

Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

WORKFLOW MANAGEMENT INC  
Form 10-Q  
March 16, 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 January 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.)

241 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  .  
--- -----

As of March 13, 2001, there were 12,973,284 shares of common stock  
outstanding.

WORKFLOW MANAGEMENT, INC.  
INDEX

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheet.....	3
January 31, 2001 (unaudited) and April 30, 2000	
Consolidated Statement of Income (unaudited).....	4
For the three and nine months ended January 31, 2001 and January 22, 2000	
Consolidated Statement of Cash Flows (unaudited).....	5
For the three and nine months ended January 31, 2001 and January 22, 2000	
Notes to Consolidated Financial Statements (unaudited).....	7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	15
---	----

Item 3. Quantitative and Qualitative Disclosure About Market Risk.....	23
--	----

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.....	24
---	----

Signatures.....	25
-----------------	----

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	January 31,	April 30,
-----	2001	2000
	-----	-----
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 1,545	\$ 2,851
Accounts receivable, less allowance for doubtful accounts of \$3,888 and \$4,191, respectively	93,170	100,366
Inventories	53,330	46,223
Prepaid expenses and other current assets	13,642	11,405
	-----	-----
Total current assets	161,687	160,845
Property and equipment, net	54,887	55,859
Intangible assets, net	105,727	92,650
Other assets	12,186	12,346
Net assets held for sale	900	10,012

Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

Total assets	\$335,387	\$331,712
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
-----		
Current liabilities:		
Short-term debt	\$ 921	\$ 1,139
Note payable for acquisition	8,000	10,337
Accounts payable	32,324	33,950
Accrued compensation	10,646	15,824
Accrued additional purchase consideration	9,164	9,581
Accrued income taxes		4,654
Other accrued liabilities	19,821	15,388
	-----	-----
Total current liabilities	80,876	90,873
Long-term credit facility	149,879	135,695
Subordinated related party debt		4,174
Other long-term debt	4,354	5,005
Deferred income taxes	5,359	4,557
Other long-term liabilities	1,380	1,486
	-----	-----
Total liabilities	241,848	241,790
	-----	-----
Stockholders' equity:		
Preferred stock, \$.001 par value, 1,000,000 shares authorized, none outstanding		
Common stock, \$.001 par value, 150,000,000 shares authorized, 12,972,557 and 12,880,895 issued and outstanding, respectively	13	13
Additional paid-in capital	51,936	51,981
Notes receivable from officers	(4,947)	(1,958)
Accumulated other comprehensive loss	(2,964)	(2,631)
Retained earnings	49,501	42,517
	-----	-----
Total stockholders' equity	93,539	89,922
	-----	-----
Total liabilities and stockholders' equity	\$335,387	\$331,712
	=====	=====

See accompanying notes to consolidated financial statements.

Page 3

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

Three Months Ended		Nine Months Ended	
-----		-----	
January 31,	January 22,	January 31,	January 22,
2001	2000	2001	2000

Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

	-----	-----	-----	-----
Revenues	\$155,188	\$138,478	\$446,243	\$388,700
Cost of revenues	110,969	98,400	316,708	275,327
	-----	-----	-----	-----
Gross profit	44,219	40,078	129,535	113,373
Selling, general and administrative expenses	35,402	29,623	105,337	84,021
Amortization expense	679	535	2,013	1,554
	-----	-----	-----	-----
Operating income	8,138	9,920	22,185	27,798
Interest expense	3,739	2,746	10,933	7,655
Interest income	(194)	(116)	(463)	(226)
Gain on sale of securities		(4,156)		(7,126)
Loss on sale of subsidiary				318
Other income	(155)	(20)	(350)	(41)
	-----	-----	-----	-----
Income before provision for income taxes and extraordinary item	4,748	11,466	12,065	27,218
Provision for income taxes	1,976	4,598	5,017	11,192
	-----	-----	-----	-----
Income before extraordinary item	2,772	6,868	7,048	16,026
Extraordinary item - loss on early termination of subordinated debt, net of income taxes	64		64	
	-----	-----	-----	-----
Net income	\$ 2,708	\$ 6,868	\$ 6,984	\$ 16,026
	=====	=====	=====	=====
Income per share:				
Basic:				
Income before extraordinary item	\$ 0.21	\$ 0.54	\$ 0.55	\$ 1.27
Extraordinary item			0.01	
	-----	-----	-----	-----
Net income	\$ 0.21	\$ 0.54	\$ 0.54	\$ 1.27
	=====	=====	=====	=====
Diluted:				
Income before extraordinary item	\$ 0.21	\$ 0.48	\$ 0.54	\$ 1.16
Extraordinary item			0.01	
	-----	-----	-----	-----
Net income	\$ 0.21	\$ 0.48	\$ 0.53	\$ 1.16
	=====	=====	=====	=====
Weighted average common shares outstanding:				
Basic	12,956	12,708	12,921	12,644
Diluted	13,005	14,410	13,164	13,772

