WORKFLOW MANAGEMENT INC
Form 10-Q
March 15, 2002

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

Form 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 2002

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	06-1507104
(State or other jurisdiction of incorporation or organization.)	(I.R.S. Employer Identification No.)
240 Royal Palm Way Palm Beach, FL	33480
(Address of principal executive offices)	(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 X No ___.

As of March 13, 2002, there were 13,100,871 shares of common stock outstanding.

WORKFLOW MANAGEMENT, INC.
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PART I - FINANCIAL INFORMATION

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	January 31, 2002
	(Unaudited)
Current assets:	
Cash and cash equivalents	$ 1,482
Accounts receivable, less allowance for doubtful accounts of $5,149 and $4,027, respectively	95,900
Inventories	54,051
Prepaid expenses and other current assets	12,336
Total current assets	163,769
Property and equipment, net	49,161

Goodwill	121,931
Other intangible assets, net	2,389
Other assets	7,984
Net assets held for sale	
Total assets	$ 345,234
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Short-term debt	$ 572
Accounts payable	39,314
Accrued compensation	9,476
Accrued additional purchase consideration	7,500
Accrued restructuring costs	1,052
Other accrued liabilities	23,882
Total current liabilities	81,796
Long-term credit facility	155,700
Other long-term debt	1,676
Deferred income taxes	5,079
Long-term swap contract liability	3,747
Other long-term liabilities	3,859
Total liabilities	251,857
Stockholders' equity:	
Preferred stock, $.001 par value, 1,000,000 shares authorized, none outstanding	
Common stock, $.001 par value, 150,000,000 shares authorized, 13,099,891 and 12,993,730 issued and outstanding, respectively	13
Additional paid-in capital	52,376
Notes receivable from officers	(4,820)
Accumulated other comprehensive loss	(6,811)
Retained earnings	52,619
Total stockholders' equity	93,377
Total liabilities and stockholders' equity	$ 345,234

See accompanying notes to consolidated financial statements.

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

	Three Months Ended	Nine Mo

	January 31, 2002	January 31, 2001	January 31, 2002
Revenues	$ 161,161	$ 155,188	$ 476,636
Cost of revenues	116,349	110,969	343,876
Gross profit	44,812	44,219	132,760
Selling, general and administrative expenses	36,874	36,081	111,636
Operating income	7,938	8,138	21,124
Interest expense	3,432	3,739	10,427
Interest income	(191)	(194)	(650
Other (income) expense	(44)	(155)	234
Income before provision for income taxes and extraordinary item	4,741	4,748	11,113
Provision for income taxes	1,991	1,976	4,642
Income before extraordinary item	2,750	2,772	6,471
Extraordinary item - loss on early termination of subordinated debt, net of income taxes		64	
Net income	$ 2,750	$ 2,708	$ 6,471
Income per share:			
Basic:			
Income before extraordinary item	$ 0.21	$ 0.21	$ 0.50
Extraordinary item			
Net income	$ 0.21	$ 0.21	$ 0.50
Diluted:			
Income before extraordinary item	$ 0.21	$ 0.21	$ 0.49
Extraordinary item			
Net income	$ 0.21	$ 0.21	$ 0.49
Weighted average common shares outstanding:			
Basic	13,069	12,956	13,034
Diluted	13,111	13,005	13,084

See accompanying notes to consolidated financial statements.

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

	Nine Mo
	January 31, 2002
Cash flows from operating activities:	
Net income	$ 6,471
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization expense	8,272
Extraordinary loss	
Cash paid for restructuring costs	(1,699
Amortization of deferred financing costs	527
Changes in assets and liabilities (net of assets acquired and liabilities assumed in business combinations):	
Accounts receivable	3,787
Inventories	1,107
Prepaid expenses and other current assets	2,252
Accounts payable	5,839
Accrued compensation and other accrued liabilities	2,260
Net cash provided by operating activities	28,816
Cash flows from investing activities:	
Cash paid in acquisitions, net of cash received	(4,356
Cash paid for additional purchase consideration	(10,071
Additions to property and equipment	(9,588
Cash received on the sale of property and equipment	10,896
Cash received for net assets held for sale	
Cash collection of notes receivable	1,854
Other	(1
Net cash used in investing activities	(11,266
Cash flows from financing activities:	
Proceeds from credit facility borrowings	133,349
Payments of credit facility borrowings	(148,969
Payments of other long-term debt	(2,336
Payment of subordinated debt and repurchase of attached warrants	
Payments of short-term debt, net	(285
Payments of deferred financing costs	(249
Issuance of notes receivable to officers	
Proceeds from common stock issued under employee benefit programs	325
Issuance of common stock to outside directors	10
Net cash (used in) provided by financing activities	(18,155
Effect of exchange rates on cash and cash equivalents	(39
Net decrease in cash and cash equivalents	(644
Cash and cash equivalents at beginning of period	2,126
Cash and cash equivalents at end of period	$ 1,482

