BOWNE & CO INC
Form 10-Q
November 05, 2010

**UNITED STATES 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, 2010**

**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**<br>*(State or other jurisdiction of incorporation or organization)* | **13-2618477**<br>*(I.R.S. Employer Identification Number)* |
| **55 Water Street**<br>**New York, New York**<br>*(Address of principal executive offices)* | **10041**<br>*(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 (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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted to its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer o | Accelerated filer þ | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

The Registrant had 40,112,071 shares of Common Stock outstanding as of November 1, 2010.

**TABLE OF CONTENTS**

Table of Contents

# PART I

# FINANCIAL INFORMATION

**Item 1.** ***Financial Statements***

## BOWNE & CO., INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three Months Ended September 30, | |
|---|---|---|
| | **2010** | **2009** |
| | (Unaudited) (In thousands, except per share data) | |
| Revenue | $ 150,256 | $ 148,763 |
| Expenses: | | |
| Cost of revenue (exclusive of depreciation and amortization shown below) | 107,662 | 100,476 |
| Selling and administrative (exclusive of depreciation and amortization shown below) | 41,184 | 44,497 |
| Depreciation | 6,991 | 6,190 |
| Amortization | 1,367 | 1,366 |
| Restructuring, integration and asset impairment charges | 854 | 4,220 |
| Merger related expenses | 5,076 | |
| | 163,134 | 156,749 |
| Operating loss | (12,878) | (7,986) |
| Interest expense | (844) | (1,796) |
| Loss on extinguishment of debt | | (777) |
| Other expense, net | (383) | (1,026) |
| Loss from continuing operations before income taxes | (14,105) | (11,585) |
| Income tax benefit | 2,355 | 4,163 |
| Loss from continuing operations | (11,750) | (7,422) |
| Loss from discontinued operations, net of tax | (68) | (51) |
| Net loss | $ (11,818) | $ (7,473) |
| Loss per share from continuing operations: | | |
| Basic | $ (0.29) | $ (0.21) |
| Diluted | $ (0.29) | $ (0.21) |

| | | | | |
|---|---|---|---|---|
| Loss per share from discontinued operations: | | | | |
| Basic | $ | (0.00) | $ | (0.00) |
| Diluted | $ | (0.00) | $ | (0.00) |
| | | | | |
| Total loss per share: | | | | |
| Basic | $ | (0.29) | $ | (0.21) |
| Diluted | $ | (0.29) | $ | (0.21) |
| | | | | |
| Dividends per share (2010 dividends were paid in cash, 2009 were paid in stock) | $ | 0.055 | $ | 0.055 |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

## BOWNE & CO., INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | (Unaudited) (In thousands, except per share data) | | | |
| Revenue | $ | 533,198 | $ | 506,844 |
| Expenses: | | | | |
| Cost of revenue (exclusive of depreciation and amortization shown below) | | 357,175 | | 338,302 |
| Selling and administrative (exclusive of depreciation and amortization shown below) | | 134,472 | | 132,974 |
| Depreciation | | 20,913 | | 20,647 |
| Amortization | | 4,100 | | 4,100 |
| Restructuring, integration and asset impairment charges | | 7,111 | | 21,184 |
| Merger related expenses | | 11,217 | | |
| | | 534,988 | | 517,207 |
| Operating loss | | (1,790) | | (10,363) |
| Interest expense | | (2,885) | | (5,148) |
| Loss on extinguishment of debt | | | | (777) |
| Other income (expense), net | | 953 | | (1,182) |
| Loss from continuing operations before income taxes | | (3,722) | | (17,470) |
| Income tax (expense) benefit | | (1,998) | | 4,447 |
| Loss from continuing operations | | (5,720) | | (13,023) |
| Loss from discontinued operations, net of tax | | (175) | | (222) |
| Net loss | $ | (5,895) | $ | (13,245) |
| Loss per share from continuing operations: | | | | |
| Basic | $ | (0.14) | $ | (0.43) |
| Diluted | $ | (0.14) | $ | (0.43) |
| Loss per share from discontinued operations: | | | | |
| Basic | $ | (0.00) | $ | (0.01) |
| Diluted | $ | (0.00) | $ | (0.01) |
| Total loss per share: | | | | |
| Basic | $ | (0.14) | $ | (0.44) |
| Diluted | $ | (0.14) | $ | (0.44) |

| | | | | |
|---|---|---|---|---|
| Dividends per share (2010 dividends were paid in cash, 2009 were paid in stock) | $ | 0.165 | $ | 0.165 |