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended	
	January 31, 2001	January 22, 2000
Cash flows from operating activities:		
Net income	\$ 6,984	\$ 16,026
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	9,013	7,696
Amortization of deferred financing costs	430	549
Loss on sale of subsidiary		318
Gain on sale of securities		(7,126)
Cash paid for restructuring costs	(843)	(95)
Changes in assets and liabilities (net of assets acquired and liabilities assumed in business combinations):		
Accounts receivable	11,252	(2,161)
Inventories	(6,303)	(7,896)
Prepaid expenses and other current assets	(607)	(2,993)
Accounts payable	(2,600)	(4,734)
Accrued compensation and other accrued liabilities	(7,330)	6,190
Net cash provided by operating activities	9,996	5,774
Cash flows from investing activities:		
Cash paid in acquisitions, net of cash received	(11,914)	(23,990)
Additions to property and equipment	(6,625)	(10,053)
Purchase of securities		(2,400)
Cash paid for additional purchase consideration	(6,700)	(1,289)
Cash received for net assets held for sale	9,764	
Proceeds on sale of securities		8,926
Cash collection of note receivable issued with sale of subsidiary		1,500
Cash received on the sale of property and equipment	541	502
Other	(28)	
Net cash used in investing activities	(14,962)	(26,804)
Cash flows from financing activities:		
Proceeds from credit facility borrowings	112,470	81,950
Payments of credit facility borrowings	(98,023)	(62,139)
Payments of other long-term debt	(622)	(578)
Payment of subordinated debt and repurchase of attached warrants	(4,878)	
Proceeds from issuance of other long-term debt		1,518
Payments of short-term debt, net	(2,694)	(765)
Payments of deferred financing costs	(181)	(304)
Proceeds from common stock issued under employee benefit programs	566	2,088
Issuance of notes receivable to officers	(2,989)	
Issuance of common stock to outside directors	60	79
Net cash provided by financing activities	3,709	21,849

Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

Effect of exchange rates on cash and cash equivalents	(49)	45
Net (decrease) increase in cash and cash equivalents	(1,306)	864
Cash and cash equivalents at beginning of period	2,851	607
Cash and cash equivalents at end of period	\$ 1,545	\$ 1,471

(Continued)  
Page 5

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

	Nine Months Ended	
	January 31, 2001	January 22, 2000

Supplemental disclosures of cash flow information:

Interest paid	\$9,555	\$ 6,536
Income taxes paid	\$9,330	\$11,036

During the nine months ended January 31, 2001 and January 22, 2000, the Company paid \$11,914 and \$23,990, respectively, which represents the aggregate of: 1) the initial fixed consideration for purchase acquisitions and other purchase price adjustments relating to certain acquisitions and 2) 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 acquisition costs are presented as follows:

	Nine Months Ended	
	January 31, 2001	January 22, 2000
Accounts receivable	\$ 4,318	\$ 5,038
Inventories	1,038	943
Prepaid expenses and other current assets	691	616
Property and equipment	425	6,057
Intangible assets	9,281	25,411
Other assets	158	99
Short-term debt	(128)	(601)
Accounts payable	(1,108)	(3,386)

## Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

Accrued compensation and other accrued liabilities	(2,718)	(9,121)
Long-term debt		(986)
Deferred income taxes	(43)	(80)
	-----	-----
Net assets acquired	\$11,914	\$23,990
	=====	=====

Non-cash transactions:

- o During the nine months ended January 31, 2001 and January 22, 2000, the Company accrued \$6,296 and \$9,476, respectively, as additional purchase consideration for earn-outs.
  
- o During the nine months ended January 31, 2001 and January 22, 2000, the Company recorded additional paid-in capital of \$8 and \$850, respectively, related to the tax benefit of stock options exercised.
  
- o During the nine months ended January 22, 2000, the Company sold one of its subsidiaries and an associated building in exchange for notes receivable totaling \$4,690.

See accompanying notes to consolidated financial statements.