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

	Nine M
	January 31, 2002
Supplemental disclosures of cash flow information:	
Interest paid	$ 9,416
Income taxes paid	$ 3,738

During the nine months ended January 31, 2002 and January 31, 2001, the Company paid a total of $14,427 and $18,614, 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:

	Nine M
	January 31, 2002
Accounts receivable	$ 739
Inventories	31
Prepaid expenses and other current assets	
Property and equipment	65
Intangible assets*	14,176
Other assets	
Short-term debt	
Accounts payable	(348
Accrued compensation and other accrued liabilities	(236
Deferred income taxes	
Net assets acquired	$ 14,427

* Due to the accrual of earn-out provisions, cash paid for intangible assets of $14,176 and $15,981 for the nine months ended January 31, 2002 and January 31, 2001, respectively, represents only actual cash paid during the periods presented and therefore does not equal the change in intangible assets from period to period.

Non-cash transactions:

.. During the nine months ended January 31, 2002 and January 31, 2001, the Company accrued $6,396 and $6,296, respectively, as additional purchase consideration for earn-outs.

.. During the nine months ended January 31, 2001, the Company recorded additional paid-in capital of $8 related to the tax benefit of stock options exercised.

See accompanying notes to consolidated financial statements.

WORKFLOW MANAGEMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts and non-financial data)
(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 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 3,100 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 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 and ended 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.

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

NOTE 3 - INVENTORIES

Inventories consist of the following:

	January 31, 2002	April 30, 2001
Raw materials	$ 14,390	$ 15,480
Work-in-process	8,180	8,595
Finished goods	31,481	31,497
Total inventories	$ 54,051	$ 55,572

NOTE 4 - LONG-TERM DEBT

Revolving Credit Facility

The Company has entered into a secured revolving credit facility (the "Credit Facility") underwritten and agented by Fleet Bank with $239,000 available for working capital and acquisition purposes. The Credit Facility, as amended, is comprised of a $190,000 revolver, including a $46,300 sublimit for Canadian borrowings, and a $49,000 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. The financial covenants 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. At January 31, 2002, the Total Leverage Ratio calculated under the Credit Facility was 3.73 to 1.0. The Company could borrow an additional $2,490 under the Credit Facility for working capital purposes and remain in compliance with the facility. 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 January 31, 2002, the Company had $155,700 outstanding under the Credit Facility, at an annual interest rate of approximately 7.0%, and up to $83,300 available under the Credit Facility for acquisitions and working capital purposes subject to compliance with certain covenants as discussed above. During the nine months ended January 31, 2002, the Company incurred $9,318 in interest expense relating to the Credit Facility.

At this time, the Company does not believe that it will be in compliance with the Senior Leverage Ratio at April 30, 2002, unless the Company is able to dispose of assets to generate cash to pay down the Credit Facility. The Company is working with its lenders to obtain waivers for a breach of the Senior Leverage Ratio if such breach occurs and is also considering and pursuing strategic alternatives that could generate cash to reduce borrowings under the Credit Facility.

Interest Rate Swap

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 with an effective date of August 1, 2001 and an expiration date of March 10, 2004. The Company exchanged its variable interest rate on $100,000 in Credit Facility debt for a fixed 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 $100,000 notional principal amount established in the Swap. As a result, while this hedging arrangement is structured to reduce the Company's exposure to increases in interest rates, it also limits the benefit the Company might otherwise have received from any decreases in interest rates. The Company accounted for the Swap per the guidelines of the Financial Accounting Standards Board ("FASB") newly issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". Effective May 1, 2001, the Company has implemented SFAS No. 133 as amended. 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. Per the guidelines of SFAS No. 133, the Company classified the Swap as a cash flow hedge. This Swap is cash settled quarterly dependent upon the movement of 3-month LIBOR rates. In measuring the fair value of the Swap at January 31, 2002, the Company recorded a long-term liability of $3,747 and a loss in other comprehensive income, net of taxes, of $2,173. The Company recognized in earnings, as additional interest expense, $735 and $1,100 for the three and nine month periods ended January 31, 2002, respectively, for the change in the prevailing LIBOR rate compared to the fixed rate under the Swap agreement.

