	3,407
Trade accounts receivable, less allowance for doubtful accounts of $18,469 (2002) and $14,808 (2001)	200,695	174,598
Inventories	23,858	19,453
Prepaid expenses and other current assets	30,585	39,471
Total current assets	304,636	264,698
Property, plant and equipment, less accumulated depreciation of $270,191 (2002) and $255,670 (2001)	155,452	163,838
Goodwill, less accumulated amortization of $30,756 (2002) and $30,337 (2001)	208,087	172,321
Intangible assets, less accumulated amortization of $4,350 (2002) and $3,050 (2001)	27,528	18,150
Deferred income taxes	5,272	3,052
Other assets	9,086	8,171
Total assets	$710,061	$630,230
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt and other short-term borrowings	$ 604	$ 38,079
Accounts payable	36,537	40,252
Employee compensation and benefits	52,597	47,011
Accrued expenses and other obligations	60,182	61,214
Total current liabilities	149,920	186,556
Long-term debt net of current portion	165,660	76,941
Deferred employee compensation and other benefits	40,617	36,704
Total liabilities	356,197	300,201
Stockholders equity:		
Preferred stock:		
Authorized 2,000,000 shares, par value $.01, Issuable in series none issued		
Common stock:		
Authorized 60,000,000 shares, par value $.01, Issued 40,118,933 shares (2002) and 39,855,734 shares (2001)	401	398
Additional paid-in capital	53,864	50,879
Retained earnings	360,661	346,920
	(58,020)	(58,908)

Treasury stock, at cost, 6,578,546 shares (2002) and, 6,683,653 shares (2001)		
Accumulated other comprehensive loss, net	(3,042)	(9,260)
Total stockholders equity	353,864	330,029
Total liabilities and stockholders equity	$710,061	$630,230

See Notes to Condensed Consolidated Financial Statements.

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BOWNE & CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
	(Unaudited) (000 s omitted)	
Cash flows from operating activities:		
Net income (loss)	$ 19,258	$ (15,398)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	31,351	31,602
Amortization	1,290	6,133
Asset impairment charges	1,300	1,174
Purchased in-process research and development		800
Loss from discontinued operations, net of tax		16,363
(Gain) loss on sale of subsidiary	(14,869)	1,858
Gain on sale of building	(4,889)	
Cash used in discontinued operations	(1,959)	(12,499)
Changes in other assets and liabilities, net of acquisitions and discontinued operations and certain non-cash transactions	(2,498)	(21,975)
Net cash provided by operating activities	28,984	8,058
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(56,750)	(63,145)
Proceeds from sale of subsidiary	14,500	4,876
Proceeds from sale of building	8,295	
Purchase of other investments		(1,000)
Proceeds from the sale of fixed assets	668	1,627
Purchase of property, plant and equipment	(23,541)	(26,409)
Net cash used in investing activities	(56,828)	(84,051)
Cash flows from financing activities:		
Proceeds from borrowings	307,527	275,872
Payment of debt	(256,885)	(197,495)
Proceeds from stock options exercised	2,741	1,088
Purchase of treasury stock		(90)
Payment of dividends	(5,517)	(5,454)
Net cash provided by financing activities	47,866	73,921
Increase (decrease) in cash and cash equivalents	$ 20,022	$ (2,072)
Cash and cash equivalents, beginning of period	27,769	30,302
Cash and cash equivalents, end of period	$ 47,791	$ 28,230
Supplemental cash flow information:		
Cash paid for interest	$ 4,065	$ 4,426

Net cash paid (refunded) for income taxes	$ 1,287	$ (1,606)

See Notes to Condensed Consolidated Financial Statements.

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BOWNE & CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1. Basis of Presentation

The financial information as of September 30, 2002 and for the three and nine month periods ended September 30, 2002 and 2001 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. Operating results for the three and nine months ended September 30, 2002 may not be indicative of the results that may be expected for the full-year.

Note 2. Inventories

Inventories of $23,858 at September 30, 2002 included raw materials of $7,021 and work-in-process of $16,837. At December 31, 2001, inventories of $19,453 included raw materials of $6,489 and work-in-process of $12,964.

Note 3. 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 conversion of all potentially dilutive securities. 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 incremental shares from assumed conversion of all potentially dilutive securities are not included in the calculation of diluted loss per share since their effect would have been antidilutive. The weighted average diluted shares outstanding for the three months ended September 30, 2002 and 2001 excludes the dilutive effect of approximately 3,523,126 and 2,178,306 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 period. The weighted average diluted shares outstanding for the nine months ended September 30, 2002 and 2001 excludes the dilutive effect of approximately 1,090,636 and 2,420,047 options, respectively.