Page 6

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 integrator of graphic arts companies, providing a variety of custom print products and office supplies and related management services to more than 44,000 businesses in the United States and Canada. The Company is comprised of three main operating divisions: 1) the Workflow Solutions Division, formerly known as the Integrated Business Services 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, 2) the Workflow Printing Division, formerly known as the Fulfillment Division, which prints and produces envelopes, custom business documents, commercial print, labels, packaging and direct mail literature and 3) the iGetSmart.com Division which owns the iGetSmart software source code, licenses the right to use the software to other entities, including subsidiaries of the Company, and provides warehousing services through a nationwide network of distribution centers. Workflow Management employs approximately 3,000 persons and has 20 manufacturing facilities in 6 states and 4 Canadian provinces, 12 distribution centers, 11 print-on-demand centers and 58 sales offices.

NOTE 2 - BASIS OF PRESENTATION

-----

The accompanying consolidated financial statements and related notes to

## Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

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.

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, 2000.

As used in these consolidated financial statements and related notes to consolidated financial statements, "Fiscal 2001", "Fiscal 2000" and "Fiscal 1999" refer to the Company's fiscal years ending April 30, 2001 and ended April 30, 2000 and April 24, 1999, respectively. During Fiscal 2000, the Company's Board of Directors approved a change in the definition of the Company's fiscal year-end date from the last Saturday in April to April 30th of each year. As a result of this change, the three months ended January 31, 2001 and January 22, 2000 and the nine months ended January 31, 2001 and January 22, 2000 consisted of 92, 91, 276 and 273 days, respectively.

Page 7

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, 2001	April 30, 2000
	-----	-----
Raw materials	\$14,587	\$15,130
Work-in-process	3,364	3,287
Finished goods	35,379	27,806
	-----	-----
Total inventories	\$53,330	\$46,223
	=====	=====

### NOTE 4 - LONG-TERM DEBT

#### Revolving Credit Facility

During Fiscal 2000, the Company entered into a secured \$250,000 revolving credit facility (the "Credit Facility") underwritten and agented by Fleet Bank. The Credit Facility is composed of a \$200,000 revolver, including a \$50,000 sublimit for Canadian borrowings and a \$50,000 amortizing term note. 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



## Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

total debt to proforma EBITDA maximum of 3.75 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 January 31, 2001, the Company had approximately \$149,879 outstanding under the Credit Facility, at an annual interest rate of approximately 9.0%, and \$100,121 available under the Credit Facility for acquisitions and working capital purposes. During the nine months ended January 31, 2001, the Company incurred \$10,193 in interest expense relating to the Credit Facility.

### Subordinated Related Party Debt

During Fiscal 1999, the Company issued \$4,127 in subordinated unsecured notes including attached warrants with a value of \$751 at the time of the debt issuance (the "Subordinated Notes") to certain members of the Company's management for \$4,878. The proceeds from the Subordinated Notes were used to repurchase the Company's common stock. The Subordinated Notes were to mature on January 18, 2009, and had a stated coupon of 12% payable semi-annually in arrears. On December 8, 2000, the Company repaid in full the Subordinated Notes and repurchased the attached warrants for \$4,878. As required under the terms the Subordinated Notes, warrants previously issued to the note holders were returned to the Company and reissued in an amount sufficient to provide a 15.0% total annual return to each holder. The Company issued 42 warrants, which are exercisable into shares of Company Common Stock at a nominal cost. Debt issue costs of \$111 were written-off upon termination of the Subordinated Notes and the after tax impact of \$64 was recorded as an extraordinary loss. Interest expense for the nine months ended January 31, 2001 relating to the Subordinated Notes was \$394.

Page 8

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 nine months ended January 31, 2001 were as follows:

Stockholders' equity balance at April 30, 2000	\$89,922
Issuance of common stock in conjunction with:	
Exercise of stock options, including tax benefits	65
Employee stock purchase program	509
Fees paid to outside members of the Company's Board of Directors	60
Issuance of notes receivable from officers	(2,989)
Repurchase of stock warrants issued with subordinated debt	(678)
Comprehensive income	6,650
	-----
Stockholders' equity balance at January 31, 2001	\$93,539
	=====

Comprehensive Income

## Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

The components of comprehensive income are as follows:

	Three Months Ended	
	January 31, 2001	January 22, 2000
Net income	\$ 2,708	\$ 6,868
Other comprehensive income:		
Foreign currency translation adjustment	1,592	385
Unrealized gain on available-for-sale securities		4,173
Comprehensive income	\$ 4,300	\$11,426

### Notes Receivable from Officers

During Fiscal 1999 and Fiscal 2001, the Company extended loans to certain members of management and the Board of Directors for the purchase, in the open market, of the Company's common stock ("Company Common Stock") by those individuals. The notes are full recourse promissory notes bearing interest at 6.75% and 8.0% per annum. Principal and interest on the notes issued in Fiscal 1999 and Fiscal 2001 are payable at maturity on August 31, 2001 and on demand, no later than January 2, 2003, respectively. At January 31, 2001, \$4,947 and \$376 in principal and interest, respectively, were outstanding.