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents**

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

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| | Three Months Ended September 30, 2010 | 2009 |
|---|---|---|
| | (Unaudited) (In thousands) | |
| Net loss | $ (11,818) | $ (7,473) |
| Recognition of previously unrecognized pension adjustments, net of taxes of $483 and $323 for 2010 and 2009, respectively | 682 | 456 |
| Foreign currency translation adjustments | 2,068 | 2,780 |
| Net unrealized gain (loss) from marketable securities during the period, net of taxes of $0 and $1 for 2010 and 2009, respectively | | (1) |
| Comprehensive loss | $ (9,068) | $ (4,238) |

| | Nine Months Ended September 30, 2010 | 2009 |
|---|---|---|
| | (Unaudited) (In thousands) | |
| Net loss | $ (5,895) | $ (13,245) |
| Recognition of previously unrecognized pension adjustments, net of taxes of $1,450 and $10,570 for 2010 and 2009, respectively | 2,044 | 14,900 |
| Foreign currency translation adjustments | 691 | 5,415 |
| Net unrealized loss from marketable securities during the period, net of taxes of $13 and $1 for 2010 and 2009, respectively | (18) | (2) |
| Reclassification adjustments for unrealized holding losses on marketable securities that were sold during the period, net of taxes of $85 and $0 for 2010 and 2009, respectively | 132 | |
| Comprehensive (loss) income | $ (3,046) | $ 7,068 |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| | (Unaudited) | |
| | (In thousands, except share data) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 34,845 | $ 22,061 |
| Marketable securities | 293 | 210 |
| Accounts receivable, less allowances of $3,388 (2010) and $4,554 (2009) | 113,901 | 105,067 |
| Inventories | 29,080 | 26,831 |
| Prepaid expenses and other current assets | 36,407 | 46,702 |
| Total current assets | 214,526 | 200,871 |
| Marketable securities, noncurrent | | 2,920 |
| Property, plant and equipment at cost, less accumulated depreciation of $279,046 (2010) and $269,490 (2009) | 110,601 | 117,218 |
| Other noncurrent assets: | | |
| Goodwill | 51,162 | 51,076 |
| Intangible assets, less accumulated amortization of $16,377 (2010) and $12,273 (2009) | 32,303 | 36,397 |
| Deferred income taxes | 42,196 | 40,817 |
| Other | 10,453 | 11,575 |
| Total assets | $ 461,241 | $ 460,874 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Current portion of long-term debt and capital lease obligations | $ 8,715 | $ 8,559 |
| Accounts payable | 38,062 | 47,243 |
| Employee compensation and benefits | 29,641 | 25,575 |
| Accrued expenses and other obligations | 44,345 | 34,973 |
| Total current liabilities | 120,763 | 116,350 |
| Other liabilities: | | |
| Long-term debt and capital lease obligations net of current portion | 15,515 | 5,719 |
| Deferred employee compensation | 61,909 | 66,943 |
| Deferred rent | 17,231 | 18,813 |
| Other | 2,145 | 1,582 |
| Total liabilities | 217,563 | 209,407 |
| Commitments and contingencies | | |

| | | | | |
|---|---|---|---|---|
| Stockholders equity: | | | | |
| Preferred stock: | | | | |
| Authorized 1,000,000 shares, par value $.01 issuable in series none issued | | | | |
| Common stock: | | | | |
| Authorized 60,000,000 shares, par value $.01, issued 44,215,645 shares and outstanding 40,108,419 shares, net of treasury shares of 4,107,226 (2010); issued 44,216,895 shares and outstanding 40,084,752 shares, net of treasury shares of 4,132,143 (2009) | | 442 | | 442 |
| Additional paid-in capital | | 34,393 | | 32,699 |
| Retained earnings | | 280,392 | | 293,040 |
| Treasury stock, at cost, 4,107,226 shares (2010) and 4,132,143 shares (2009) | | (54,825) | | (55,140) |
| Accumulated other comprehensive loss, net | | (16,724) | | (19,574) |
| Total stockholders equity | | 243,678 | | 251,467 |
| Total liabilities and stockholders equity | $ | 461,241 | $ | 460,874 |

See Notes to Condensed Consolidated Financial Statements.