	Three Months Ended September 30,	
	2002	**2001**
Basic shares	33,530,908	33,113,280
Diluted shares	34,653,874	33,113,280

	Nine Months Ended September 30,	
	2002	**2001**
Basic shares	33,444,469	33,063,081
Diluted shares	34,822,231	34,095,085

Note 4. Marketable Securities and Other Comprehensive Income (Loss) Items

The Company classifies its investments in marketable securities as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders equity. At September 30, 2002, the fair value of marketable securities exceeded

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cost by $761. At December 31, 2001, the fair value of marketable securities exceeded cost by $2,202. The net unrealized gains, after deferred taxes, were $457 and $1,322 at September 30, 2002 and December 31, 2001, respectively.

The cumulative foreign currency translation adjustment was $(3,499) and $(10,582) at September 30, 2002 and December 31, 2001, respectively.

Note 5. Acquisitions

Berlitz GlobalNet

On September 27, 2002, BGS Companies, Inc., a subsidiary of the Company, acquired all of the issued and outstanding stock of Berlitz GlobalNet, Inc. (GlobalNet) from Berlitz International, Inc. and Berlitz Investment Corporation for $75 million in cash. The acquisition took place at the end of the quarter, accordingly, no operating results were included in the condensed consolidated statement of operations. GlobalNet provides globalization and localization services, software testing, translation and interpretation services and is included as part of the globalization segment. The Company expects that the acquisition of GlobalNet will strengthen BGS s position in the globalization and localization industry and enhance BGS s results by enabling BGS to combine complementary services, improve efficiencies, and diversify its customer base.

The net cash outlay of $56.8 million, which includes approximately $1.1 million of acquisition costs and is net of $19.3 million of cash in the business, has been allocated to assets acquired and liabilities assumed based upon estimated fair value at the date of acquisition. The excess of the purchase price over the estimated fair value of net tangible assets, totaling approximately $39.8 million, has been allocated between goodwill and other identifiable intangible assets based upon estimated fair values. Based upon preliminary estimates, $9.5 million has been allocated to the value of customer contracts and customer relationships and $0.4 million has been allocated to the value of proprietary technology. The amount allocated to customer relationships will be amortized over its estimated life of 5-10 years, and the amount allocated to the proprietary technology will be amortized over its estimated useful life of 3 years. The portion allocated to goodwill will not be amortized. Further refinements to the purchase price allocation are likely to be made based upon the completion of a third party valuation. The final purchase price allocation is not expected to have a material effect on the Company s financial statements.

The Company accrued $3.4 million of costs associated with the acquisition of GlobalNet s operations. The integration is expected to eliminate redundant functions and excess facilities in geographical regions where the Company has globalization operations in the same location as GlobalNet. These costs include estimated severance costs ($2.3 million) and lease termination costs ($1.1 million) associated with eliminating GlobalNet facilities and terminating certain GlobalNet employees.

In addition, the Company will incur certain costs to integrate the GlobalNet operations, including costs to shut down certain BGS facilities and terminate certain BGS employees. These costs, which are estimated to be approximately $4.5 to $5 million, will be included as part of restructuring and integration expenses in the consolidated statements of operations during the fourth quarter of 2002.

As of September 30, 2002, all of the costs associated with the integration were unpaid, and are expected to be paid during 2002 and 2003.

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The following unaudited pro forma consolidated results of operations for the Company as a whole are presented as if the acquisition of GlobalNet had been made at the beginning of the periods presented.

	Three Months Ended September 30,	
	2002	2001
	(In thousands except per share amounts) (Unaudited)	
Revenue	$240,722	$268,759
Income (loss) from continuing operations	3,387	(4,700)
Net income (loss)	3,387	(4,700)
Earnings (loss) per share from continuing operations:		
Basic	$ .10	$ (.14)
Diluted	.10	(.14)
Total earnings (loss) per share:		
Basic	$ .10	$ (.14)
Diluted	.10	(.14)

	Nine Months Ended September 30,	
	2002	2001
	(In thousands except per share amounts) (Unaudited)	
Revenue	$842,504	$908,209
Income from continuing operations	17,475	1,184
Net income (loss)	17,475	(15,179)
Earnings per share from continuing operations:		
Basic	$ .52	$ .04
Diluted	.50	.03
Total earnings (loss) per share:		
Basic	$ .52	$ (.46)
Diluted	.50	(.46)

The pro forma amounts include interest expense on acquisition debt and amortization of identifiable intangible assets and do not include any amortization of goodwill associated with the GlobalNet acquisition, as required under SFAS No. 141. In addition, the pro forma amounts exclude royalty expenses relating to the use of the Berlitz trade name since such expenses will not be incurred prospectively. The pro forma amounts were tax-effected using the Company s effective tax rate. In addition, the pro forma amounts do not reflect any benefits from economies or synergies that might be achieved from integrating operations. The pro forma information is unaudited and is not necessarily indicative of the results of operations that would have occurred had the purchase been made at the beginning of the periods presented or the future results of the combined operations.

