VINTAGE PETROLEUM INC
Form 10-Q
November 09, 2004
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2004

OR

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

For the transition period from ______ to ______

Commission file number 1-10578

VINTAGE PETROLEUM, INC.

(Exact name of registrant as specified in charter)

Delaware	**73-1182669**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

110 West Seventh Street **Tulsa, Oklahoma** **(Address of principal executive offices)**	**74119-1029** **(Zip Code)**

(918) 592-0101

(Registrant s telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes x No ¨

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Class	Outstanding at October 29, 2004
Common Stock, $0.005 Par Value	65,749,693

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VINTAGE PETROLEUM, INC.

FORM 10-Q

THREE MONTHS ENDED SEPTEMBER 30, 2004

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PART I

FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS

VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except shares

and per share amounts)

(Unaudited)

ASSETS

	September 30, 2004	December 31, 2003
CURRENT ASSETS:		
Cash and cash equivalents	$ 46,012	$ 32,264
Accounts receivable -		
Oil and gas sales	115,861	78,321
Joint operations	8,616	7,480
Deferred income taxes	21,513	
Prepaids and other current assets	10,638	6,660
Assets of discontinued operations	253,387	224,321
Total current assets	456,027	349,046
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Oil and gas properties, successful efforts method	2,023,933	1,835,588
Oil and gas gathering systems and plants	23,890	23,344
Other	27,903	26,334
	2,075,726	1,885,266
Less accumulated depreciation, depletion and amortization	908,462	829,055
Total property, plant and equipment, net	1,167,264	1,056,211
DEFERRED INCOME TAXES	14,558	
OTHER ASSETS, net	42,513	41,581
TOTAL ASSETS	$ 1,680,362	$ 1,446,838

See notes to unaudited consolidated financial statements.

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VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Continued)

(In thousands, except shares

and per share amounts)

(Unaudited)

LIABILITIES AND STOCKHOLDERS EQUITY

	September 30, 2004	December 31, 2003
CURRENT LIABILITIES:		
Revenue payable	$ 37,541	$ 22,641
Accounts payable - trade	53,578	48,548
Current income taxes payable	21,815	17,316
Derivative financial instruments payable	59,968	7,551
Other payables and accrued liabilities	88,796	54,852
Liabilities of discontinued operations	79,454	46,093
Total current liabilities	341,152	197,001
LONG-TERM DEBT	676,547	699,943
DEFERRED INCOME TAXES	85,214	54,311
LONG-TERM LIABILITY FOR ASSET RETIREMENT OBLIGATIONS	77,577	72,158
DERIVATIVE FINANCIAL INSTRUMENTS PAYABLE AND OTHER	16,338	939
COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDERS EQUITY, per accompanying statement:		
Preferred stock, $0.01 par, 5,000,000 shares authorized, zero shares issued and outstanding		
Common stock, $0.005 par, 160,000,000 shares authorized, 66,181,811 and 64,720,975 shares issued and 65,657,693 and 64,281,199 outstanding, respectively	331	324
Capital in excess of par value	354,217	337,080
Retained earnings	96,974	22,844
Accumulated other comprehensive income	40,293	70,482
	491,815	430,730
Less treasury stock, at cost, 524,118 and 439,776 shares	4,319	3,117
Less unamortized cost of restricted stock awards	3,962	5,127

Total stockholders equity	483,534	422,486
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,680,362	$ 1,446,838

See notes to unaudited consolidated financial statements.

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VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
REVENUES:				
Oil, condensate and NGL sales	$ 136,382	$ 105,269	$ 367,320	$ 323,806
Gas sales	49,158	25,282	127,284	86,545
Sulfur sales	234	440	949	1,305
Gas marketing	17,897	15,445	50,131	59,978
Total revenues	203,671	146,436	545,684	471,634
COSTS AND EXPENSES:				
Production costs	34,335	33,266	105,379	91,329
Transportation and storage costs	3,318	1,761	7,500	5,120
Production and ad valorem taxes	5,732	3,997	16,557	12,756
Export taxes	12,778	7,409	25,691	25,814
Exploration costs	12,435	6,061	21,000	17,395
Gas marketing	16,857	14,798	47,409	58,093
General and administrative	12,806	11,848	41,723	34,667
Stock compensation	1,153	1,861	7,091	4,295
Depreciation, depletion and amortization	26,720	21,392	72,687	65,463
Impairment of proved oil and gas properties			3,915	
Accretion	1,685	1,523	4,932	4,422
Other operating (income) expense	1,671	(701)	(1,933)	941
Total costs and expenses	129,490	103,215	351,951	320,295
OPERATING INCOME	74,181	43,221	193,733	151,339
OTHER (INCOME) EXPENSE:				
Interest expense	12,625	17,818	39,321	54,328
Loss on early extinguishment of debt			9,903	1,426
(Gain) loss on disposition of assets	(17)		(72)	667
Foreign currency exchange (gain) loss	(285)	(915)	(1,112)	6,653
Other non-operating expense	15,721	818	15,991	41
Net other expense	28,044	17,721	64,031	63,115
Income from continuing operations before income taxes and cumulative effect of change in accounting principle	46,137	25,500	129,702	88,224

INCOME TAX PROVISION (BENEFIT):				
Current	15,701	5,128	44,114	39,609
Deferred	3,024	5,034	5,115	(2,057)
Total income tax provision	18,725	10,162	49,229	37,552
Income from continuing operations before cumulative effect of change in accounting principle	27,412	15,338	80,473	50,672
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of income tax provision (benefit) of $(184), $221, $130 and $25,480	(397)	(3,583)	3,086	(14,042)
Income before cumulative effect of change in accounting principle	27,015	11,755	83,559	36,630
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, net of income tax provision of $4,104				7,119
NET INCOME	$ 27,015	$ 11,755	$ 83,559	$ 43,749

See notes to unaudited consolidated financial statements.