6

Table of Contents

## BOWNE & CO., INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 |
|---|---|---|
| | (Unaudited) (In thousands) | |
| **Cash flows from operating activities:** | | |
| Net loss | $ (5,895) | $ (13,245) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Net loss from discontinued operations | 175 | 222 |
| Depreciation | 20,913 | 20,647 |
| Amortization | 4,100 | 4,100 |
| Asset impairment charges | 2,359 | 2,450 |
| Loss on extinguishment of debt | | 777 |
| Changes in other assets and liabilities, net of acquisitions, discontinued operations and certain non-cash transactions | (499) | (7,535) |
| Net cash used in operating activities of discontinued operations | (607) | (1,087) |
| Net cash provided by operating activities | 20,546 | 6,329 |
| **Cash flows from investing activities:** | | |
| Purchases of property, plant, and equipment | (15,462) | (10,556) |
| Proceeds from the sale of marketable securities and other assets | 4,799 | 758 |
| Other | | (195) |
| Net cash used in investing activities | (10,663) | (9,993) |
| **Cash flows from financing activities:** | | |
| Proceeds from borrowings under revolving credit facility, net of debt issuance costs in 2009 | 48,959 | 38,542 |
| Payment of debt and capital lease obligations | (39,440) | (99,044) |
| Proceeds from equity offering, net of equity issuance costs | | 67,828 |
| Payment of cash dividends | (6,753) | |
| Proceeds from stock options exercised | 25 | |
| Other | 22 | |
| Net cash provided by financing activities | 2,813 | 7,326 |
| Effects of exchange rates on cash flows and cash equivalents | 88 | 1,120 |
| Net increase in cash and cash equivalents | 12,784 | 4,782 |
| Cash and cash equivalents, beginning of period | 22,061 | 11,524 |

| | | |
|---|---|---|
| Cash and cash equivalents, end of period | $ 34,845 | $ 16,306 |
| Supplemental Cash Flow Information: | | |
| Cash paid for interest | $ 1,716 | $ 3,159 |
| Net cash refunded for income taxes | $ (7,660) | $ (7,589) |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**(In thousands, except share information and where noted)**

**Note 1. Basis of Presentation**

The financial information as of September 30, 2010 and for the three and nine month periods ended September 30, 2010 and 2009 has been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ). In the opinion of management, all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the consolidated financial position, results of operations and of cash flows for each period presented have been made on a consistent basis. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the Company s annual report on Form 10-K and consolidated financial statements for the year ended December 31, 2009. Operating results for the three and nine months ended September 30, 2010 may not be indicative of the results that may be expected for the full year.

**Note 2. Merger Agreement with R.R. Donnelley**

On February 23, 2010, Bowne & Co., Inc. (the Company ) entered into an Agreement and Plan of Merger (the Merger Agreement ) with R.R. Donnelley & Sons Company, a Delaware corporation ( R.R. Donnelley ), and Snoopy Acquisition, Inc., a Delaware corporation and a wholly owned subsidiary of R.R. Donnelley ( Merger Sub ). The Merger Agreement was approved by the Boards of Directors of the parties to the Merger Agreement. The merger was also approved by the Company s shareholders in May 2010.

Pursuant to the terms of the Merger Agreement, Merger Sub will merge with and into the Company, with the Company surviving the merger (the Merger ) as a wholly-owned subsidiary of R.R. Donnelly. In the Merger, each outstanding share of common stock of the Company, other than those held by the Company or its subsidiaries, or owned by R.R. Donnelley or Merger Sub and those with respect to which dissenters rights are properly exercised, will be cancelled and converted into the right to receive cash in the amount of $11.50 per share.

Consummation of the merger is subject to various customary conditions, including the approval of the Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, other applicable regulatory approvals and the absence of certain legal impediments to the consummation of the Merger.

On October 21, 2010, the Company announced that the termination date of the Merger Agreement has been extended to January 23, 2011 from October 23, 2010, in accordance with the Merger Agreement.

