

Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

WORKFLOW MANAGEMENT INC

Form 10-Q

September 14, 2001

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2001

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 0-24383

WORKFLOW MANAGEMENT, INC.  
(Exact name of registrant as specified in its charter)

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

06-1507104  
(I.R.S. Employer  
Identification No.)

240 Royal Palm Way  
Palm Beach, FL  
(Address of principal executive offices)

33480  
(Zip Code)

(561) 659-6551  
(Registrant's telephone number, including area code)

N/A  
(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 ☒ No \_\_\_\_.

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As of September 13, 2001, there were 13,019,232 shares of common stock  
outstanding.

WORKFLOW MANAGEMENT, INC.  
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## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

#### WORKFLOW MANAGEMENT, INC. CONSOLIDATED BALANCE SHEET (In thousands, except share amounts)

ASSETS	July 31, 2001	April 30, 2001
-----	-----	-----
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 3,490	\$ 2,126
Accounts receivable, less allowance for doubtful accounts of \$4,215 and \$4,027, respectively	95,772	99,576
Inventories	54,853	55,572
Prepaid expenses and other current assets	15,636	15,404
	-----	-----
Total current assets	169,751	172,678
Property and equipment, net	52,307	56,423
Goodwill, net	116,807	111,457
Other intangible assets, net	2,278	2,081
Other assets	8,930	8,462
Net assets held for sale		900
	-----	-----
Total assets	\$350,073	\$352,001

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## LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Short-term debt	\$ 810	\$ 994
Accounts payable	39,909	33,295
Accrued compensation	9,285	13,053
Accrued additional purchase consideration	5,191	10,283
Accrued restructuring costs	2,019	3,586
Other accrued liabilities	21,015	19,476
	-----	-----
Total current liabilities	78,229	80,687
Long-term credit facility	167,499	171,065
Other long-term debt	2,703	4,266
Deferred income taxes	5,146	4,902
Other long-term liabilities	4,126	1,328
	-----	-----
Total liabilities	257,703	262,248
	-----	-----
Stockholders' equity:		
Preferred stock, \$.001 par value, 1,000,000 shares authorized, none outstanding		
Common stock, \$.001 par value, 150,000,000 shares authorized, 13,018,019 and 12,993,730 issued and outstanding, respectively	13	13
Additional paid-in capital	52,162	52,041
Notes receivable from officers	(4,820)	(4,820)
Accumulated other comprehensive loss	(3,429)	(3,627)
Retained earnings	48,444	46,146
	-----	-----
Total stockholders' equity	92,370	89,753
	-----	-----
Total liabilities and stockholders' equity	\$350,073	\$352,001
	=====	=====

See accompanying notes to consolidated financial statements.

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## WORKFLOW MANAGEMENT, INC. CONSOLIDATED STATEMENT OF INCOME (In thousands, except per share amounts) (Unaudited)

	Three Months Ended	
	July 31, 2001	July 31, 2000
	-----	-----
Revenues	\$155,166	\$141,829
Cost of revenues	111,213	100,629
	-----	-----
Gross profit	43,953	41,200
Selling, general and administrative expenses	36,545	35,254

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Operating income	7,408	5,946
Interest expense	3,703	3,542
Interest income	(220)	(123)
Other income	(14)	(65)
Income before provision for income taxes	3,939	2,592
Provision for income taxes	1,641	1,074
Net income	\$ 2,298	\$ 1,518
Income per share:		
Basic	\$ 0.18	\$ 0.12
Diluted	\$ 0.18	\$ 0.11
Weighted average common shares outstanding:		
Basic	13,002	12,891
Diluted	13,069	13,564

See accompanying notes to consolidated financial statements.

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WORKFLOW MANAGEMENT, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(In thousands)  
(Unaudited)

	Three Months Ended	
	July 31, 2001	July 31, 2000
Cash flows from operating activities:		
Net income	\$ 2,298	\$ 1,518
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	2,740	2,940
Amortization of deferred financing costs	161	136
Cash paid for restructuring costs	(966)	(419)
Changes in assets and liabilities (net of assets acquired and liabilities assumed in business combinations):		
Accounts receivable	4,583	15,314
Inventories	849	1,287
Prepaid expenses and other current assets	240	365
Accounts payable	6,193	(8,524)
Accrued liabilities	(2,804)	(9,650)
Net cash provided by operating activities	13,294	2,967

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Cash flows from investing activities:		
Cash paid in acquisitions, net of cash received	(3,624)	(3,137)
Cash paid for additional purchase consideration	(7,043)	(6,288)
Additions to property and equipment	(5,053)	(3,660)
Cash received on the sale of property and equipment	9,218	42
Cash received for assets held for sale		6,781
Other	(1)	21
	-----	-----
Net cash used in investing activities	(6,503)	(6,241)
	-----	-----
Cash flows from financing activities:		
Proceeds from credit facility borrowings	48,111	31,690
Payments of credit facility borrowings	(52,058)	(30,581)
Payments of other long-term debt	(1,222)	(226)
(Payments) proceeds from short-term debt, net	(157)	2,457
Payments of deferred financing costs	(221)	
Proceeds from common stock issued under employee benefit programs	116	284
Issuance of common stock to outside directors	5	25
	-----	-----
Net cash (used in) provided by financing activities	(5,426)	3,649
	-----	-----
Effect of exchange rates on cash and cash equivalents	(1)	(4)
	-----	-----
Net increase in cash and cash equivalents	1,364	371
Cash and cash equivalents at beginning of period	2,126	2,851
	-----	-----
Cash and cash equivalents at end of period	\$ 3,490	\$ 3,222
	=====	=====