Note 6. Goodwill and Intangible Assets

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

Under the provisions of SFAS 142, upon adoption, amortization of existing goodwill ceases and the remaining book value is to be tested for impairment at least annually at the reporting unit level using a new

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two-step impairment test. The general provisions of SFAS 142 were effective for the Company as of January 1, 2002. However, certain provisions were effective for all business combinations consummated after June 30, 2001. The Company applied the accounting and disclosure provisions of SFAS 141 and the applicable provisions of SFAS 142 to its acquisition of Mendez S.A. (Mendez) during the third quarter of 2001 and BGS s acquisition of GlobalNet during the third quarter of 2002.

In connection with SFAS 142 s transitional goodwill impairment evaluation, the Statement requires the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption, January 1, 2002. To accomplish this, the Company determined the fair value of each reporting unit and compared it to the carrying amount of the reporting unit at that date. No impairment charges resulted from this evaluation since the fair value of each reporting unit exceeded the carrying amount.

As of the date of adoption, the Company had unamortized goodwill in the amount of $172,321 and unamortized identifiable intangible assets in the amount of $18,150. Goodwill not subject to amortization (net of accumulated amortization through December 31, 2001) is $208,087 at September 30, 2002. Goodwill increased $35,766 in 2002, primarily as a result of the acquisition of GlobalNet in September 2002, as well as foreign currency translation adjustments and adjustments to preliminary purchase price allocations made in prior periods, primarily to goodwill recorded in the globalization segment.

The gross amounts and accumulated amortization of identifiable intangible assets is as follows:

	September 30, 2002		December 31, 2001	
	Gross Amount	**Accumulated Amortization**	**Gross Amount**	**Accumulated Amortization**
Customer lists	$30,322	$4,165	$20,100	$3,022
Software licenses and proprietary technology	1,556	185	1,100	28
	$31,878	$4,350	$21,200	$3,050

Amortization expense related to identifiable intangible assets was $1,290 for the nine months ended September 30, 2002. Estimated annual amortization expense for the years ended December 31, 2002 through December 31, 2006, including the effect of the GlobalNet acquisition, is shown below:

2002	$2,030
2003	$2,920
2004	$2,920
2005	$2,888
2006	$2,720

The following adjusted financial information reflects the impact that SFAS 142 would have had on prior year income (loss) from continuing operations and diluted earnings (loss) per share from continuing operations for the three months ended September 30, 2001 if adopted in 2001:

	Three Months Ended September 30, 2001	
	Income (loss) From Continuing Operations	**Earnings (Loss) Per Share From Continuing Operations**
Amounts as reported	$(3,703)	$(.11)
Amortization, net of income taxes	1,794	.05

Adjusted amounts	$(1,909)	$(.06)

The following adjusted financial information reflects the impact that SFAS 142 would have had on prior year income from continuing operations and diluted earnings per share from continuing operations for the nine months ended September 30, 2001 if adopted in 2001:

	Nine Months Ended September 30, 2001	
	Income From Continuing Operations	**Earnings Per Share From Continuing Operations**
Amounts as reported	$ 965	$ .03
Amortization, net of income taxes	4,693	.13
Adjusted amounts	$5,658	$ .16

Note 7. Debt

On July 2, 2002, the Company completed its new $175 million unsecured three-year revolving credit facility. The new credit agreement bears interest at LIBOR plus 80-160 basis points or an alternative base rate (greater of Federal Funds rate plus 50 basis points or the Prime rate) depending on certain leverage ratios. Prior to July 2, 2002, the Company had borrowings under its $300 million unsecured five-year revolving credit agreement, with a weighted average interest rate of approximately 2%. The weighted average interest rate for that credit agreement was based on LIBOR plus 25 basis points.

At September 30, 2002, the Company had borrowings of $87 million under the new $175 million revolving credit agreement, with a weighted average interest rate of approximately 5% for the quarter ended September 30, 2002. At December 31, 2001, the Company had borrowings of $112 million under its former revolving credit agreement.