NOTE 5 - STOCKHOLDERS' EQUITY

Changes in stockholders' equity during the nine months ended January 31, 2002 were as follows:

Stockholders' equity balance at April 30, 2001
Issuance of common stock in conjunction with:
Employee stock purchase program
Fees paid to outside members of the Company's Board of Directors
Comprehensive income

Stockholders' equity balance at January 31, 2002

Comprehensive Income
The components of comprehensive income are as follows:

	Three Months Ended		Nine Mo
	January 31, 2002	January 31, 2001	January 31, 2002
Net income	$ 2,750	$ 2,708	$ 6,471
Other comprehensive income:			
Changes in fair market value of financial instruments designated as hedges of interest rate exposure, net of taxes	728		(2,173
Foreign currency translation adjustment	(246)	1,592	(1,009
Comprehensive income	$ 3,232	$ 4,300	$ 3,289

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

Notes Receivable from Officers

During Fiscal 2001 and Fiscal 1999, the Company extended loans to certain members of management and the Board of Directors ("the Stock Loans") for the 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 of the notes, as the term change of control is defined in the notes, the principal amount and accrued interest outstanding under the Stock Loans will be forgiven. At January 31, 2002, $4,820 and $637 in principal and interest, respectively, were outstanding on these notes.

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:

(In thousands, except per share amounts)

	Three Months Ended		Nine Mo
	January 31, 2002	January 31, 2001	January 31, 2002
Income before extraordinary item	$ 2,750	$ 2,772	$ 6,471
Extraordinary item		64	
Net income	$ 2,750	$ 2,708	$ 6,471
Weighted average Common shares outstanding:			
Basic	13,069	12,956	13,034
Potentially dilutive shares*	42	49	50
Diluted	13,111	13,005	13,084
Income per share:			
Basic:			
Income before extraordinary item	$ 0.21	$ 0.21	$ 0.50
Extraordinary item			
Net income	$ 0.21	$ 0.21	$ 0.50
Diluted:			
Income before extraordinary item	$ 0.21	$ 0.21	$ 0.49
Extraordinary item			
Net income	$ 0.21	$ 0.21	$ 0.49

* 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 4,711 and 4,372 shares of common stock were anti-dilutive and outstanding during the nine months ended January 31, 2002 and January 31, 2001, respectively.

NOTE 7 - BUSINESS COMBINATIONS

During the nine months ended January 31, 2002, the Company completed two business combinations, which were accounted for under the purchase method for an aggregate purchase price of $4,356 consisting entirely of cash. The total assets related to these acquisitions were $15,011, including goodwill and other intangible assets of $14,176. 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 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 nine months ended January 31, 2002, the Company paid another $10,071 for these earn-out provisions and has an additional $7,500 accrued for these earn-outs at January 31, 2002. This additional consideration, whether paid or accrued, has been reflected in the accompanying balance sheet as goodwill at January 31, 2002.

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 nine months ended January 31, 2002, respectively.

The following presents the unaudited pro forma results of operations of the Company for the three and nine months ended January 31, 2002 and January 31, 2001, 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 elimination of goodwill amortization due to the implementation of SFAS No. 142, the additional interest expense for the initial cash consideration and the reductions in executive compensation at the acquired companies of $0, $(329), $41 and $286 for the three and nine months ended January 31, 2002 and January 31, 2001, respectively.

	Three Months Ended		Nine M
	January 31, 2002	January 31, 2001	January 31 2002
Revenues	$ 161,161	$ 165,480	$ 477,09
Net income	2,750	2,547	6,50
Earnings per share:			
Basic	$ 0.21	$ 0.20	$ 0.5
Diluted	0.21	0.20	0.5

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 divestitures occurred at the beginning of Fiscal 2001 or the results that may occur in the future.

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 $1,699 and utilized an additional $835 for facility closures and consolidations, severance and terminations and other asset write-downs and costs associated with this plan during the nine months ended January 31, 2002.