(Continued)

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## WORKFLOW MANAGEMENT, INC. CONSOLIDATED STATEMENT OF CASH FLOWS (In thousands) (Unaudited) (Continued)

Three Months Ended	
-----	
July 31,	July 31,
2001	2000
-----	-----

### Supplemental disclosures of cash flow information:

Interest paid	\$ 3,283	\$ 4,000
Income taxes paid	\$ 2,552	\$ 5,272

During the three months ended July 31, 2001 and July 31, 2000, the Company paid a total of \$10,667 and \$9,425, respectively, in cash representing the aggregate of: 1) the initial fixed consideration for purchase acquisitions, 2) earn-out provisions and other purchase price adjustments relating to certain acquisitions and 3) acquisition costs such as legal and accounting fees associated with certain business combinations all of which related to business combinations that were accounted for under the purchase method of accounting. The fair value of the assets and liabilities at the date of acquisition and the impact of recording the various earn-outs and other acquisition costs are presented as follows:

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	Three Months Ended	
	July 31, 2001	July 31, 2000
Accounts receivable	\$ 739	\$
Inventories	31	
Property and equipment	65	(323)
Intangible assets	3,373	5,303
Accounts payable	(348)	
Accrued liabilities	6,807	4,445
	-----	-----
Net assets acquired	\$10,667	\$9,425
	=====	=====

## Non-cash transactions:

- During the three months ended July 31, 2001 and July 31, 2000, the Company accrued an additional \$1,951 and \$1,844, respectively, as additional purchase consideration for earn-outs.
- During the three months ended July 31, 2000, the Company recorded additional paid-in capital of \$6 related to the tax benefit of stock options exercised.

See accompanying notes to consolidated financial statements.

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## WORKFLOW MANAGEMENT, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands, except per share amounts) (Unaudited)

### NOTE 1 - NATURE OF BUSINESS

Workflow Management, Inc. (the "Company" or "Workflow Management") is a leading provider of end-to-end solutions, providing a variety of custom print products and office supplies and related management services to more than 40,000 businesses in the United States, Canada and Puerto Rico. The Company is comprised of two main operating divisions: 1) the Workflow Solutions Division, which provides customers with print management services, including an e-commerce solution, iGetSmart, designed to minimize the costs of procuring, storing and using custom print products and office supplies and 2) the Workflow Printing Division, which prints and produces envelopes, custom business documents, commercial print, labels, packaging and direct mail literature. Workflow Management employs approximately 3,200 persons and has 21 manufacturing facilities in 6 states and 4 Canadian provinces, 18 distribution centers, 7 print-on-demand centers and 73 sales offices.

### NOTE 2 - BASIS OF PRESENTATION

The accompanying consolidated financial statements and related notes to consolidated financial statements include the accounts of Workflow Management

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and the companies acquired in business combinations accounted for under the purchase method from their respective dates of acquisition.

As used in the Notes to Consolidated Financial Statements, "Fiscal 2002", "Fiscal 2001", "Fiscal 2000" and "Fiscal 1999" refer to the Company's fiscal years ending April 30, 2002, April 30, 2001, April 30, 2000 and April 24, 1999, respectively.

In the opinion of management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods a fair presentation of such operations. All such adjustments are of a normal recurring nature. Operating results for interim periods are not necessarily indicative of results that may be expected for the year as a whole. The consolidated financial statements included in this Form 10-Q should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2001.

### NOTE 3 - INVENTORIES

Inventories consist of the following:

	July 31, 2001	April 30, 2001
	-----	-----
Raw materials	\$ 14,883	\$ 15,480
Work-in-process	8,809	8,595
Finished goods	31,161	31,497
	-----	-----
Total inventories	\$ 54,853	\$ 55,572
	=====	=====

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### WORKFLOW MANAGEMENT, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands, except per share amounts) (Unaudited)

### NOTE 4 - LONG-TERM DEBT

#### Revolving Credit Facility

The Company entered into a secured revolving credit facility (the "Credit Facility") underwritten and agented by Fleet Bank with \$239,500 available for working capital and acquisition purposes. The Credit Facility, as amended through July 31, 2001, is composed of a \$190,000 revolver, including a \$46,300 sublimit for Canadian borrowings, and a \$49,500 amortizing term note. Effective April 30, 2002, the revolver portion of the Credit Facility will be reduced by \$10,000 to \$180,000. The Credit Facility matures on March 10, 2004 and is secured by substantially all assets of the Company and is subject to terms and conditions typical of a credit facility of such type and size, including certain financial covenants, which include a total debt to pro forma EBITDA maximum ("Total Leverage Ratio") of 3.75 to 1.0. Effective April 30, 2002, the Credit Facility provides an additional covenant of senior, Credit Facility debt to pro

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forma EBITDA maximum ("Senior Leverage Ratio") of 3.5 to 1.0. Interest rate options are available to the Company conditioned on certain leverage tests. The maximum rate of interest is the prime rate from time to time in effect. The Credit Facility is also available to fund the cash portion of future acquisitions, subject to the maintenance of bank covenants and total availability under the facility. At July 31, 2001, the Total Leverage Ratio calculated under the Credit Facility was 3.38 to 1.0. The Company could borrow an additional \$18,003 under the Credit Facility for working capital purposes and remain in compliance with the facility. At July 31, 2001, the Company had \$167,499 outstanding under the Credit Facility, at an annual interest rate of approximately 7.25%, and up to \$72,001 available under the Credit Facility for acquisitions and working capital purposes subject to compliance with certain covenants as discussed above. During the three months ended July 31, 2001, the Company incurred \$3,686 in interest expense relating to the Credit Facility.