On February 6, 2002, the Company completed a $75 million private placement of senior unsecured notes with several institutional lenders. The notes have an average life of 7.2 years (ranging from 5-10 years), with an average fixed interest rate during the first nine months of 2002 of approximately 7%. Interest is payable every six months. The proceeds from the private placement were used to pay down a portion of the Company s former revolving credit facility. This amount was classified as long-term debt on the balance sheet as of December 31, 2001 and September 30, 2002. The remainder of the Company s borrowings under the revolving credit agreement were included in the current portion of long-term debt in the condensed consolidated balance sheet as of December 31, 2001, since it was due to expire in July 2002. The Company completed its new credit facility on July 2, 2002, therefore the outstanding borrowings at September 30, 2002 have been included in long-term debt in the condensed consolidated balance sheet.

The terms of the new notes and revolving credit agreement provide certain limitations on additional indebtedness, sale and leaseback transactions, asset sales and certain other transactions. Additionally, the Company is subject to certain financial covenants based on its results of operations.

Note 8. Discontinued Operations

In April 2001, management determined that it would no longer invest in its Internet consulting and development segment (Immersant) and announced its decision to exit the operation. Effective with the second quarter of 2001, this segment is reflected as a discontinued operation. All prior period results have been restated accordingly, including the reallocation of fixed overhead charges to other business segments.

The discontinued operations had net liabilities (including accrued restructuring and discontinuance costs) of $3,365 and $5,324 at September 30, 2002 and December 31, 2001, respectively.

The balance in accrued restructuring and discontinuance costs represents the estimated remaining costs to exit this operation, as well as the remaining previously recorded restructuring costs. Prior to the second quarter of 2001, this accrual had been reflected as part of the Company s overall restructuring accrual. The

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activity in accrued restructuring and discontinuance costs through September 30, 2002, including additions and payments made on that accrual, is summarized below.

	Severance and Personnel-Related Costs	Occupancy Costs	Other	Total
Balance at December 31, 2000	$ 1,160	$ 762	$ 106	$ 2,028
2001 Expenses	1,291	5,097	323	6,711
Paid in 2001	(2,451)	(1,823)	(289)	(4,563)
Balance at December 31, 2001		4,036	140	4,176
Paid in 2002		(1,274)	(64)	(1,338)
Balance at September 30, 2002	$	$ 2,762	$ 76	$ 2,838

Note 9. Accrued Restructuring and Integration Charges

During the second quarter of 2001, the Company recorded restructuring charges in connection with cost reductions impacting all three of its segments. The cost reduction program included the closing of an office in the globalization segment, downsizing several locations in the outsourcing segment, and a reduction in workforce of approximately 10% of the Company s financial print operations. In October 2001, the Company reduced the workforce of its domestic and international financial printing operations by an additional 10%, or approximately 350 employees. The Company recorded $10,789 in restructuring charges related to these activities during the year ended December 31, 2001.

In September 2002, the Company recorded restructuring charges of $2,305 in connection with an additional reduction in workforce of approximately 2.5% of the Company s total workforce, or approximately 200 employees, primarily in the financial printing segment. The third quarter charges also include a non-cash asset impairment charge of $1,300.

In connection with the Company s acquisition of Mendez in August 2001, the Company incurred certain costs to integrate the operations of Mendez, including costs to shut down certain BGS facilities and terminate certain BGS employees. These costs, which totaled $2,704, were included as part of restructuring and integration expenses in the consolidated statements of operations during the year ended December 31, 2001.

The activity related to these accruals through September 30, 2002, including additions and payments made, are summarized below.

	Severance and Personnel-Related Costs	Occupancy Costs	Other	Total
Balance at December 31, 2000	$ 851	$	$ 14	$ 865
2001 Expense	10,565	1,741	1,187	13,493
Paid in 2001	(7,172)	(1,213)	(597)	(8,982)
Balance at December 31, 2001	4,244	528	604	5,376
2002 Expense	2,255		50	2,305
Paid in 2002	(4,135)	(321)	(654)	(5,110)
Balance at September 30, 2002	$ 2,364	$ 207	$	$ 2,571

Occupancy costs represent facility exit costs associated with the closing of an office in the globalization segment and the downsizing of several locations in the outsourcing segment. The remaining accrued severance and personnel-related costs are expected to be paid during 2002 and 2003.

The Company also accrued $5,100 of costs associated with the acquisition of Mendez operations during the year ended December 31, 2001, which were accounted for as part of the cost of the acquisition. These costs included costs to shut down certain Mendez facilities and terminate certain Mendez employees.

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The payments made on that accrual are summarized below.