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VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Continued)

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
BASIC INCOME (LOSS) PER SHARE:				
Income from continuing operations before cumulative effect of change in accounting principle	$ 0.42	$ 0.24	$ 1.24	$ 0.79
Income (loss) from discontinued operations	(0.01)	(0.06)	0.05	(0.22)
Income before cumulative effect of change in accounting principle	0.41	0.18	1.29	0.57
Cumulative effect of change in accounting principle				0.11
Net income	$ 0.41	$ 0.18	$ 1.29	$ 0.68
DILUTED INCOME (LOSS) PER SHARE:				
Income from continuing operations before cumulative effect of change in accounting principle	$ 0.42	$ 0.24	$ 1.23	$ 0.79
Income (loss) from discontinued operations	(0.01)	(0.06)	0.05	(0.22)
Income before cumulative effect of change in accounting principle	0.41	0.18	1.28	0.57
Cumulative effect of change in accounting principle				0.11
Net income	$ 0.41	$ 0.18	$ 1.28	$ 0.68
Weighted average common shares outstanding:				
Basic	65,283	64,228	64,786	63,938
Diluted	66,043	64,767	65,521	64,292

See notes to unaudited consolidated financial statements.

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VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

AND COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

(In thousands, except treasury shares and per share amounts)

(Unaudited)

	Common Stock		Treasury	Capital In Excess of	Unamortized Restricted Stock	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Stock	Par Value	Awards	Earnings	Income	Total
BALANCE AT DECEMBER 31, 2003	64,721	$ 324	$ (3,117)	$ 337,080	$ (5,127)	$ 22,844	$ 70,482	$ 422,486
Comprehensive income:								
Net income						83,559		83,559
Foreign currency translation adjustment							4,525	4,525
Change in value of derivatives, net of tax							(34,714)	(34,714)
Total comprehensive income								53,370
Stock options granted				377				377
Exercise of stock options and resulting tax effects	1,225	6		11,212				11,218
Issuance of restricted stock	176	1		2,651	(2,652)			
Amortization of restricted stock awards				3,057	3,751			6,808
Forfeitures of restricted stock (11,845 shares)				(160)	66			(94)
Vesting of restricted stock rights	60							
Purchase of treasury stock (72,497 shares)			(1,202)					(1,202)
Cash dividends declared ($0.145 per share)						(9,429)		(9,429)
BALANCE AT SEPTEMBER 30, 2004	66,182	$ 331	$ (4,319)	$ 354,217	$ (3,962)	$ 96,974	$ 40,293	$ 483,534

See notes to unaudited consolidated financial statements.

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VINTAGE PETROLEUM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 83,559	$ 43,749
Adjustments to reconcile net income to cash provided by operating activities -		
(Income) loss from discontinued operations, net of tax	(3,086)	14,042
Cumulative effect of change in accounting principle, net of tax		(7,119)
Depreciation, depletion and amortization	72,687	65,463
Impairment of proved oil and gas properties	3,915	
Accretion	4,932	4,422
Exploration costs	16,733	9,910
Provision (benefit) for deferred income taxes	5,115	(2,057)
Foreign currency exchange (gain) loss	(1,112)	6,653
(Gain) loss on dispositions of assets	(72)	667
Loss on early extinguishment of debt	9,903	1,426
Stock compensation	7,091	4,295
Non-cash charges from hedging activities	15,361	691
Other non-cash items included in net income	424	1,953
Increase in receivables	(5,532)	(2,100)
Increase in payables and accrued liabilities	9,923	9,490
Other working capital changes	1,727	4,265
Cash provided by continuing operations	221,568	155,750
Cash provided by discontinued operations	34,646	16,406
Cash provided by operating activities	256,214	172,156
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures -		
Oil and gas properties	(159,538)	(100,041)
Gathering systems and other	(2,132)	(3,232)
Proceeds from sale of oil and gas properties	67	29,980
Purchase of company, net of cash acquired	(26,757)	
Proceeds from sale of company, net of cash sold		116,107
Other	2,454	(4,153)

Cash provided (used) by investing activities - continuing operations	(185,906)	38,661					
Cash provided (used) by investing activities - discontinued operations	(23,785)	8,311					
Cash provided (used) by investing activities	(209,691)	46,972					
CASH FLOWS FROM FINANCING ACTIVITIES:							
Issuance of common stock	11,218	1,122					
Purchase of treasury stock	(1,202)	(3,013)					
Redemption of senior subordinated notes	(157,313)	(50,750)					
Advances on revolving credit facility and other borrowings	370,100	115,400					
Payments on revolving credit facility and other borrowings	(243,500)	(151,017)					
Dividends paid	(9,042)	(7,971)					
Other	(3,668)	1					
Cash used by financing activities	(33,407)	(96,228)					
EFFECT OF EXCHANGE RATE CHANGES ON CASH	632	480					
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,748	123,380					
CASH AND CASH EQUIVALENTS, beginning of period	32,264	2007 expenses	1,103		511	366	1,980
Paid in 2007	(1,492)	(544)		(576)	(2,612)		
Balance at March 31, 2007	$ 1,262	$ 2,172	$		$ 3,434		

The majority of the remaining accrued severance and personnel-related costs are expected to be paid by the end of 2007.

The Company also accrued $2,674 of costs associated with the acquisition of St Ives Financial which were accounted for as part of the cost of the acquisition under the provisions of EITF 95-03. These costs were primarily related to integration costs associated with the acquisition of this business. These costs include estimated severance, facility and lease termination costs related to the elimination of redundant functions and excess facilities and equipment related to St Ives Financial. The balance remaining on this accrual as of March 31, 2007 was $1,025 and is expected to be paid in 2007.