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### WORKFLOW MANAGEMENT, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands, except per share amounts) (Unaudited)

#### NOTE 5 - STOCKHOLDERS' EQUITY

Changes in stockholders' equity during the three months ended July 31, 2001 were as follows:

Stockholders' equity balance at April 30, 2001	\$89,753
Issuance of common stock in conjunction with:	
Employee stock purchase program	116
Fees paid to outside members of the Company's Board of Directors	5
Comprehensive income	2,496
	-----
Stockholders' equity balance at July 31, 2001	\$92,370
	=====

#### Comprehensive Income

The components of comprehensive income are as follows:

	Three Months Ended	
	-----	
	July 31, 2001	July 31, 2000
	-----	-----
Net income	\$ 2,298	\$ 1,518
Other comprehensive income:		
Foreign currency translation adjustment	198	(1,098)
	-----	-----
Comprehensive income	\$ 2,496	\$ 420
	=====	=====

#### Notes Receivable from Officers

During Fiscal 2001 and Fiscal 1999, the Company extended loans to certain members of management and the Board of Directors ("Stock Loans") for the



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purchase, in the open market, of the Company's common stock by those individuals. The Stock Loans are full recourse promissory notes bearing interest at 6.75% and 8.0% per annum, respectively, with principal and interest payable at maturity on January 2, 2003. Upon a change of control of the Company, prior to maturity, as defined in the notes, the principal amount and accrued interest outstanding under the Stock Loans will be forgiven. At July 31, 2001, \$4,820 and \$544 in principal and interest, respectively, were outstanding.

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## WORKFLOW MANAGEMENT, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands, except per share amounts) (Unaudited)

### NOTE 6 - EARNINGS PER SHARE ("EPS")

Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The following information presents the Company's computations of basic and diluted EPS for the periods presented in the consolidated statement of income:

	Three Months Ended	
	July 31, 2001	July 31, 2000
Earnings per share:		
Net Income	\$ 2,298 =====	\$ 1,518 =====
Weighted average number of:		
Common shares outstanding	13,002	12,891
Potentially dilutive shares*	67	673
Total	13,069 =====	13,564 =====
Basic earnings per share	\$ 0.18 =====	\$ 0.12 =====
Diluted earnings per share	\$ 0.18 =====	\$ 0.11 =====

\* The Company had additional employee stock options outstanding during the periods presented that were not included in the computation of diluted earnings per share because they were anti-dilutive. Options to purchase 4,495 and 1,236 shares of common stock were anti-dilutive and outstanding during the three months ended July 31, 2001 and July 31, 2000, respectively.

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WORKFLOW MANAGEMENT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands, except per share amounts)  
(Unaudited)

## NOTE 7 - BUSINESS COMBINATIONS

During the three month period ended July 31, 2001, the Company completed two business combinations, which were accounted for under the purchase method for an aggregate purchase price of \$3,624 consisting entirely of cash. The total assets related to these acquisitions were \$4,208, including goodwill and other intangible assets of \$3,373. The results of these acquisitions have been included in the Company's results from their respective dates of acquisition.

During Fiscal 2001, the Company made eight acquisitions accounted for under the purchase method for an aggregate purchase price of \$25,200. The total assets related to these acquisitions during Fiscal 2001 were \$50,775 including intangible assets of \$31,626. The results of these acquisitions have been included in the Company's results from their respective dates of acquisition.

The majority of the Company's historical acquisitions have earn-out provisions that could result in additional purchase consideration payable in subsequent periods, ranging from three to five years, dependent upon the future earnings of the acquired companies. During Fiscal 2001, the Company paid \$7,698 for additional purchase consideration. During the three months ended July 31, 2001, the Company paid another \$7,043 for these earn-out provisions and has an additional \$5,191 accrued for these earn-outs at July 31, 2001. This additional consideration, whether paid or accrued, has been reflected in the accompanying balance sheet as goodwill at July 31, 2001.

Following the Company's Fiscal 2000 acquisition of Office Electronics, Inc. ("OEI"), the Company sold certain of OEI's manufacturing divisions and related assets. Net cash proceeds from these divested assets and divisions totaled \$9,764 and \$350 during Fiscal 2001 and the three months ended July 31, 2001, respectively.

The following presents the unaudited pro forma results of operations of the Company for the three months ended July 31, 2001 and July 31, 2000, as if the purchase acquisitions completed since the beginning of Fiscal 2001 had been consummated at the beginning of Fiscal 2001. The pro forma results of operations include certain pro forma adjustments including the additional interest expense for the initial cash consideration and the reductions in executive compensation at the acquired companies of \$69 and \$117 for the three months ended July 31, 2001 and July 31, 2000, respectively.

	Three Months Ended	
	July 31,	July 31,
	2001	2000
Revenues	\$155,629	\$156,549
Net income	2,360	1,730
Earnings per share:		
Basic	\$ 0.18	\$ 0.13
Diluted	0.18	0.13

The unaudited pro forma results of operations are prepared for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisitions and the divestiture occurred at the beginning of

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Fiscal 2001 or the results that may occur in the future.