Under the restructuring plan implemented during Fiscal 2001, the Company anticipated that it would terminate and provide severance benefits to 100 employees. During the fiscal year ended April 30, 2001 and the nine months ended January 31, 2002, the Company terminated and provided severance benefits to 31 and 64 employees, respectively. The Company anticipates that the remaining 5 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 nine months ended January 31, 2002.

	Facility Closure and Consolidation	Severance and Terminations	Other Asset Writedowns and Costs
Balance at April 30, 2001	$ 1,622	$ 1,389	$ 575
Utilizations	(1,348)	(1,141)	(45)
Balance at January 31, 2002	$ 274	$ 248	$ 530

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 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.

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

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 Fiscal 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		Nine M
	January 31, 2002	January 31, 2001	January 31, 2002
Net income reconciliation:			
Reported net income	$ 2,750	$ 2,708	$ 6,471
Add: Goodwill amortization		407	
Adjusted net income	$ 2,750	$ 3,115	$ 6,471
Basic earnings per share:			
Reported net income	$ 0.21	$ 0.21	$ 0.50
Add: Goodwill amortization		0.03	
Adjusted net income	$ 0.21	$ 0.24	$ 0.50
Diluted earnings per share:			
Reported net income	$ 0.21	$ 0.21	$ 0.49
Add: Goodwill amortization		0.03	
Adjusted net income	$ 0.21	$ 0.24	$ 0.49
Weighted average shares outstanding:			
Basic	13,069	12,956	13,034
Diluted	13,111	13,005	13,084

WORKFLOW MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)
(Unaudited)

NOTE 10 - SEGMENT REPORTING

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 by 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 and supporting the Company's two operating segments. 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		Nine Mo
	January 31, 2002	January 31, 2001	January 31, 2002
Revenues:			
Workflow Solutions Division	$ 84,458	$ 78,259	$ 239,242
Workflow Printing Division	79,358	80,296	247,506
Intersegment	(2,655)	(3,367)	(10,112
Total	$ 161,161	$ 155,188	$ 476,636
Operating income:			
Workflow Solutions Division	$ 4,908	$ 4,321	$ 13,224
Workflow Printing Division	4,439	6,088	12,803
Corporate	(1,409)	(2,271)	(4,903

Total	$ 7,938	$ 8,138	$ 21,124

	January 31, 2002
Identifiable assets (at period end):	
Workflow Solutions Division	$ 145,331
Workflow Printing Division	186,286
Corporate	13,617
Total	$ 345,234

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

Geographic Segments

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

	Three Months Ended		Nine Mo
	January 31, 2002	January 31, 2001	January 31, 2002
Revenues:			
United States	$ 127,005	$ 115,845	$ 370,518
Canada	31,436	36,815	98,339
Puerto Rico	2,720	2,528	7,779
Total	$ 161,161	$ 155,188	$ 476,636
Operating income:			
United States	$ 4,267	$ 4,255	$ 11,160
Canada	3,122	3,375	9,314
Puerto Rico	549	508	650
Total	$ 7,938	$ 8,138	$ 21,124

	January 31, 2002
Identifiable assets (at period end):	
United States	$ 293,484
Canada	48,920
Puerto Rico	2,830
Total	$ 345,234

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" 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 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 3,100 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", "Fiscal 2001" and "Fiscal 2000" refer to the Company's fiscal years ending April 30, 2002 and ended April 30, 2001 and April 30, 2000, 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, included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2001.

Consolidated Results of Operations

Three Months Ended January 31, 2002 Compared to Three Months Ended January 31, 2001

Consolidated revenues increased 3.8%, from $155.2 million for the three months ended January 31, 2001, to $161.2 million for the three months ended January 31, 2002. The Company's Workflow Solutions Division revenues increased by $6.2 million or 7.9% and its Workflow Printing Division revenues decreased by $0.9 million or 1.2% when comparing the three months ended January 31, 2002 to the three months ended January 31, 2001. The increase in consolidated revenues was entirely due to the Company's business combinations consummated after October 31, 2000. Revenues from identical operations or entities that were acquired prior to October 31, 2000 have decreased $11.6 million or 7.4% for the three months ended January 31, 2002 when compared to the revenues for the three months ended January 31, 2001. The internal decline in revenues by division for identical operations was -6.3% for the Workflow Solutions Division and -8.4% for the Workflow Printing Division. Revenues for the three months ended January 31, 2002 and January 31, 2001, include revenues from eleven companies acquired in business combinations accounted for under the purchase method after the beginning of the third quarter of Fiscal 2001 (the "Purchased Companies").