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BOWNE & CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Debt

The components of debt at March 31, 2007 and December 31, 2006 are as follows:

	March 31, 2007	December 31, 2006
Convertible subordinated debentures	$ 75,000	$ 75,000
Other	2,254	2,509
	$ 77,254	$ 77,509

There were no borrowings outstanding under the $150 million five-year senior, unsecured revolving credit facility, which is described more fully in Note 11 of the Notes to Consolidated Financial Statements in the Company s annual report on Form 10-K for the year ended December 31, 2006. 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 March 31, 2007 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 2007. 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 balance on this credit facility as of March 31, 2007 or December 31, 2006.

The Company also has various capital lease obligations which are included in long-term debt.

Note 12. 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 has been closed to new participants effective January 1, 2003. In addition, effective January 1, 2003, benefits for current participants in the plan are computed at a reduced accrual rate for credited service after January 1, 2003, except for certain employees who continue to accrue benefits under the pre-January 1, 2003 formula if they satisfy 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 SERP are described more fully in Note 12 of the Notes to Consolidated Financial Statements in the Company s annual report on Form 10-K for the year ending December 31, 2006. Also, certain non-union international employees are covered by other retirement plans.

BOWNE & CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Pension Plan Three Months Ended March 31,		SERP Three Months Ended March 31,	
	2007	**2006**	**2007**	**2006**
Service cost	$ 1,705	$ 1,658	$ 160	$ 98
Interest cost	2,026	1,781	266	298
Expected return on plan assets	(2,379)	(1,993)		
Amortization of transition (asset) liability	(80)	(80)	8	25
Amortization of prior service cost	95	79	430	385
Amortization of actuarial loss	88	224	249	236
Net periodic cost of defined benefit plans	1,455	1,669	1,113	1,042
Union plans	102	86		
Other retirement plans	521	550		
Total cost	$ 2,078	$ 2,305	$ 1,113	$ 1,042

The amortization of transition (asset)/liability, prior service cost and actuarial loss for the three months ended March 31, 2007, included in the above table, has been recognized in the net periodic benefit cost and included in other comprehensive income, net of tax.

As discussed in more detail in Note 12 of the Notes to Consolidated Financial Statements in the Company s annual report on Form 10-K for the year ending December 31, 2006, the Company adopted the provisions of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans during the fourth quarter of 2006.

The Company will record the plans funded status as of December 31, 2007, the measurement date, and will adjust the balance in accumulated comprehensive income during the fourth quarter of 2007.

Note 13. Income Taxes

In January 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 requires that we recognize uncertain tax positions in our financial statements based on a more-likely-than-not recognition threshold as of the date of adoption. As a result of adopting FIN 48 the Company recognized a $590 decrease to its unrecognized tax benefits, which is reflected as an adjustment to retained earnings as of January 1, 2007.

The total gross amount of unrecognized tax benefits included in the Condensed Consolidated Balance Sheet as of the date of adoption was $11,281, including estimated interest and penalties of $1,520. Any prospective adjustments to these unrecognized tax benefits will be recorded as a change to the Company s provision for income taxes and would impact our effective tax rate. The total gross amount of unrecognized tax benefits as of March 31, 2007 is $10,428, including estimated interest and penalties of $1,296. The reduction of the unrecognized tax benefits since the date of adoption primarily reflects settlements and effective closures of income tax audits as well as the lapse of applicable statutes of limitations, and is included in the Company s tax provision for the three months ended March 31, 2007. The Company accrues interest and penalties related to reserves for income taxes as a component of its income tax provision.

The Company files income tax returns in the U.S. federal jurisdiction, various state and local and foreign jurisdictions. It is often difficult to predict the final outcome or the timing of resolution of any particular uncertain

BOWNE & CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

tax position and a significant amount of time may elapse before an uncertain tax position is finally resolved. The Company recognizes tax benefits for uncertain tax positions which it believes are more-likely-than-not to be sustained based on the known facts at that point in time. The Company adjusts these tax benefits, as well as the related interest, in light of changing facts and circumstances. The resolution of a matter may result in recognition of a previously unrecognized tax benefit as an adjustment to the provision for income taxes and the effective tax rate in the period of resolution.

The Company s U.S. federal income tax returns for 2002 through 2004 are in the process of being audited by the Internal Revenue Service (IRS). The IRS finalized its audit of the Company s 2001 income tax return earlier this year. During the first quarter of 2007, the Company was notified that its 2005 U.S. federal income tax return will also be audited. We do not anticipate that the resolution of the open audits for 2002 through 2004 tax years or potential findings related to the audit of the 2005 tax year will significantly impact our financial statements. The Company s income tax returns filed in state and local jurisdictions have been audited at various times. Our foreign jurisdictions do not have any active income tax audits in process as of March 31, 2007.

Income tax expense for the three months ended March 31, 2007 was $1,209 on pre-tax income from continuing operations of $11,322 compared to $2,023 on pre-tax income from continuing operations of $3,488 for the same period in 2006. The effective tax rate for the three months ended March 31, 2007 was 10.7%, which was significantly lower than the effective tax rate for the three months ended March 31, 2006 of 58.0%, primarily due to tax benefits of approximately $2,463 related to a refund of federal income taxes and interest as a result of the completion of an IRS audit and the amendment of our 2001 federal income tax return, and a related reduction in unrecognized tax benefits of $1,131.

Note 14. Segment Information

The Company provides financial print and other services that help companies produce and manage their investor communications and their marketing & business communications including, but not limited to, regulatory and compliance documents, personalized financial statements, enrollment books and sales collateral. The Company s services span the entire document lifecycle and involve both electronic and printed media. The Company helps its clients compose their documents, manage the content and finalize the documents, translate the documents when necessary, prepare the documents for filing, personalize the documents and print and distribute the documents, both through the mail and electronically.