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## WORKFLOW MANAGEMENT, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands, except per share amounts) (Unaudited)

### NOTE 8 - RESTRUCTURING COSTS

During Fiscal 2001, the Company incurred expenses of \$8,292 in connection with its' reorganization and integration plan. Under this restructuring plan, the Company streamlined its operations by eliminating duplicate facilities and employee functions and reducing corporate overhead. The Company paid \$966 for severance and utilized an additional \$601 for facility closures and asset write-downs associated with this plan during the three months ended July 31, 2001.

Under the restructuring plan implemented during Fiscal 2001, the Company intended to terminate and provide severance benefits to 100 employees. During the fiscal year ended April 30, 2001 and the three months ended July 31, 2001, the Company terminated and provided severance benefits to 31 and 62 employees, respectively. The Company anticipates that the remaining 7 out of 100 employees will be terminated within Fiscal 2002. The majority of the workforce reductions were within the production area and backroom functions such as accounting, human resources and administration.

The following table sets forth the Company's accrued restructuring costs for the three months ended July 31, 2001.

	Facility Closure and Consolidation	Severance and Terminations
	-----	-----
Balance at April 30, 2001.....	\$ 1,622	\$ 1,389
Utilizations.....	(1,031)	(521)
	-----	-----
Balance at July 31, 2001.....	\$ 591	\$ 868
	=====	=====

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## WORKFLOW MANAGEMENT, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands, except per share amounts) (Unaudited)

### NOTE 9 - GOODWILL AND OTHER INTANGIBLE ASSETS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141

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requires that business combinations initiated subsequent to June 30, 2001, must be accounted for by using the purchase method of accounting. SFAS No. 142 supersedes Accounting Principles Board ("APB") Opinion No. 17, "Intangible Assets," however, the new statement will carry forward provisions in APB Opinion No. 17 related to internally developed intangible assets. SFAS No. 142 requires that the Company discontinue the amortization of goodwill.

Early adoption of SFAS No. 142 is allowed for those companies with fiscal years beginning after March 15, 2001. The Company has adopted and applied SFAS No. 142 as of May 1, 2001, the beginning of the Company's Fiscal Year 2002. Pursuant to the transition provisions of SFAS No. 142, the Company has six months from the date of adoption to perform an impairment test of goodwill as of that date. If it is determined that goodwill was impaired at May 1, 2001, the Company must immediately recognize the loss as a cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20 (retroactive to the first quarter of Fiscal 2002). SFAS No. 142 further requires companies to test goodwill and other indefinite lived intangible assets on an annual basis for impairment. The following reconciliation illustrates the impact that the adoption of SFAS No. 142 had on the Company's net income and earnings per share:

	Three Months Ended	
	July 31, 2001	July 31, 2000
Net income:		
Reported net income	\$ 2,298	\$ 1,518
Add: Goodwill amortization		369
Adjusted net income	\$ 2,298	\$ 1,887
Basic earnings per share:		
Reported net income	\$ 0.18	\$ 0.12
Add: Goodwill amortization		0.03
Adjusted net income	\$ 0.18	\$ 0.15
Diluted earnings per share:		
Reported net income	\$ 0.18	\$ 0.11
Add: Goodwill amortization		0.03
Adjusted net income	\$ 0.18	\$ 0.14
Weighted average shares outstanding:		
Basic	13,002	12,891
Diluted	13,069	13,564

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WORKFLOW MANAGEMENT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands, except per share amounts)  
(Unaudited)

NOTE 10 - SEGMENT REPORTING

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The Company's operating segments prepare separate financial information that is evaluated regularly by the Company's Chief Executive Officer, the Company's operating division Presidents and the Company's Chief Financial Officer. Operating segments of the Company are defined primarily by the segment operation's core business function whether it is: a) the procurement and subsequent distribution of product to the customer, or b) the sale of an internally manufactured product to the customer. The Company has determined that its operating activities consist of two reportable operating segments: the Company's Workflow Solutions Division and the Company's Workflow Printing Division.

The Company's Workflow Solutions Division represents those subsidiaries of the Company that procure product, primarily custom print products and office supplies, and distribute it to customers through one of the Company's distribution centers or directly from the product's manufacturer. The results of the Workflow Solutions Division also include transactions with customers utilizing the Company's proprietary iGetSmart inventory and distribution system. The Company's Workflow Printing Division represents those subsidiaries primarily engaged in the sale of products internally manufactured at the Company. The Workflow Printing Division provides envelopes, commercial print products, custom forms and documents, annual reports, direct mail pieces, specialty packaging, labels and advertising specialty products to its customers. The Workflow Printing Division also provides product to the Company's Workflow Solutions Division for distribution to customers. Corporate expenses include the costs of maintaining a corporate office. The Company does not allocate corporate overhead by segment in assessing performance.