International revenues decreased 13.2%, from $39.3 million, or 25.4% of consolidated revenues, for the three months ended January 31, 2001, to $34.2 million, or 21.2% of consolidated revenues, for the three months ended January 31, 2002. The decline in international revenues was primarily due to the depressed economic conditions in Canada and a decline in the Canadian exchange rate during the three months ended January 31, 2002. International revenues consisted exclusively of revenues generated in Canada and Puerto Rico.

Gross profit increased 1.3%, from $44.2 million, or 28.5% of revenues, for the three months ended January 31, 2001, to $44.8 million, or 27.8% of revenues, for the three months ended January 31, 2002. The increase in gross profit was a result of the Purchased Companies. The decrease in gross profit as a percentage of revenues was due to lower margins in the Workflow Printing Division because of pricing pressures, competition and lower than expected revenue volumes. The product lines that suffered the most significant impact were the commercial printing, direct mail and envelope product lines. For a discussion of the adverse effects of the September 11th terrorist attacks on the Company's business, see "Factors Affecting the Company's Business" below.

Selling, general and administrative expenses increased 2.2%, from $36.1 million, or 23.3% of revenues, for the three months ended January 31, 2001, to $36.9 million, or 22.9% of revenues, for the three months ended January 31, 2002. The increase in selling, general and administrative expenses was primarily due to the Purchased Companies. As a percentage of revenues, selling, general and administrative expenses decreased due to cost savings realized associated with the Company's restructuring plan implemented during the fourth quarter of Fiscal 2001 and the elimination of goodwill amortization expense 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" in Item 1 of Part 1 of this Form 10-Q.

Interest expense, net of interest income, decreased 8.6%, from $3.5 million for the three months ended January 31, 2001, to $3.2 million for the three months ended January 31, 2002. This decrease in net interest expense was due to the reduction in overall market interest rates.

Other income, net of other expense decreased 71.6% from net other income of $155,000 for the three months ended January 31, 2001, to net other income of $44,000 for the three months ended January 31, 2002. Other income primarily represents the net of gains and/or losses on sales of equipment and miscellaneous other income and expense items.

Provision for income taxes increased 0.8% from $2.0 million for the three months ended January 31, 2001, to $2.0 million for the three months ended January 31, 2002, reflecting effective income tax rates of 42.0% and 41.6%, 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. In addition, the effective tax rates were adjusted to reflect the incurrence of non-deductible goodwill amortization expense resulting from the acquisitions of certain Purchased Companies.

Nine Months Ended January 31, 2002 Compared to Nine Months Ended January 31, 2001

Consolidated revenues increased 6.8%, from $446.2 million for the nine months ended January 31, 2001, to $476.6 million for the nine months ended January 31, 2002. The Company's Workflow Solutions Division revenues increased by $25.4 million or 11.9% and its Workflow Printing Division revenues increased by $4.6 million or 1.9% when comparing the nine months ended January 31, 2002 to the nine months ended January 31, 2001. The increase in revenues was entirely due to the Company's business combinations consummated after April 30, 2000. Revenues from identical operations or entities that were acquired prior to April 30, 2000 have decreased $20.2 million or 4.4% for the nine months ended January 31, 2002 when compared to the revenues for the nine months ended January 31, 2001. The internal decline in revenues by division for identical operations was -2.1% for the Workflow Solutions Division and -6.5% for the Workflow Printing Division. Revenues for the nine months ended January 31, 2002, include revenues from eleven companies acquired in business combinations accounted for under the purchase method after the beginning of Fiscal 2001 (the "Purchased Companies").

International revenues decreased 8.3%, from $115.7 million, or 25.9% of consolidated revenues, for the nine months ended January 31, 2001, to $106.1 million, or 22.3% of consolidated revenues, for the nine months ended January 31, 2002. The decline in international revenues was primarily due to the depressed economic conditions in Canada and a decline in the Canadian exchange rate during the nine months ended January 31, 2002. International revenues consisted exclusively of revenues generated in Canada and Puerto Rico.