During the fourth quarter of 2006, the Company changed the way it reports and evaluates segment information. The Company had previously reported the costs associated with administrative, legal, finance and other support services which are not directly attributable to the segments in the Corporate/Other category. The Company now also includes in the Corporate/Other category certain other expenses (such as stock-based compensation and supplemental retirement plan expenses) that had previously been allocated to the individual operating segments. The Company s previous years segment information has been restated to conform to the current year s presentation. The services of each of the Company s segments are described further below:

Financial Communications transactional financial printing, compliance reporting, mutual fund printing, commercial printing and other services. The services of the Financial Communications segment are marketed throughout the world.

Marketing & Business Communications Bowne s digital print and personalized communications segment provides a portfolio of services to create, manage and distribute personalized communications, including financial and healthcare statements, pre- and post-enrollment kits, marketing material and direct mail.

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. Segment performance is

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BOWNE & CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

evaluated exclusive of interest, income taxes, depreciation, amortization, certain shared corporate expenses, restructuring, integration and asset impairment charges and 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. 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) stock-based compensation and supplemental retirement plan expenses which are not directly attributable to the operating segments (iii) restructuring, integration and asset impairment charges, (iv) gains (losses) and other expenses and income.

	Three Months Ended March 31, 2007	2006
	(Unaudited) (In thousands)	
Revenue from external customers:		
Financial Communications	$ 176,562	$ 166,472
Marketing & Business Communications	35,088	39,304
	$ 211,650	$ 205,776
Segment profit (loss):		
Financial Communications	$ 28,984	$ 21,337
Marketing & Business Communications	2,224	2,522
Corporate/Other (see detail below)	(11,227)	(12,075)
	19,981	11,784
Depreciation expense	(7,004)	(6,866)
Amortization expense	(333)	(136)
Interest expense	(1,322)	(1,294)
Income from continuing operations before income taxes	$ 11,322	$ 3,488
Corporate/Other (by type):		
Shared corporate expenses and other costs not directly attributable to the segments	$ (9,396)	$ (9,381)
Other income, net	279	1,357
Restructuring charges, integration costs and asset impairment charges	(2,110)	(4,051)
	$ (11,227)	$ (12,075)

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

Cautionary Statement Concerning Forward Looking Statements

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

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

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

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

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

competition based on pricing and other factors;

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

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

seasonal fluctuations in overall demand for the Company s services;

changes in the printing market;

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

the financial condition of the Company s clients;

- the Company s ability to continue to obtain improved operating efficiencies;
- the Company s ability to continue to develop services for its clients;
- changes in the rules and regulations to which the Company is subject;
- changes in the rules and regulations to which the Company s clients are subject;
- the effects of war or acts of terrorism affecting the overall business climate;
- loss or retirement of key executives or employees; and
- natural events and acts of God such as earthquakes, fires or floods.

Many of these factors are described in greater detail in the Company s filings with the SEC, including those discussed elsewhere in this report or incorporated by reference in this report. All future written and oral forward-

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looking statements attributable to the Company or persons acting on behalf of the Company are expressly qualified in their entirety by the previous statements.

Overview

The Company had strong results for the first quarter of 2007. These results are a direct effect of increased revenue from the Financial Communications segment and the cost saving measures and strategic initiatives implemented by the Company. Diluted earnings per share from continuing operations improved to $0.32 for the first quarter of 2007 compared to $0.05 in the first quarter of 2006. In addition, revenue increased by approximately 3% to $211.7 million for the quarter ended March 31, 2007, from $205.8 million during the same period in 2006.

In January 2007, the Company acquired St Ives Financial, the financial print division of St Ives plc, for approximately $9.6 million in cash, which includes a $1.4 million working capital adjustment. The integration of the St Ives Financial business was substantially completed during the first quarter of 2007. The acquisition expands Bowne s position in the Public Limited Company market and the European investment management marketplace, where St Ives Financial has a well-established reputation among significant blue-chip clients. The transaction also gives Bowne an immediate presence in Luxembourg and expands the Company s presence in Philadelphia, an important domestic market. This acquisition is discussed in more detail in Note 2 of the Notes to Condensed Consolidated Financial Statements.

As previously discussed in Note 14 of the Notes to Condensed Consolidated Financial Statements, during the fourth quarter of 2006, the Company changed the way it reports and evaluates segment information. The Company had previously reported the costs associated with administrative, legal, finance and other support services, which are not directly attributable to the segments in the category Corporate/Other . The Company now also includes in the Corporate/Other category certain other expenses (such as stock-based compensation and supplemental retirement plan expenses) that had previously been allocated to the individual operating segments. The Company s results for the three months ended March 31, 2006 have been reclassified to conform to this presentation.

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

> *Financial Communications:* Revenue increased approximately $10.1 million, or 6%, to approximately $176.6 million for the three months ended March 31, 2007 compared to the same period in 2006 and segment profit increased $7.6 million, or 36%, to approximately $29.0 million for the three months ended March 31, 2007 compared to the same period in 2006. The results for the three months ended March 31, 2007 reflect an increase in transactional print revenue of approximately 7% and an increase in non-transactional print revenue of approximately 6% as compared to the same period in 2006.
>
> *Marketing & Business Communications (MBC):* The Marketing & Business Communications segment reported revenue of $35.1 million for the three months ended March 31, 2007, as compared to revenue of $39.3 million for the three months ended March 31, 2006. Segment profit for the three months ended March 31, 2007 was $2.2 million, compared to $2.5 million for the same period in 2006.