### Operating Segments

The following table sets forth information as to the Company's reportable operating segments:

	Three Months Ended	
	July 31,	July 31,
	2001	2000
	-----	-----
Revenues:		
Workflow Solutions Division	\$ 74,885	\$ 65,513
Workflow Printing Division	83,278	78,716
Intersegment	(2,997)	(2,400)
	-----	-----
Total	\$155,166	\$141,829
	=====	=====
Operating income:		
Workflow Solutions Division	\$ 4,183	\$ 3,108
Workflow Printing Division	4,594	5,496
Corporate	(1,369)	(2,658)
	-----	-----
Total	\$ 7,408	\$ 5,946
	=====	=====

(Continued)

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WORKFLOW MANAGEMENT, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands, except per share amounts)

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(Unaudited)

	July 31, 2001	April 30, 2001
Identifiable assets (at period end):		
Workflow Solutions Division	\$140,019	\$ 139,184
Workflow Printing Division	185,303	196,865
Corporate	24,751	15,952
Total	\$350,073	\$ 352,001
	=====	=====

## Geographic Segments

The following table sets forth information as to the Company's operations in its different geographic segments:

	Three Months Ended	
	July 31, 2001	July 31, 2000
Revenues:		
United States	\$119,009	\$103,747
Canada	33,676	35,681
Puerto Rico	2,481	2,401
Total	\$155,166	\$141,829
	=====	=====

Operating income:		
United States	\$ 4,015	\$ 2,536
Canada	2,940	3,025
Puerto Rico	453	385
Total	\$ 7,408	\$ 5,946
	=====	=====

	July 31, 2001	April 30, 2001
Identifiable assets (at period end):		
United States	\$291,627	\$ 292,373
Canada	54,937	56,573
Puerto Rico	3,509	3,055
Total	\$350,073	\$ 352,001
	=====	=====

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. When used in this Report, the words "anticipate," "believe," "estimate," "intend," "may," "will," "expect" and similar expressions as they relate to Workflow Management, Inc. (the "Company"

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or "Workflow Management") or its management are intended to identify such forward-looking statements. The Company's actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements, which are made only as of the date hereof.

### Introduction

Workflow Management, Inc. (the "Company" or "Workflow Management") is a leading provider of end-to-end solutions, providing a variety of custom print products and office supplies and related management services to more than 40,000 businesses in the United States, Canada and Puerto Rico. The Company is comprised of two main operating divisions: 1) the Workflow Solutions Division, which provides customers with print management services, including an e-commerce solution, iGetSmart, designed to minimize the costs of procuring, storing and using custom print products and office supplies and 2) the Workflow Printing Division, which prints and produces envelopes, custom business documents, commercial print, labels, packaging and direct mail literature. Workflow Management employs approximately 3,200 persons and has 21 manufacturing facilities in 6 states and 4 Canadian provinces, 18 distribution centers, 7 print-on-demand centers and 73 sales offices.

As used in this Management's Discussion and Analysis of Financial Condition and Results of Operations, "Fiscal 2002" and "Fiscal 2001" refer to the Company's fiscal years ending April 30, 2002 and ended April 30, 2001, respectively.

The following discussion should be read in conjunction with the consolidated historical financial statements, including the related notes thereto, appearing elsewhere in this Quarterly Report on Form 10-Q, as well as the Company's audited consolidated financial statements, and notes thereto, for the fiscal year ended April 30, 2001 included in the Company's Annual Report on Form 10-K.

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### Consolidated Results of Operations

#### Three Months Ended July 31, 2001 Compared to Three Months Ended July 31, 2000

Consolidated revenues increased 9.4%, from \$141.8 million for the three months ended July 31, 2000, to \$155.2 million for the three months ended July 31, 2001. The Company's Workflow Solutions Division revenues increased by \$9.4 million or 14.3% and its Workflow Printing Division revenues increased by \$4.6 million or 5.8% when comparing the three months ended July 31, 2001 to the three months ended July 31, 2000. The increase in both the Workflow Solutions Division and Workflow Printing Division was due entirely to the Company's business combinations consummated after July 31, 2000. During the three months ended July 31, 2001, the Company experienced a 2.2% and a 4.8% internal decline in revenues at the Workflow Solutions and Workflow Printing Divisions, respectively, when looking at only those entities that the Company had acquired prior to May 1, 2000. This internal decline in revenues was a result of the slow domestic economy during the three months ended July 31, 2001. Revenues for the three months ended July 31, 2001, include revenues from ten companies acquired in business combinations accounted for under the purchase method after the beginning of the first quarter of Fiscal 2001 (the "Purchased Companies").

International revenues decreased 5.6%, from \$35.7 million, or 25.2% of consolidated revenues, for the three months ended July 31, 2000, to \$33.7 million, or 21.7% of consolidated revenues, for the three months ended July 31, 2001. This decrease in international revenues is a result of a decline in the

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value of the Canadian dollar and a slower Canadian economy during the three months ended July 31, 2001.

Gross profit increased 6.7%, from \$41.2 million, or 29.0% of revenues, for the three months ended July 31, 2000, to \$44.0 million, or 28.3% of revenues, for the three months ended July 31, 2001. The increase in gross profit was primarily due to the Purchased Companies. The decrease in gross profit as a percentage of revenues was due to the Workflow Printing Division's commercial printing, direct mail and envelope operations as each of these product lines have experienced pressure on their gross margins as a result of competition and low volumes, which exposed more fixed manufacturing overhead.

Selling, general and administrative expenses increased 3.7%, from \$35.3 million, or 24.9% of revenues, for the three months ended July 31, 2000, to \$36.5 million, or 23.6% of revenues, for the three months ended July 31, 2001. The increase in selling, general and administrative expenses was due to the Purchased Companies. As a percentage of revenues, selling, general and administrative expenses decreased due to the significant cost savings associated with the Company's restructuring plan implemented during the fourth quarter of Fiscal 2001, which reduced expenses by approximately \$1.0 million in the three months ended July 31, 2001 and a decrease in goodwill amortization expense of approximately \$698,000 as the Company adopted Financial Accounting Standards Statement ("FASB") No. 142, accounting for "Goodwill and Other Intangible Assets", which provides that goodwill and indefinite lived intangible assets will no longer be amortized (See "Note 9 to the Company's Consolidated Financial Statements").