The Merger Agreement contains certain termination rights for both the Company and R.R. Donnelley and further provides that, upon termination of the Merger Agreement under specified circumstances, the Company may be obligated to pay R.R. Donnelley a termination fee of $14.5 million. In addition, in the event that the Merger Agreement is terminated in certain circumstances involving a failure to obtain antitrust approval, R.R. Donnelley will be obligated to pay the Company a termination fee of $20.0 million plus up to $2.5 million of legal expenses.

The Merger Agreement also contains covenants with respect to the operation of the Company s business between signing of the Merger Agreement and closing of the Merger. Pending consummation of the Merger, the Company will operate its business in the ordinary and usual course, except for certain actions which would require R.R. Donnelley s approval. Such actions include mergers and acquisitions, issuance of stock, incurring debt in excess of agreed upon amounts, payment of dividends other than the regular quarterly dividend, incurring capital expenditures in excess of budgeted amounts, entering into long-term arrangements, amending or terminating contracts, establishing new employee benefits or amending existing employee benefits, and certain other spending limits.

During the three and nine months ended September 30, 2010, the Company recorded approximately $5.1 million and $11.2 million of expenses related to the Merger, respectively. These expenses primarily consist

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of advisory fees, estimated legal fees, a $0.6 million provision for estimated settlement costs associated with shareholder litigation and other transition related costs. These amounts are included in the Company s results of operations for the three and nine months ended September 30, 2010, respectively.

**Note 3. Recent Accounting Pronouncements**

In January 2010, the Financial Accounting Standards Board ( FASB ) issued an accounting standards update ( ASU ) regarding improving disclosure about fair value measurements, which amends the existing disclosure requirements under fair value measurements and disclosures by adding required disclosure about items transferring into and out of Levels 1 and 2 fair value measurements; adding separate disclosure about purchases, sales, issuances, and settlements relative to the Level 3 fair value measurements; and clarifying certain aspects of the existing disclosure requirements. This ASU was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll-forward of activity in Level 3 fair value measurements, which is effective for years beginning after December 15, 2010, and for interim periods within those fiscal years. This ASU does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, the ASU requires comparative disclosures only for periods ending after the initial adoption. The Company adopted the first component of the disclosure requirement under this ASU during the first quarter of 2010. Its adoption did not have a significant impact on the Company s financial statements. In addition, the Company will adopt the latter part of the disclosure requirement under this ASU in the first quarter of 2011, and does not anticipate its adoption will have a significant impact on the Company s financial statements.

In February 2010, the FASB issued an ASU regarding amendments to certain recognition and disclosure requirements related to subsequent events, which amends the previously issued standard regarding the accounting for subsequent events. This ASU removes the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated. This ASU was effective immediately, which the Company adopted in its Consolidated Financial Statements in the Company s annual report on Form 10-K for the year ended December 31, 2009. Its adoption did not have a significant impact on the Company s financial statements.

In October 2009, the FASB issued an ASU to amend and provide updated guidance for certain multiple deliverable revenue arrangements on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated. This amendment requires an entity to allocate revenue in an arrangement using the best estimated selling price of deliverables if a vendor does not have vendor-specific objective evidence or third party evidence of selling price. In addition, this amendment requires an entity to eliminate the use of the residual method and to allocate revenue using the relative selling price method. This accounting standard is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with permission of early adoption. The Company will adopt this accounting standard in January 2011 on a prospective basis, and currently does not anticipate that its adoption will have a significant impact on the Company s financial statements.

**Note 4. Fair Value of Financial Instruments**

The Company defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The fair value estimates presented in the table below are based on information available to the Company as of September 30, 2010.

The FASB standard regarding fair value measurements discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The standard utilizes a fair value

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

*Level 1:* Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

*Level 2:* Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

*Level 3:* Unobservable inputs that reflect the reporting entity s own assumptions.

The carrying value and fair value of the Company s significant financial assets and liabilities and the necessary disclosures for the periods are presented as follows:

| | September 30, 2010 | | | | |
|---|---|---|---|---|---|
| | Carrying | Fair Value Measurements | | | |
| | Value | Total | Level 1 | Level 2 | Level 3 |
| Financial Assets: | | | | | |
| Cash and cash equivalents[1] | $ 34,845 | $ 34,845 | $ 34,845 | $ | $ |
| Marketable securities, current | 293 | 293 | 293 | | |
| Marketable securities, noncurrent[2] | | | | | |
| Total financial assets | $ 35,138 | $ 35,138 | $ 35,138 | $ | $ |
| Financial Liabilities: | | | | | |
| Convertible subordinated debentures (the Notes[3]) | $ 8,320 | $ 8,320 | $ | $ 8,320 | $ |
| Senior revolving credit facility[4] | 15,033 | 15,033 | | 15,033 | |
| Total financial liabilities | $ 23,353 | $ 23,353 | $ | $ 23,353 | $ |

(1) Included in cash and cash equivalents is money market funds of $3,716 as of September 30, 2010.