Gross profit increased 2.5%, from $129.5 million, or 29.0% of revenues, for the nine months ended January 31, 2001, to $132.8 million, or 27.9% of revenues, for the nine months ended January 31, 2002. The increase in gross profit was due to the Purchased Companies. As a percentage of revenues, gross profit decreased because the Workflow Printing Division experienced lower margins as a result of pricing pressures, competition and an overall decrease in manufacturing volumes within its commercial printing, direct mail and envelope operations. For a discussion of the adverse effects of the September 11th terrorist attacks on the Company's business, see "Factors Affecting the Company's Business" below.

Selling, general and administrative expenses increased 4.0%, from $107.4 million, or 24.1% of revenues, for the nine months ended January 31, 2001, to $111.6 million, or 23.4% of revenues, for the nine months ended January 31, 2002. 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. Also, during the nine months ended January 31, 2002, the Company ceased goodwill amortization 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 of the Company's Consolidated Financial Statements" in Item 1 of Part 1 of this Form 10-Q.

Interest expense, net of interest income, decreased 6.6%, from $10.5 million for the nine months ended January 31, 2001, to $9.8 million for the nine months ended January 31, 2002. This decrease in net interest expense was due entirely to the reduction in overall market interest rates.

Other expense, net of other income increased $584,000 from other income of $0.4 million for the nine months ended January 31, 2001, to other expense of $0.2 million for the nine months ended January 31, 2002. Other expense primarily represents the net of gains and/or losses on sales of equipment and miscellaneous other income and expense items.

Provision for income taxes decreased 7.5% from $5.0 million for the nine months ended January 31, 2001 to $4.6 million for the nine months ended January 31, 2002, reflecting effective income tax rates of 41.6% and 41.8%, 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. In addition, the effective tax rates were adjusted to reflect the occurrence of non-deductible goodwill amortization expense resulting from the acquisition of certain Purchased Companies.

Liquidity and Capital Resources

At January 31, 2002, the Company had working capital of $82.0 million. The Company's capitalization, defined as the sum of long-term debt and stockholders' equity, at January 31, 2002 was approximately $250.8 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 January 31, 2002, primarily represented customer collections and in-transit cash sweeps from the Company's subsidiaries at the end of the quarter.

Workflow Management's anticipated capital expenditures budget for the next twelve months is approximately $10.0 million for new equipment and maintenance.

During the nine months ended January 31, 2002, net cash provided by operating activities was $28.8 million. Net cash used in investing activities was $11.3 million, including $14.4 million used for acquisitions and additional purchase consideration and $9.6 million used for capital expenditures which were partially offset by the net proceeds of $10.9 million received on the sale of property and equipment and $1.9 million received from the collection of a notes receivable. Net cash used by financing activities was $18.2 million, which was mainly comprised of $15.6 million in net payments by the Company on its revolving credit facility and $2.3 in payments of other long-term debt.

During the nine months ended January 31, 2001, net cash provided by operating activities was $10.0 million. Net cash used in investing activities was $15.0 million, including $18.6 million used for acquisitions and additional purchase consideration and $6.6 million used for capital expenditures which were partially offset by the collection of $9.8 million for net assets held for sale. Net cash provided by financing activities was $3.7 million, which included $14.4

million in net borrowings by the Company on its revolving credit facility to primarily pay for the acquisitions consummated during the period and $4.9 million used to repay subordinated debt, $3.0 million used for the issuance of notes to officers and $2.7 million in payments of other short-term debt.

Workflow Management has significant operations in Canada. Net sales from the Company's Canadian operations accounted for approximately 20.6% of the Company's total revenues for the nine months ended January 31, 2002. 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 has entered into a secured revolving credit facility (the "Credit Facility") underwritten and agented by Fleet Bank with $239.0 million available for working capital and acquisition purposes. The Credit Facility as amended is comprised of a $190.0 million revolver, including a $46.3 million sublimit for Canadian borrowings, and a $49.0 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. Included within these financial covenants is 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. At January 31, 2002, the Total Leverage Ratio calculated under the Credit Facility was 3.73 to 1.0. The Company could borrow an additional $2.5 million under the Credit Facility for working capital purposes and remain in compliance with the facility. 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 maintenance of bank covenants and total availability under the facility. At January 31, 2002, the Company had $155.7 million outstanding under the Credit Facility, at an annual interest rate of approximately 7.0%, and up to $83.3 million available under the Credit Facility for acquisitions and working capital purposes subject to compliance with certain covenants as discussed above. During the nine months ended January 31, 2002, the Company incurred $9.3 million in interest expense relating to the Credit Facility.