Items Affecting Comparability

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

The following table summarizes the expenses incurred for restructuring, integration and asset impairment charges during the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Financial Communications	$ 2,019	$ 821
Marketing & Business Communications	54	3,171
Corporate/Other	37	59
Total	$ 2,110	$ 4,051
After tax impact	$ 1,298	$ 2,475
Per share impact	$ 0.04	$ 0.08

The charges taken in the three months ended March 31, 2007 primarily represent (i) severance and integration costs related to the integration of the St Ives Financial business, (ii) additional workforce reductions at certain financial communications locations, (iii) facility exit costs related to the consolidation of the Company s financial communications facility in Philadelphia with the Philadelphia facility previously occupied by St Ives Financial, and (iv) an asset impairment charge related to vacating the Company s Philadelphia facility. Further discussion of the restructuring, integration and asset impairment activities are included in the segment information, which follows, as well as in Note 10 of the Notes to Condensed Consolidated Financial Statements.

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. As previously mentioned, during the fourth quarter of 2006, the Company changed the way it reports and evaluates segment information. The Company had previously reported the costs associated with administrative, legal, finance and other support services, which are not directly attributable to the segments in the category Corporate/Other . The Company now also includes in the Corporate/Other category certain other expenses (such as stock-based compensation and supplemental retirement plan expenses) that had previously been allocated to the individual operating segments. The Company s previous years segment information has been restated to conform to the current year s presentation.

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. Segment performance is evaluated exclusive of interest, income taxes, depreciation, amortization, certain shared corporate expenses, restructuring, integration and asset impairment charges and 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.

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Three Months ended March 31, 2007 compared to Three Months ended March 31, 2006

Financial Communications

	Three Months Ended March 31,				Quarter Over Quarter Favorable/(Unfavorable)	
Financial Communications Results:	**2007**	**% of Revenue**	**2006**	**% of Revenue**	**$ Change**	**% Change**
	(Dollars in thousands)					
Revenue:						
Transactional financial printing	$ 60,694	34%	$ 56,812	34%	$ 3,882	7%
Compliance reporting	52,000	29	46,746	28	5,254	11
Mutual funds	45,349	26	44,449	27	900	2
Commercial	13,635	8	15,365	9	(1,730)	(11)
Other	4,884	3	3,100	2	1,784	58
Total revenue	176,562	100	166,472	100	10,090	6
Cost of revenue	(106,787)	(61)	(108,285)	(65)	1,498	1
Gross margin	69,775	39	58,187	35	11,588	20
Selling and administrative	(40,791)	(23)	(36,850)	(22)	(3,941)	(11)
Segment profit	$ 28,984	16%	$ 21,337	13%	$ 7,647	36%
Other Items:						
Depreciation	$ (4,635)	(3)%	$ (4,461)	(3)%	$ (174)	(4)%
Restructuring, integration and asset impairment charges	$ (2,019)	(1)%	$ (821)	(1)%	$ (1,198)	(146)%

Financial Communications revenue increased $10,090, or 6%, for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006. Approximately $3,651 of the increase in revenue relates to the addition of revenue from the St Ives Financial business. The largest class of service in this segment, transactional financial printing, increased 7% as compared to the three months ended March 31, 2006 primarily due to increased merger and acquisition activity and increased market share during the three months ended March 31, 2007. Compliance reporting revenue increased 11% for the three months ended March 31, 2007, as compared to the three months ended March 31, 2006, due in part to new SEC regulations and more extensive disclosure requirements. Mutual fund services revenue increased 2% for the three months ended March 31, 2007 compared to the same period in 2006. Commercial revenue decreased slightly for the three months ended March 31, 2007 compared to the same period 2006, primarily due to lower activity levels in 2007. Other revenue increased 58% due primarily to increases in translation services and revenue from virtual data room services.

Revenue from the international markets increased 17% to $35,902 for the three months ended March 31, 2007, compared to $30,793 for the three months ended March 31, 2006. This increase is primarily due to increases in Europe and Asia partly due to the addition of the St Ives Financial business as discussed above. This increase is also partially due to the weakness in the U.S. dollar compared to foreign currencies. At constant exchange rates, revenue from international markets increased 15% for the three months ended March 31, 2007 compared to the three months ended March 31, 2006.

Gross margin of the Financial Communications segment increased to 39% for the three months ended March 31, 2007 in comparison to a 35% gross margin for the three months ended March 31, 2006. The increase in gross margin was primarily due to the favorable impact of cost saving measures and strategic initiatives implemented by the Company, and the increase in revenue from transactional financial printing, which historically is the Company s most profitable class of service.

Selling and administrative expenses increased 11% for the three months ended March 31, 2007, compared to the same period in 2006, primarily due to increases in those expenses directly associated with sales, such as selling expenses (including commissions and bonuses) and certain variable administrative expenses. Partially offsetting the increase in selling and administrative expenses in 2007 as compared to 2006 were higher facility costs in 2006 due

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to overlapping lease costs associated with the relocation of the Company s corporate office and New York City based operations. As a percentage of revenue, selling and administrative expenses increased slightly to 23% for the three months ended March 31, 2007 as compared to 22% for the same period in 2006.

As a result of the foregoing, segment profit (as defined in Note 14 of the Notes to Condensed Consolidated Financial Statements) from the Financial Communications segment increased 36% for the three months ended March 31, 2007 as compared to the same period in 2006 and segment profit as a percentage of revenue increased to approximately 16% for the three months ended March 31, 2007 as compared to 13% for the same period in 2006. Refer to Note 14 of the Notes to Condensed Consolidated Financial Statements for additional segment financial information and reconciliation of segment profit to income from continuing operations before income taxes.