	Severance and Personnel-Related Costs	Occupancy Costs	Other	Total
Opening balance	$ 3,865	$1,013	$ 222	$ 5,100
Paid in 2001	(1,281)	(369)	(192)	(1,842)
Balance at December 31, 2001	2,584	644	30	3,258
Paid in 2002	(1,470)	(274)		(1,744)
Balance at September 30, 2002	$ 1,114	$ 370	$ 30	$ 1,514

In connection with the Company s acquisition of GlobalNet in September 2002, the Company accrued $3,419 of costs associated with the integration of GlobalNet s operations, which were accounted for as part of the cost of the acquisition. These costs include estimated severance costs ($2.3 million) and lease termination costs ($1.1 million) associated with eliminating GlobalNet facilities and terminating certain GlobalNet employees. In addition, the Company is expected to incur certain costs to integrate the operations of GlobalNet, including costs to shut down certain BGS facilities and terminate certain BGS employees. These costs, estimated to be approximately $4.5 to $5 million, have not been accrued at September 30, 2002, as the criteria for accrual had not been met. Such costs will be included as part of restructuring and integration expenses in the consolidated statements of operations during the quarter ended December 31, 2002.

Note 10. Sale of Chicago Building

In June 2002, Bowne s financial printing operations moved to a new leased facility in Chicago. The Company completed the sale of its former Chicago facility in September 2002 for approximately $8.3 million. The net carrying amount of the facility was approximately $3.4 million, and as such, this transaction resulted in a gain of approximately $4.9 million for the period ended September 30, 2002.

Note 11. Sale of Publishing Division

In September 2002, the Company sold its publishing division for approximately $15 million, of which $14 million was received in cash. The remainder is being held in escrow until March 27, 2003 for the purpose of providing a source of payment for indemnity claims under the asset purchase agreement. During 2001, this division had sales of approximately $5.6 million, with net liabilities of approximately $0.8 million at closing. This transaction resulted in a gain of approximately $14.9 million, $0.5 million which may be recognized upon the expiration of the escrow agreement.

Note 12. Segment Information

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

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

Financial Printing transactional financial, corporate reporting, mutual fund, investment company services, commercial and digital printing.

Outsourcing document management solutions primarily for the legal and financial communities. This segment is commonly referred to as Bowne Business Solutions (BBS). The results for the outsourcing segment include the operating results of Document Management Services, Inc., from its date of acquisition, April 6, 2001.

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Globalization outsourced globalization solutions, including technical writing and content creation, terminology and content management, and localization and translation services. This segment is commonly referred to as Bowne Global Solutions. The results for the globalization segment include the operating results of Mendez from its date of acquisition, August 29, 2001. The results for the globalization segment for the fourth quarter of 2002 will include the operating results of Berlitz GlobalNet, acquired by the Company on September 27, 2002.

A fourth segment (Internet consulting and development) which previously provided integrated Internet applications primarily for the financial services sector was discontinued effective with the second quarter of 2001. Accordingly, segment information is no longer being presented for that segment.

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

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	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001
	(000 s omitted) (Unaudited)	
Revenue from external customers:		
Financial printing	$130,205	$157,913
Outsourcing	57,940	58,763
Globalization	26,011	25,379
	$214,156	$242,055
EBITDA:		
Financial printing	$ 4,776	$ 5,207
Outsourcing	2,601	3,259
Globalization	(2,341)	1,973
Other (see note below)	15,470	(413)
	$ 20,506	$ 10,026
Depreciation expense:		
Financial printing	$ 7,287	$ 7,361
Outsourcing	1,246	1,383
Globalization	1,500	873
	$ 10,033	$ 9,617
EBITA:		
Financial printing	$ (2,511)	$ (2,154)
Outsourcing	1,355	1,876
Globalization	(3,841)	1,100
Other (see note below)	15,470	(413)
	10,473	409
Amortization expense	(430)	(2,427)
Interest expense	(1,844)	(1,446)
Income (loss) before income taxes	$ 8,199	$ (3,464)

Note: In 2002, other includes gains on the sale of the publishing division ($14,869) and the Chicago building ($4,889), offset by restructuring and impairment charges ($3,605). In 2001, other includes purchased in-process research and development charges ($800).

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	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
	(000 s omitted) (Unaudited)	
Revenue from external customers:		
Financial printing	$511,879	$582,045
Outsourcing	175,798	173,508
Globalization	79,430	67,596
	$767,107	$823,149
EBITDA:		
Financial printing	$ 51,579	$ 45,319
Outsourcing	9,722	9,061
Globalization	(5,853)	4,491
Other (see note below)	15,929	(9,872)
	$ 71,377	$ 48,999
Depreciation expense:		
Financial printing	$ 23,236	$ 24,825
Outsourcing	3,839	4,144
Globalization	4,276	