Interest expense, net of interest income, increased 1.9%, from \$3.4 million for the three months ended July 31, 2000, to \$3.5 million for the three months ended July 31, 2001. This increase in net interest expense was due entirely to the increased level of debt outstanding during the three months ended July 31, 2001 when compared to the level of debt outstanding for the three months ended July 31, 2000.

Other income decreased 78.5% from \$65,000 for the three months ended July 31, 2000, to \$14,000 for the three months ended July 31, 2001. Other income or expense primarily represents the gains or losses on the sale of property, plant and equipment or the effects of non-operating, miscellaneous items.

Provision for income taxes increased 52.8% from \$1.1 million for the three months ended July 31, 2000 to \$1.6 million for the three months ended July 31, 2001, reflecting effective income tax rates of 41.4% and 41.7%, respectively. During both periods, the effective income tax rates reflect the recording of tax provisions at the federal statutory rate of 35.0%, plus appropriate state and local taxes.

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### Liquidity and Capital Resources

At July 31, 2001, the Company had working capital of \$91.5 million. The Company's capitalization, defined as the sum of long-term debt and stockholders' equity, at July 31, 2001 was approximately \$262.6 million.

Workflow Management uses a centralized approach to cash management and the financing of its operations. As a result, minimal amounts of cash and cash equivalents are typically on hand as any excess cash would be used to pay down the Company's revolving credit facility. Cash at July 31, 2001, primarily represented customer collections and in-transit cash sweeps from the Company's subsidiaries at the end of the quarter.



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Workflow Management's anticipated capital expenditures budget for the next twelve months is approximately \$7.5 million for new equipment and maintenance.

During the three months ended July 31, 2001, net cash provided by operating activities was \$13.3 million. Net cash used in investing activities was \$6.5 million, including \$7.0 million used for additional purchase consideration, \$5.1 million used for capital expenditures and \$3.6 million used for acquisitions, which were partially offset by the net proceeds of \$9.2 million received on the sale of property and equipment. Net cash used by financing activities was \$5.4 million, which was mainly comprised of \$3.9 million in net payments by the Company on its revolving credit facility used primarily to fund acquisition activity.

During the three months ended July 31, 2000, net cash provided by operating activities was \$3.0 million. Net cash used in investing activities was \$6.2 million, including \$6.3 million used for additional purchase consideration, \$3.1 million used for acquisitions, \$3.7 million used for capital expenditures, which were partially offset by the collection of \$6.8 million for net assets held for sale. Net cash provided by financing activities was \$3.6 million, which included \$1.1 million in net borrowings by the Company on its revolving credit facility to primarily pay for the additional purchase considerations due under the earn-outs agreements, \$0.2 million in payments of other long-term debt and \$2.5 in net proceeds of short-term debt.

Workflow Management has significant operations in Canada. Revenues from the Company's Canadian operations accounted for approximately 21.7% of the Company's total revenues for the three months ended July 31, 2001. As a result, Workflow Management is subject to certain risks inherent in conducting business internationally, including fluctuations in currency exchange rates. Changes in exchange rates may have a significant effect on the Company's business, financial condition and results of operations.

The Company entered into a secured revolving credit facility (the "Credit Facility") underwritten and agented by Fleet Bank with \$239.5 million available for working capital and acquisition purposes. The Credit Facility, as amended through July 31, 2001, is composed of a \$190.0 million revolver, including a \$46.3 million sublimit for Canadian borrowings, and a \$49.5 million amortizing term note. Effective April 30, 2002, the revolver portion of the Credit Facility will be reduced by \$10.0 million to \$180.0 million. The Credit Facility matures on March 10, 2004 and is secured by substantially all assets of the Company and is subject to terms and conditions typical of a credit facility of such type and size, including certain financial covenants, which include a total debt to pro forma EBITDA maximum ("Total Leverage Ratio") of 3.75 to 1.0. Effective April 30, 2002, the Credit Facility provides an additional covenant of senior, Credit Facility debt to pro forma EBITDA maximum ("Senior Leverage Ratio") of 3.5 to 1.0. Interest rate options are available to the Company conditioned on certain leverage tests. The maximum rate of interest is the prime rate from time to time in effect. The Credit Facility is also available to fund the cash portion of future acquisitions, subject to the maintenance of bank covenants and total availability under the facility. At July 31, 2001, the Total Leverage Ratio calculated under the Credit Facility was 3.38 to 1.0. The Company could borrow an additional \$18.0 million under the Credit Facility for working capital purposes and remain in compliance with the facility. At September 7, 2001, the Company had \$176.1 million outstanding under the Credit Facility, at an annual interest rate of approximately 6.75%, and up to \$63.4 million available under the Credit Facility for acquisitions and working capital purposes subject to compliance with certain covenants as discussed above. During the three months ended July 31, 2001, the Company incurred \$3.7 million in interest expense relating to the Credit Facility.

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Under the terms of a stock distribution agreement (the "Distribution Agreement") entered into between the Company and U.S. Office Products in June 1998 when the Company was spun-off from U.S. Office Products (the "Workflow Distribution"), the Company is obligated, subject to a maximum obligation of \$1.75 million, to indemnify U.S. Office Products for certain liabilities incurred by U.S. Office Products prior to the spin-off, including liabilities under federal securities laws (the "Indemnification Obligation"). This Indemnification Obligation is reduced by any insurance proceeds actually recovered in respect of the Indemnification Obligation and is shared on a pro rata basis with the other three divisions of U.S. Office Products which were spun-off from U.S. Office Products at the same time.