There can be no assurance that the Company will be able to obtain waivers from its lenders for a breach of the Senior Leverage Ratio if such a breach occurs or that the Company will be able to generate cash to reduce borrowings under the Credit Facility to avoid a breach of the Senior Leverage Ratio. A breach of the Senior Leverage Ratio that is not waived by the Company's lenders would have a material adverse effect on the Company's financial condition.

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 five Company-owned buildings during the nine months ended January 31, 2002 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 may 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 business is subject to seasonal influences from year-end mailings. Both the Company's Workflow Solutions Division and Workflow Printing Division are subject to seasonal influences of the potential lower demand for office consumables during the summer months which coincide with Workflow Management's fiscal quarter ending in July. As the Company 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 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 the Company may achieve for any subsequent fiscal quarter or for a full fiscal year.

Inflation

The Company does not believe that inflation has had a material impact on its results of operations during the three and nine month periods ended January 31, 2002 and January 31, 2001, 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 May 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.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets", which supersedes both SFAS No. 121 and the accounting and reporting provisions of APB No. 30, for the disposal of a business. SFAS 144 provides a single accounting model for long-lived assets to be disposed of. Although retaining many of the fundamental recognition and measurement provisions of SFAS 121, the new rules change the criteria to be met to classify an asset as held-for-sale. The new rules also broaden the criteria regarding classification of a discontinued operation. The Company is required to adopt the provisions of SFAS 144 effective April 1, 2002. Management believes that the adoption of SFAS 144 will not have a material impact on the Company's results of operations, financial position or cashflows.

Factors Affecting the Company's Business

Adverse Effects of September 11 Terrorist Attacks and Anthrax Developments. On September 11, 2001, the United States suffered terrorist attacks of unprecedented scope in New York City and Washington, D.C. In response to these attacks, the United States retaliated with large scale overseas military operations. In the aftermath of the terrorist attacks and military response, the U.S. economy worsened and entered a recession. New York City, where the Company generates a significant portion of its revenues, in particular has suffered deteriorating economic conditions after September 11. The Company believes that the general weakening of the U.S. economy, and the weakening of the economy in New York City in particular, had an adverse effect on the Company's financial results during the nine months ended January 31, 2002 and may continue to have a similarly adverse effect in future periods. There can be no assurance that the terrorist attacks, or any further retaliatory action by the United States, will not continue to adversely affect the U.S. economy in general, the New York City economy in particular and the Company's overall financial results for a significant period of time.

In addition to the terrorist attacks and U.S. military response, a small number of U.S. citizens contracted anthrax disease after September 11. The disease appears to be the result of an intentional effort by parties not yet identified to infect the U.S. mail with anthrax. These anthrax cases have created general public concern about the safety of U.S. mail, which in turn has led to a decrease in the use of direct mail by businesses that historically have relied upon direct mail solicitations for marketing and related purposes. Historically, approximately 30% of the Company's revenues have been generated from the envelope and direct mail industries. In addition to the adverse effects to the Company's business as a result of overall economic conditions in the U.S. since September 11, the Company's envelope and direct mail business has suffered, and may continue to suffer in future periods, as a result of anthrax concerns. In light of continuing uncertainty about anthrax and the safety of the U.S. mail, the Company closed certain production facilities and the Company cannot give any assurances as to when or whether its direct mail and envelope business will return to historical levels.

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. During the first nine months of Fiscal 2002, the Company has pursued and consummated far fewer acquisitions than in prior periods and this trend is likely to continue for the rest of Fiscal 2002. 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, 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 ("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 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 $124.3 million, or 36.0% of the Company's total assets as of January 31, 2002, 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 reduced 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 20.6% and 24.0% of the Company's total revenues for the nine months ended January 31, 2002 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 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 fiscal year ended April 30, 2001.

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 January 31, 2002.

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 with an effective date of August 1, 2001 and 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 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 is 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.

PART II - OTHER INFORMATION

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

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

SIGNATURES

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.

March 15, 2002	By: /s/ Thomas B. D'Agostino, Sr.
Date	Thomas B. D'Agostino, Sr. Chairman of the Board, Director, President and Chief Executive Officer (Principal Executive Officer)
March 15, 2002	By: /s/ Michael L. Schmickle
Date	Michael L. Schmickle Executive Vice President, Chief Financial Officer, Secretary and

Treasurer (Principal Financial
Officer and Principal Accounting
Officer)