Total restructuring charges related to the Financial Communications segment for the three months ended March 31, 2007 were $2,019 as compared to $821 for the same period in 2006. The charges incurred during the three months ended March 31, 2007 consisted of (i) severance and integration costs related to the integration of the St Ives Financial business, (ii) additional workforce reductions, (iii) facility exit costs related to the consolidation of the Company s facility in Philadelphia with the Philadelphia facility previously occupied by St Ives Financial, and (iv) an asset impairment charge related to vacating the Company s Philadelphia facility. The charges incurred during the three months ended March 31, 2006 primarily represent costs related to additional workforce reductions in certain locations.

Marketing & Business Communications

	Three Months Ended March 31,				Quarter Over Quarter Favorable/(Unfavorable)	
Marketing & Business Communications Results:	**2007**	**% of Revenue**	**2006**	**% of Revenue**	**$ Change**	**% Change**
	(Dollars in thousands)					
Revenue	$ 35,088	100%	$ 39,304	100%	$ (4,216)	(11)%
Cost of revenue	(27,585)	(79)	(31,592)	(80)	4,007	13
Gross margin	7,503	21	7,712	20	(209)	(3)
Selling and administrative	(5,279)	(15)	(5,190)	(14)	(89)	(2)
Segment profit	$ 2,224	6%	$ 2,522	6%	$ (298)	(12)%
Other Items:						
Depreciation	$ (2,140)	(6)%	$ (1,836)	(5)%	$ (304)	(17)%
Restructuring, integration and asset impairment charges	(54)		(3,171)	(8)	3,117	98

Marketing & Business Communications revenue decreased for the three months ended March 31, 2007 as compared to the same period in 2006. The 2006 results included approximately $4.2 million of non-recurring revenue related to the initial rollout of the Medicare Part D open enrollment program. In addition, results for the three months ended March 31, 2006 included approximately $2.3 million of revenue from Vestcom International Inc. s (Vestcom) legacy retail customers that transferred back to Vestcom as part of our transitions services agreement, and other non-recurring revenue. Offsetting the decrease in revenue from 2006 was revenue of approximately $1.1 million in 2007 related to projects within the insurance industry as a result of the acquisition of St Ives Financial. Adjusted for these amounts, revenue increased approximately $1.2 million, or 4%. The gross margin for the three months ended March 31, 2007 improved slightly to 21% up from 20% for the same period in 2006 primarily due to the integration of the workforces of Vestcom s Marketing and Business Communications business with Bowne and the elimination of costs as a result of the consolidation of the production facilities in New Jersey.

Selling and administrative expenses increased slightly for the three months ended March 31, 2007 as compared to the comparable 2006 period primarily due to an increase in bonus expenses in 2007. This increase was partially offset by a decrease in labor expenses as a result of the integration of the workforces related to the acquisition of

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Vestcom s Marketing and Business Communications business. As a percentage of revenue, selling and administrative expenses increased by one percentage point to 15% which is primarily attributed to the decrease in revenue.

As a result of the foregoing, segment profit (as defined in Note 14 of the Notes to Condensed Consolidated Financial Statements) for this segment decreased approximately 12% for the three months ended March 31, 2007 as compared to 2006 while segment profit as a percentage of revenue remained constant at 6% for the three months ended March 31, 2007 and 2006. Refer to Note 14 of the Notes to Condensed Consolidated Financial Statements for additional segment financial information and reconciliation of segment profit to income from continuing operations before income taxes.

Restructuring, integration and asset impairment charges were $54 for the three months ended March 31, 2007 as compared to $3,171 for the quarter ended March 31, 2006. The costs incurred in 2007 were primarily related to integration costs associated with the acquisition of St Ives Financial. The costs incurred during 2006 were primarily related to an impairment charge of $2,300 related to the consolidation of MBC facilities and severance and integration costs associated with the integration of the workforces of Vestcom and Bowne.

Summary

Overall revenue increased $5,874, or 3%, to $211,650 for the three months ended March 31, 2007 as compared to the same period in 2006. The increase in revenue is primarily attributed to the increase in revenue from the Financial Communications segment and the addition of revenue resulting from the acquisition of the St Ives Financial business. Offsetting the increase in revenue from the Financial Communications segment was a decrease in revenue from the Marketing & Business Communications segment for the three months ended March 31, 2007 as compared to March 31, 2006. Gross margin increased $11,442, or 16%, for the three months ended March 31, 2007 as compared to the same period in 2006 and the gross margin percentage increased approximately five percentage points to 39% for the three months ended March 31, 2007. The increase in gross margin percentage is primarily due to the favorable impact of the cost saving measures and strategic initiatives implemented by the Company within the Financial Communications segment.

Selling and administrative expenses on a company-wide basis increased $4,108, or 7%, to $60,138 for the three months ended March 31, 2007 as compared to the same period in 2006. The increase is primarily due to an increase in expenses that are directly associated with sales, such as selling expenses (including commissions and bonuses) and increased compensation expense related to long-term equity incentive compensation. Offsetting the increase were higher facility related expenses in 2006 as compared to 2007 due to the relocation of the Company s corporate office and New York City based operations and higher professional fees in 2006. Shared corporate expenses were $9,396 for the three months ended March 31, 2007, as compared to $9,381 for the same period in 2006. As a percentage of revenue, overall selling and administrative expenses increased by one percentage point to 28% for the three months ended March 31, 2007 as compared to the same period in 2006.

Depreciation expense remained constant for the three months ended March 31, 2007 as compared to the same period in 2006.

There were $2,110 in restructuring, integration and asset impairment charges during the three months ended March 31, 2007, as compared to $4,051 in the same period in 2006, as discussed in Note 10 of the Notes to Condensed Consolidated Financial Statements.

Other income decreased $1,078 for the three months ended March 31, 2007 as compared to the same period in 2006 primarily due to a decrease in interest income received from the Company s investments in short-term marketable securities due to a decrease in the average balance of interest bearing cash and short-term marketable securities in

2007 as compared to 2006.