U.S. Office Products has been named a defendant in various class action lawsuits. These lawsuits generally allege violations of federal securities laws by U.S. Office Products and other named defendants during the months preceding the spin-off. The Company has not received any notice or claim from U.S. Office Products alleging that these lawsuits are within the scope of the Indemnification Obligation, but the Company believes that certain liabilities and costs associated with these lawsuits (up to a maximum of \$1.75 million) may to be subject to the Company's Indemnification Obligation. Nevertheless, the Company does not presently anticipate that the Indemnification Obligation will have a material adverse effect on the Company. On March 5, 2001, U.S. Office Products and most of its United States subsidiaries filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. The Company cannot predict whether U.S. Office Products' bankruptcy proceedings will increase the likelihood that U.S. Office Products will pursue indemnification claims against the Company for Liabilities resulting from the various lawsuits described above.

The Company entered into a sale-leaseback transaction involving its five Company-owned buildings during the three months ended July 31, 2001 to reduce its leverage. Net cash proceeds to the Company after taxes and fees associated with this transaction are expected to be approximately \$6.7 million. The entire net proceeds were used to pay down debt.

The Company anticipates that its current cash on hand, cash flow from operations and additional financing available under the Credit Facility will be sufficient to meet the Company's liquidity requirements for its operations and acquisition purposes for the next twelve months. The Company expects that additional financing under the Credit Facility will be sufficient to meet its long-term liquidity requirements for operations. However, the Company intends to pursue acquisitions in the next twelve months and thereafter which are expected to be funded through cash, stock or a combination thereof. The Company may have to seek additional funding for its long-term liquidity from the issuance of additional bank debt, the issuance of public debt or the issuance of additional common stock in the public markets. There can be no assurance that additional sources of financing will not be required during the next twelve months or thereafter.

### Fluctuations in Quarterly Results of Operations

Workflow Management's envelope and commercial print businesses are subject to seasonal influences. Both the Company's Workflow Solutions Division and its Workflow Printing Division are subject to seasonal influences of the potential lower demand for consumable office products during the summer months which coincide with Workflow Management's fiscal quarters ending in July. As Workflow Management continues to complete acquisitions, it may become subject to other seasonal influences if the businesses it acquires are seasonal. Quarterly results also may be materially affected by the timing of acquisitions, the timing and magnitude of costs related to such acquisitions, variations in the prices paid by the Company for the products it sells, the mix of products sold

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and general economic conditions. Moreover, the operating margins of companies acquired may differ substantially from those of Workflow Management, which could contribute to further fluctuation in its quarterly operating results. Therefore, results for any quarter are not necessarily indicative of the results that Workflow Management may achieve for any subsequent fiscal quarter or for a full fiscal year.

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### Inflation

The Company does not believe that inflation has had a material impact on its results of operations during the three month periods ended July 31, 2001 and July 31, 2000, respectively.

### New Accounting Pronouncements

Accounting for Derivative Instruments and Hedging Activities. In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," in June 2000 ("SFAS No. 133 as Amended"), effective for the Company's fiscal year beginning January 1, 2001. This standard requires companies to record all derivative instruments as assets or liabilities on the balance sheet, measured at fair value. The recognition of gains or losses resulting from changes in the values of those derivative instruments is based on the use of each derivative instrument and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. Effective May 1, 2001, the Company has implemented SFAS No. 133 as Amended. As of the three months ended July 31, 2001, SFAS No. 133 as Amended had no impact on the consolidated financial statements.

### Factors Affecting the Company's Business

Dependence Upon Acquisitions for Future Growth; Potential Divestitures. One of the Company's strategies is to increase its revenues and the markets it serves through the acquisition of additional graphic arts businesses. There can be no assurance that suitable candidates for acquisitions can be identified or, if suitable candidates are identified that acquisitions can be completed on acceptable terms, if at all. Moreover, the consolidation of the North American graphic arts industry has reduced the number of larger companies available for sale, which could lead to higher prices being paid for the acquisition of the remaining domestic, independent companies. In addition, the Company may determine that its business interests would be best served by selling certain subsidiaries, assets or operations to third parties. Accordingly, the Company has in the past considered, and will continue to consider in the future, divestitures of certain operations or assets to the extent management believes that such transactions could improve the Company's overall financial condition and/or future prospects. Any such divestitures would reduce the Company's revenues. Divestitures could also (i) eliminate certain products or product lines that the Company has historically offered to its customers and (ii) reduce or eliminate the Company's presence in certain geographic markets.

Risks Related to Integration of Acquisitions. Integration of acquired companies may involve a number of special risks that could have a material adverse effect on the Company's operations and financial performance, including adverse short-term effects on its reported operating results (including those adverse short-term effects caused by severance payments to employees of acquired companies, restructuring charges associated with the acquisitions and other expenses associated with a change of control, as well as non-recurring acquisition costs including accounting and legal fees, investment banking fees,

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recognition of transaction-related obligations and various other acquisition-related costs); diversion of management's attention; difficulties with retention, hiring and training of key personnel; risks associated with unanticipated problems or legal liabilities; and amortization of acquired intangible assets. Furthermore, although Workflow Management conducts due diligence and generally requires representations, warranties and indemnifications from the former owners of acquired companies, there can be no assurance that such owners will have accurately represented the financial and operating conditions of their companies. If an acquired company's financial or operating results were misrepresented, the acquisition could have a material adverse effect on the results of operations and financial condition of Workflow Management.