(2) In May 2010, the Company liquidated its investments in auction rate securities, which is discussed in more detail in the reconciliation below and in Note 5 to the Condensed Consolidated Financial Statements.

(3) The carrying value of the Notes as of September 30, 2010 approximates par value since the Notes were repurchased on October 1, 2010. The Notes are discussed in more detail in Note 10 to the Condensed Consolidated Financial Statements.

(4) The carrying value represents the borrowings outstanding under the Company s revolving credit facility, which is discussed in more detail in Note 10 to the Condensed Consolidated Financial Statements.

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A reconciliation of the beginning and ending balance for the Company s investments in marketable securities using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2010 was as follows:

| | September 30, 2010 | |
|---|---|---|
| | Three Months Ended | Nine Months Ended |
| Beginning balance | $ | $ 2,920 |
| Unrealized loss included in accumulated other comprehensive loss (before income taxes) | | (37) |
| Reclassification adjustment of unrealized loss previously included in accumulated other comprehensive loss (before income taxes) | | 217 |
| Proceeds received from sale of the investments in auction rate securities | | (2,636) |
| Loss from sale of the investments included in income from continuing operations before income taxes | | (464) |
| Ending balance | $ | $ |

The following assumptions were used by the Company in order to measure the estimated fair value of its financial assets and liabilities as of September 30, 2010: (i) the carrying value of cash and cash equivalents approximates fair value because of the short term maturity of those instruments; (ii) the carrying value of the liabilities under the Company s revolving credit agreement approximates fair value as of September 30, 2010, since this facility has a variable interest rate similar to those that are currently available to the Company, and is reflective of current market conditions; and (iii) the carrying value of the Notes approximates par value as previously discussed.

**Note 5. Marketable Securities**

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.

During the second quarter of 2010, the Company liquidated its remaining investments in auction rate securities, which had a par value of approximately $3.1 million, for approximately $2.6 million and recognized a loss of approximately $0.5 million upon the sale. The loss recognized on the sale of these securities is included in the Company s results of operations for the nine months ended September 30, 2010. Upon the sale of these securities, the Company also reclassified unrealized losses of $0.2 million ($0.1 million after tax) related to the auction rate securities which were previously reported as a component of the Company s accumulated other comprehensive loss.

**Note 6. Stock-Based Compensation**

In accordance with the FASB standard regarding share-based payments, the Company measures the share-based compensation expense for stock options granted based upon the estimated fair value of the award on the date of grant and recognizes the compensation expense over the award s requisite service period. The Company has not granted stock options with market or performance conditions. There were no stock options granted during the three and nine months ended September 30, 2010, respectively. The weighted-average fair value of stock options granted during the three and nine months ended September 30, 2009 was $4.28 and $1.67, respectively. The weighted-average fair value was calculated using the Black-Scholes-Merton option pricing model. The following

11

BOWNE & CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

assumptions were used to determine the weighted-average fair value of the stock options granted during the three and nine months ended September 30, 2009:

| | September 30, 2009 | |
|---|---|---|
| | Three Months Ended | Nine Months Ended |
| Expected dividend yield | 4.4% | 3.6% |
| Expected stock price volatility | 81.6% | 68.5% |
| Risk-free interest rate | 2.9% | 2.3% |
| Expected life of options | 5 years | 5 years |

The Company uses historical data to estimate the expected dividend yield and expected volatility of the Company s stock in determining the fair value of the stock options. The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant and the expected life of the options represents the estimated length of time the options are expected to remain outstanding, which is based on the history of exercises and cancellations of past grants made by the Company. In accordance with the FASB standard, the Company recorded compensation expense for the three and nine months ended September 30, 2010 and 2009, net of pre-vesting forfeitures for the options granted, which was based on the historical experience of the vesting and forfeitures of stock options granted in prior years.