Income tax expense for the three months ended March 31, 2007 was $1,209 on pre-tax income from continuing operations of $11,322 compared to $2,023 on pre-tax income from continuing operations of $3,488 for the same period in 2006. The effective tax rate for the three months ended March 31, 2007 was 10.7%, which was significantly lower than the effective tax rate for the three months ended March 31, 2006 of 58.0% primarily due to tax benefits of $2,463 related to a refund of federal income taxes and interest as a result of the completion of an IRS audit and the amendment of our 2001 federal income tax return, and a related reduction in unrecognized tax benefits of $1,131.

The 2007 results from discontinued operations include the operations of JFS and adjustments to accruals related to the Company s discontinued litigation solutions and globalization businesses. The 2006 results from discontinued operations include the operating results of DecisionQuest, the operating results of JFS and the operating results of the document scanning and coding business until its sale in January 2006.

As a result of the foregoing, net income for the three months ended March 31, 2007 was $10,679 as compared to a net income of $1,537 for the three months ended March 31, 2006.

Domestic Versus International Results of Operations

The Company has operations in the United States, Canada, Europe, Central America, South America and Asia. The Company s international operations are all in its Financial Communications segment. Domestic and international components of income from continuing operations before income taxes for the three months ended March 31, 2007 and 2006 are as follows:

	Three Months Ended March 31,	
	2007	**2006**
Domestic (United States)	$ 9,420	$ 4,665
International	1,902	(1,177)
Income from continuing operations before taxes	$ 11,322	$ 3,488

The increase in domestic pre-tax income from continuing operations is primarily due to increased revenue and the favorable impact of the cost savings initiatives taken in the Financial Communications segment and a decrease in restructuring and integration charges related to domestic locations for the three months ended March 31, 2007 as compared to the same period in 2006. The domestic results of operations for 2006 were burdened with significant integration costs associated with the acquisition of Vestcom s Marketing and Business Communications business. International pre-tax income from continuing operations increased for the three months ended March 31, 2007, compared to a loss from continuing operations for the same period in 2006 primarily due to increases in revenue in Europe and Asia.

Liquidity and Capital Resources

	March 31,	
Liquidity and Cash Flow Information:	**2007**	**2006**
Working capital	$ 165,901	$ 206,498
Current ratio	2.14:1	2.41:1
Net cash used in operating activities (for the three months ended)	$ (10,532)	$ (42,337)
Net cash provided by investing activities (for the three months ended)	$ 9,892	$ 6,820
Net cash used in financing activities (for the three months ended)	$ (14,183)	$ (5,812)

Capital expenditures	$ (3,165)	$ (5,087)
Acquisitions, net of cash acquired	$ (12,414)	$ (30,878)
Days sales outstanding	76 days	73 days

Overall working capital decreased approximately $40.6 million as of March 31, 2007 as compared to March 31, 2006. The decrease in working capital is primarily attributable to a decrease in cash and marketable securities of approximately $57.7 million, which is the result of: (i) cash used to repurchase shares of the Company s common stock, (ii) the Company s contribution of $10.2 million to its pension plan in September 2006, (iii) cash used for capital expenditures, (iv) cash used to pay restructuring and integration related expenses associated with the acquisition of Vestcom s Marketing and Business Communications business in 2006, and (v) cash used in the acquisition of St Ives Financial during the first quarter of 2007 and a $3.0 million payment related to the acquisition of certain technology assets of PLUM Computer Consulting, Inc. Offsetting the decrease in cash and marketable

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securities as of March 31, 2007 as compared to March 31, 2006 is the increase in accounts receivable due to higher revenue during the three months ended March 31, 2007, the increase in the days sales outstanding as of March 31, 2007, and partially due to the acquisition of the St Ives Financial business.

For the three months ended March 31, 2007, the Company repurchased 835,876 shares of its common stock for approximately $13.0 million (an average price of $15.53 per share) in accordance with its share repurchase program that is described more fully in Note 5 of the Notes to Condensed Consolidated Financial Statements. As of March 31, 2007, there was approximately $39.4 million available for share repurchases. Since the inception of the Company s share repurchase program in December 2004 through March 31, 2007, the Company has repurchased approximately 10.7 million shares of its common stock at an average price of $14.82 per share. Subsequent to March 31, 2007, the Company has repurchased an additional 228,880 shares of its common stock under this plan for approximately $3.7 million (an average price of $16.19).

The Company had no borrowings outstanding under its $150 million five-year senior, unsecured revolving credit facility as of March 31, 2007. The facility expires in May 2010. The Company s Canadian subsidiary also had all of its borrowings available under its $4.3 million Canadian dollar credit facility as of March 31, 2007.

It is expected that the cash generated from operations, working capital 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 working capital; the heaviest demand for utilization of working capital is normally in the second quarter. The Company s existing borrowing capacity provides for this seasonal increase.

Cash Flows

Days sales outstanding increased to 76 days as of March 31, 2007 from 73 days as of March 31, 2006. The Company had net cash used in operating activities of $10,532 and $42,337 for the three months ended March 31, 2007 and 2006, respectively. The decrease in net cash used in operating activities for the three months ended March 31, 2007 as compared to the same period in 2006 is primarily the result of a decrease in cash used to pay accrued bonuses during the quarter ending March 31, 2007 as compared to the same period in 2006, the funding of costs related to the Company s relocation of its corporate office and New York City based operations during the first quarter of 2006, a net refund of income taxes during the quarter ending March 31, 2007 of $6,067 as compared to cash payments for income taxes of $3,376 during 2006, and a decrease in the change in accounts receivable for the first quarter of 2007 as compared to the same period in 2006. Overall, cash used in operating activities decreased by $31,805 from March 31, 2006 to March 31, 2007.