**Risks Related to Acquisition Financing; Additional Dilution.** Workflow Management currently intends to finance its future acquisitions by using cash, borrowed funds, shares of the Company's common stock (the "Company Common Stock") or a combination thereof. If the Company Common Stock does not maintain a sufficient market value, if the price of Company Common Stock is highly volatile, or if potential acquisition candidates are otherwise unwilling to accept Company Common Stock as part of the consideration for the sale of their businesses, Workflow Management may not be able to consummate acquisitions using Company Common Stock as consideration. Since the Workflow Distribution, the Company has completed all of its acquisitions using cash consideration. If Workflow

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Management does not have sufficient cash resources, its growth could be limited unless it is able to obtain additional capital through debt or equity offerings.

**Material Amount of Goodwill.** Approximately \$119.1 million, or 34.0% of the Company's total assets as of July 31, 2001, represents intangible assets, the significant majority of which is goodwill. Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations accounted for under the purchase method. Due to the newly issued Financial Accounting Standards Board Statement ("FASB") No. 142, the Company no longer deducts goodwill amortization against earnings. The Company adopted Statement No. 142 effective May 1, 2001, which is the first day of Fiscal 2002. For all fiscal years prior to Fiscal 2002, the Company amortized goodwill using a straight-line method over a period of 40 years with the amount amortized in a particular period constituting a non-cash expense that reduces the Company's net income. Under the new FASB Statement No. 142 and as previously required, the Company must periodically evaluate the recoverability of goodwill by reviewing the anticipated undiscounted future cash flows from the operations of the acquired companies and comparing such cash flows to the carrying value of the associated goodwill. If goodwill becomes impaired, Workflow Management would be required to write down the carrying value of the goodwill and incur a related charge to its income. A reduction in net income resulting from the write down of goodwill could have a material and adverse impact upon the Company's net income or the market price of the Company Common Stock.

**Risks Associated with Canadian Operations.** Workflow Management has significant operations in Canada. Revenues from the Company's Canadian operations accounted for approximately 21.7% and 24.0% of the Company's total revenues for the three months ended July 31, 2001 and the fiscal year ended April 30, 2001, respectively. As a result, Workflow Management is subject to certain risks inherent in conducting business internationally, including fluctuations in currency exchange rates. Workflow Management is also subject to risks associated with the imposition of protective legislation and regulations, including those resulting from trade or foreign policy. In addition, because of the Company's Canadian operations, significant revenues and expenses are

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denominated in Canadian dollars. Changes in exchange rates may have a significant effect on the Company's business, financial condition and results of operations. Workflow Management does not currently engage in currency hedging transactions.

For additional risk factors, refer to the Company's Annual Report on Form 10-K for the year ended April 30, 2001.

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

The Company's financial instruments include cash, accounts receivable, accounts payable and long-term debt. Market risks relating to the Company's operations result primarily from changes in interest rates. The Company's borrowings are primarily dependent upon LIBOR rates. The estimated fair value of the Company's long-term debt approximated its carrying value at July 31, 2001.

The Company does not hold or issue derivative financial instruments for trading purposes. On May 3, 2001, the Company entered into an interest rate swap agreement (the "Swap") with various lending institutions at no cost to the Company. The Swap's effective date is August 1, 2001 with a termination date of March 10, 2004. The Company exchanged its variable interest rate on \$100.0 million in Credit Facility debt for a fixed 3-month LIBOR of approximately 5.10% plus the Company's interest rate spread under its Credit Facility. The Swap was entered into to manage interest rate risk on the variable rate borrowings under the Company's revolving credit portion of its debt. This interest rate swap has the effect of locking in, for a specified period, the base interest rate the Company will pay on the \$100.0 million notional principal amount established in the Swap. As a result, while this hedging arrangement is structured to reduce the Company's exposure to interest rate increases, it also limits the benefit the Company might otherwise have received from any interest rate decreases. This Swap will be cash settled quarterly, with interest expense adjusted for amounts paid or received. If 3-month LIBOR were to increase or decrease by 1.0%, the impact to the Company would be a savings of \$1.0 million in interest expense or an additional interest expense of \$1.0 million over the interest charged on \$100.0 million in debt under the variable 3-month LIBOR.

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## PART II - OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K.

#### (a) Exhibits

- 10.1 Amendment No. 4 to Amended and Restated Credit Agreement, dated as of July 26, 2001 among, Workflow Management Inc., Data Business Forms Limited, Various Lending Institutions and Fleet National Bank, as Administrative Agent.

#### (b) Reports on Form 8-K

None.

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SIGNATURES

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Pursuant to the requirements 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.

WORKFLOW MANAGEMENT, INC.

September 14, 2001

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Date

By: /s/ Thomas B. D'Agostino, Sr.

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Thomas B. D'Agostino, Sr.  
Chairman of the Board, Director, President  
and Chief Executive Officer (Principal  
Executive Officer)

September 14, 2001

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Date

By: /s/ Michael L. Schmickle

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Michael L. Schmickle  
Executive Vice President, Chief Financial  
Officer, Secretary and Treasurer  
(Principal Financial Officer and Principal  
Accounting Officer)

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