The Company recorded compensation expense related to stock options of $232 and $693 for the three and nine months ended September 30, 2010, respectively, and $169 and $1,000 for the three and nine months ended September 30, 2009, respectively, which is included in selling and administrative expenses in the Condensed Consolidated Statement of Operations. As of September 30, 2010, there was approximately $965 of total unrecognized compensation cost related to non-vested stock option awards which is expected to be recognized over a weighted-average period of 1.4 years.

As discussed in more detail in Note 18 to the Consolidated Financial Statements in the Company s annual report on Form 10-K for the year ended December 31, 2009, the Company recognized approximately $457 of compensation expense in March 2009 related to the accelerated vesting of the nonvested portion of the stock options voluntarily surrendered by certain executive officers of the Company during the first quarter of 2009. No additional compensation was provided to these officers in return for surrendering these stock options.

***Stock Option Plans***

The Company has two stock incentive plans, a 1999 Plan (which was amended in May 2009) and a 2000 Plan, which are described in more detail in Note 18 to the Consolidated Financial Statements in the Company s annual report on Form 10-K for the year ended December 31, 2009. The Company uses treasury shares to satisfy stock option exercises from the 2000 Plan, deferred stock units and restricted stock awards. To the extent treasury shares are not used, shares are issued from the Company s authorized and unissued shares.

Table of Contents

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The details of the stock option activity for the nine months ended September 30, 2010 is as follows:

| | Number of Options | Weighted-Average Exercise Price | Aggregate Intrinsic Value |
|---|---|---|---|
| Outstanding as of January 1, 2010 | 2,071,501 | $ 8.59 | |
| Granted | | $ | |
| Exercised | (3,750) | $ 3.23 | |
| Forfeited/Cancelled | (40,500) | $ 11.75 | |
| Outstanding as of March 31, 2010 | 2,027,251 | $ 8.54 | |
| Granted | | $ | |
| Exercised | (3,750) | $ 3.06 | |
| Forfeited/Cancelled | (11,750) | $ 12.60 | |
| Outstanding as of June 30, 2010 | 2,011,751 | $ 8.53 | |
| Granted | | $ | |
| Exercised | (500) | $ 3.23 | |
| Forfeited/Cancelled | (1,500) | $ 3.23 | |
| Outstanding as of September 30, 2010 | 2,009,751 | $ 8.53 | $ 7,571 |
| Exercisable as of September 30, 2010 | 1,081,876 | $ 11.64 | $ 1,709 |

The total intrinsic value of the stock options exercised during the three and nine months ended September 30, 2010 was $4 and $65, respectively. There were no stock options exercised during the three and nine months ended September 30, 2009. The amount of cash received from the exercise of stock options was $25 for the nine months ended September 30, 2010. The tax benefit recognized related to compensation expense for stock options amounted to $49 and $146 for the three and nine months ended September 30, 2010, respectively, and $50 and $156 for the three and nine months ended September 30, 2009, respectively. The actual tax benefits realized from stock option exercises was $2 and $27 for the three and nine months ended September 30, 2010, respectively. The excess tax benefits related to stock option exercises resulted in cash flows from financing activities of $22 for the nine months ended September 30, 2010.

The following table summarizes weighted-average option exercise price information as of September 30, 2010:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted-Average Remaining Life | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |

| | | | | | | |
|---|---|---|---|---|---|---|
| $ 1.49 - $10.31 | 1,275,145 | 5 years | $ 5.28 | 352,520 | $ 6.41 |
| $10.32 - $11.99 | 41,232 | 3 years | $ 10.69 | 41,232 | $ 10.69 |
| $12.00 - $14.00 | 432,289 | 1 years | $ 13.72 | 432,289 | $ 13.72 |
| $14.01 - $15.77 | 227,165 | 3 years | $ 15.19 | 224,415 | $ 15.19 |
| $15.78 - $19.72 | 33,920 | 5 years | $ 17.53 | 31,420 | $ 17.58 |
| | 2,009,751 | 4 years | $ 8.53 | 1,081,876 | $ 11.64 |