Net cash provided by investing activities was $9,892 for the three months ended March 31, 2007 as compared to $6,820 for the three months ended March 31, 2006. The increase in net cash provided by investing activities from 2006 to 2007 was primarily due to the decrease in cash used for acquisitions in 2007 as compared to 2006. The results for 2006 include the net cash used in the acquisition of Vestcom s Marketing and Business Communications division of approximately $30,878, as compared to cash used for acquisitions in 2007 of approximately $12,414, which consists of the acquisition of St Ives Financial and an additional $3,000 related to the acquisition of certain technology assets of PLUM Computer Consulting Inc. In addition, there was a slight decrease in capital expenditures for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006. Capital expenditures for the three months ended March 31, 2007 were $3,165 as compared to $5,087 for the same period in 2006. Offsetting these decreases in cash used in investing activities was the net sale of marketable securities of $25,400 in 2007 as compared to $43,000 in 2006.

Net cash used in financing activities was $14,183 and $5,812 for the three months ended March 31, 2007 and 2006, respectively. The increase in net cash used in financing activities in 2007 as compared to 2006 primarily resulted from a decrease in the cash received from the exercise of stock options during the three months ended March 31, 2007 as compared to the same period in 2006 and a slight increase in the repurchase of the Company s common stock during the three months ended March 31, 2007 as compared to same period in 2006.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which became effective for us beginning in 2007. The Company adopted FIN 48 in January 2007. FIN 48 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in financial statements. Under FIN 48, the Company will recognize tax benefits from uncertain tax positions only when it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized for such positions are measured based on that level of benefit that has a greater than fifty percent likelihood of being effectively settled. The impact of adopting FIN 48 resulted in the Company recognizing a $590 decrease to its unrecognized tax benefits which is reflected as an adjustment to retained earnings as of January 1, 2007. The total gross amount of unrecognized tax benefits included in the Condensed Consolidated Balance Sheet as of the date of adoption was $11,281, including estimated interest and penalties of $1,520. The total gross amount of unrecognized tax benefits as of March 31, 2007 is $10,428, including estimated interest and penalties of $1,296. The reduction of the unrecognized tax benefits since the date of adoption primarily reflects settlements and effective closures of income tax audits as well as the lapse of applicable statutes of limitations, and is included in the Company s tax provision for the three months ended March 31, 2007. The adoption of FIN 48 is discussed in more detail in Note 13 of the Notes to Condensed Consolidated Financial Statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities. Under SFAS 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop the assumptions that market participants would use when pricing the asset or liability. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. In addition, SFAS 157 requires that fair value measurements be separately disclosed by level within the fair value hierarchy. SFAS 157 does not require new fair value measurements and is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the impact this standard may have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that currently are not required to be measured at fair value. This Statement is effective no later than fiscal years beginning on or after November 15, 2007. The Company is currently evaluating the impact this standard may have on its financial statements.

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

The Company s market risk is principally associated with activity levels and trends in the domestic and international capital markets, particularly in the Financial Communications segment. This includes activity levels in the initial public offerings and mergers and acquisitions markets, both important components of the Financial Communications segment. The Company also has market risk tied to interest rate fluctuations related to 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 and revolving credit 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%. The Company s five-year $150 million senior unsecured revolving credit facility bears 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 three months ended March 31, 2007,

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there was no average outstanding balance under the revolving credit facility and no balance outstanding as of March 31, 2007 therefore, there is no significant impact from a hypothetical increase in the interest rate related to the revolving credit facility during the three months ended March 31, 2007.

Foreign Exchange Rates

The Company derives a portion of its revenues from various foreign sources. Revenue from the Company s international financial communications operations is denominated in foreign currencies, while some of its costs are denominated in U.S. dollars. The Company does not use foreign currency hedging instruments to reduce its exposure to foreign exchange fluctuations. The Company has reflected translation adjustments of $548 and $1 in its Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2007 and 2006, 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 s investments in marketable securities were approximately $17.2 million as of March 31, 2007, primarily consisting of auction rate securities. These securities are fixed income securities with limited market fluctuation risk. The Company s defined benefit pension plan holds investments in both equity and fixed income securities. The amount of the Company s annual contribution to the plan is dependent upon, among other things, the return on the plan s assets. To the extent there are fluctuations in equity values, the amount of the Company s annual contribution could be affected. For example, a decrease in equity prices could increase the amount of the Company s annual contributions to the plan.

Item 4. ***Controls and Procedures***

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

As of the end of the period covered by this report, the Company s management, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures, pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e) (the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective in ensuring that all material information required to be filed or submitted under the Exchange Act has been made known to them in a timely fashion.

(b) *Changes in Internal Control Over Financial Reporting.* 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 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

(c) *Issuer Purchases of Common Stocks:*

The following table provides information with respect to the repurchase of shares of the Company s common stock by or on behalf of the Company, in accordance with the stock repurchase program, for the quarter ended March 31, 2007.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
		(In thousands, except per share data)		
January 1, 2007 to January 31, 2007	286	$ 15.63	286	$ 47,900
February 1, 2007 to February 28, 2007	213	$ 15.54	213	$ 44,600
March 1, 2007 to March 31, 2007	337	$ 15.44	337	$ 39,400
Total	836	$ 15.53	836	

Item 6. ***Exhibits***

(a) *Exhibits:*

31.1	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002, signed by David J. Shea, Chairman of the Board, President and Chief Executive Officer
31.2	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002, signed by John J. Walker, 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 David J. Shea, Chairman of the Board, President 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 John J. Walker, Senior Vice President and Chief Financial Officer

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BOWNE & CO., INC.

/s/ DAVID J. SHEA
David J. Shea
Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

Date: May 9, 2007

/s/ JOHN J. WALKER
John J. Walker
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: May 9, 2007

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

Date: May 9, 2007