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes information about nonvested stock option awards as of September 30, 2010:

| | Number of Options | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Nonvested stock options as of January 1, 2010 | 964,500 | $ 2.26 |
| Granted | | $ |
| Vested | (27,875) | $ 2.13 |
| Forfeited | | $ |
| Nonvested stock options as of March 31, 2010 | 936,625 | $ 2.26 |
| Granted | | $ |
| Vested | (2,500) | $ 1.51 |
| Forfeited | | $ |
| Nonvested stock options as of June 30, 2010 | 934,125 | $ 2.26 |
| Granted | | $ |
| Vested | (4,750) | $ 4.47 |
| Forfeited | (1,500) | $ 1.43 |
| Nonvested stock options as of September 30, 2010 | 927,875 | $ 2.25 |

Total compensation expense recognized for stock options that vested during the three and nine months ended September 30, 2010 amounted to $8 and $13, respectively. Total compensation expense recognized for stock options that vested during the three and nine months ended September 30, 2009 amounted to $4 and $555. The decrease in compensation expense recognized for stock options that vested during the nine months ended September 30, 2010 as compared to the same period in 2009 is primarily related to the compensation expense associated with the accelerated vesting of the voluntarily surrendered stock options in 2009, as previously discussed.

*Deferred Stock Awards*

The Company maintains a program for certain key executives and directors that provides for the conversion of a portion of their cash bonuses or directors fees into deferred stock units. These units are convertible into the Company s common stock on a one-for-one basis, generally at the time of retirement or earlier under certain specific circumstances and are included as shares outstanding in computing the Company s basic and diluted earnings per share. As of September 30, 2010 and December 31, 2009, the amounts included in stockholders equity for these units were $6,983 and $6,241, respectively. As of September 30, 2010 and December 31, 2009, there were 732,363 and 648,399 units outstanding, respectively.

Additionally, the Company has a Deferred Sales Compensation Plan for certain sales personnel. This plan allows a salesperson to defer payment of commissions to a future date. Participants may elect to defer commissions to be paid in either cash, a deferred stock equivalent (the value of which is based upon the value of the Company s common stock), or a combination of cash or deferred stock equivalents. The amounts deferred, plus any matching contribution made by the Company, will be paid upon retirement, termination or in certain hardship situations. Amounts accrued which the employees participating in the plan have elected to be paid in deferred stock equivalents amounted to $1,651 and $1,874 as of September 30, 2010 and December 31, 2009, respectively. In January 2004, the Plan was amended to require that the amounts to be paid in deferred stock equivalents would be paid solely in the Company s common stock. As of September 30, 2010 and December 31, 2009, these amounts are a component of additional paid in capital in stockholders equity. As of September 30, 2010 and December 31,

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

2009, there were 144,720 and 160,287 deferred stock equivalents, respectively, outstanding under this Plan. These awards are included as shares outstanding in computing the Company s basic and diluted earnings per share.

Compensation expense related to deferred stock awards amounted to $250 and $827 for the three and nine months ended September 30, 2010, respectively, and $210 and $525 for the three and nine months ended September 30, 2009, respectively. During the first quarter of 2009, the portion of directors compensation that was previously deferred in stock was credited as a cash-based deferral rather than stock. The deferral of directors compensation in stock was reinstituted during the second quarter of 2009.

*Restricted Stock Units*

In accordance with the 1999 Incentive Compensation Plan, the Company granted certain senior executives restricted stock units ( RSUs ). These awards have various vesting conditions and are subject to certain terms and restrictions in accordance with the agreements. The fair value of the awards is determined based on the fair value of the Company s stock at the date of grant and is charged to compensation expense over the requisite service periods.

As of September 30, 2010, there were 239,000 total RSUs outstanding, which includes 180,250 nonvested RSUs and 58,750 vested but unissued RSUs. The vested RSUs will be issued upon the earliest of either the vesting of the final tranche of each grant or the employee s termination of employment (under certain circumstances). As of December 31, 2009, there were 239,000 RSUs outstanding, which included 209,625 nonvested RSUs and 29,375 vested but unissued RSUs.

A summary of the restricted stock units activity as of September 30, 2010 is as follows:

| | Number of Awards | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Nonvested restricted stock units as of January 1, 2010 | 209,625 | $ 9.39 |
| Granted | | $ |
| Vested | (24,375) | $ 12.91 |
| Forfeited | | $ |
| Nonvested restricted stock units as of March 31, 2010 | 185,250 | $ 8.93 |
| Granted | | $ |
| Vested | (3,750) | $ 16.58 |
| Forfeited | | $ |