Page 9

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

### NOTE 6 - SALE OF SUBSIDIARY

On September 24, 1999, the Company sold all of the outstanding capital stock of Hano Document Printers, Inc. ("Hano") for \$3,800 and recorded a pre-tax loss on the sale of \$318. Sale proceeds consisted of a \$1,246, 8% note due on November 30, 1999 ("Short Term Note") and a \$2,544, 8.0% note payable in interest only installments until October 1, 2002 when principal and interest payments will be made until the maturity date of September 1, 2009. The purchaser of Hano's stock has paid off the Short Term Note. The notes are secured by all of the assets of Hano and are subject to a limited guarantee with a third party up to a maximum of \$2,000. The Company also entered into an agreement with Hano to sublease building space from Hano for \$32 per month through December 2004.

The limited guarantee on the sale of Hano is solely enforceable through foreclosure on a warehouse, which the Company sold to the third party guarantor concurrent with the Hano sale. Sale proceeds consisted of a \$900, 7.5% note payable in interest only installments until September 24, 2005 when principal and interest payments will be made until the maturity date of August 31, 2009. The note is collateralized by a first mortgage on the warehouse. The Company

## Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

entered into a lease for the warehouse for \$10 per month through August 2004, then increasing to \$15 per month through August 2009.

### NOTE 7 - SALE OF INVESTMENT IN CORTEZ III SERVICE CORPORATION

-----

On April 21, 2000, the Company purchased 20% of the outstanding common stock of Cortez III Service Corporation ("Cortez"), a New Mexico corporation, in exchange for \$1,550. Cortez provides logistics and technical services to various governmental agencies. F. Craig Wilson, a Director of the Company, is President, Chief Executive Officer and a member of the board of directors of Cortez. The investment was accounted for under the equity method of accounting. On January 2, 2001, the Company sold its 20% ownership in Cortez to F. Craig Wilson in exchange for a note receivable in the amount of \$1,789. The note bears simple interest at 18% per annum with a maturity date of December 31, 2005. The note is a full recourse note and is secured by the shares of stock sold to F. Craig Wilson. Interest payments of 9% of the principal amount are payable quarterly with the remaining principal and interest due at maturity. The Company recorded a gain on the sale of the investment of \$200 as other income during the three months ending January 31, 2001.

### NOTE 8 - INVESTMENT IN COMMON STOCK

-----

In September 1999, the Company purchased shares of a corporation's common stock in one transaction for \$2,400. The Company sold shares during the nine months ended January 22, 2000 and recorded a realized gain of \$5,318 and an unrealized gain of \$1,808 for the shares held as trading securities. The remaining shares held by the Company at January 22, 2000 were classified as available-for-sale based on the Company's intent and ability to retain the shares and resulted in an unrealized holding gain of \$4,894 which was included in other comprehensive income at January 22, 2000. At January 31, 2001, all shares of this corporation's common stock have been sold.

Page 10

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

### NOTE 9 - 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		Nine Months Ended	
January 31, 2001	January 22, 2000	January 31, 2001	January 22, 2000
-----	-----	-----	-----

## Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

### Earnings per share:

Income before extraordinary item	\$ 2,772	\$ 6,868	\$ 7,048	\$16,026
Extraordinary item	64	-----	64	-----
Net Income	\$ 2,708	\$ 6,868	\$ 6,984	\$16,026
	=====	=====	=====	=====

Weighted average number of common shares outstanding	12,956	12,708	12,921	12,644
	=====	=====	=====	=====

### Basic:

Income before extraordinary item	\$ 0.21	\$ 0.54	\$ 0.55	\$ 1.27
Extraordinary item	-----	-----	0.01	-----
Net Income	\$ 0.21	\$ 0.54	\$ 0.54	\$ 1.27
	=====	=====	=====	=====

### Diluted earnings per share:

Income before extraordinary item	\$ 2,772	\$ 6,868	\$ 7,048	\$16,026
Extraordinary item	64	-----	64	-----
Net Income	\$ 2,708	\$ 6,868	\$ 6,984	\$16,026
	=====	=====	=====	=====

Weighted average number of: Common shares outstanding	12,956	12,708	12,921	12,644
Effect of dilutive employee stock options*	22	1,702	231	1,128
Effect of dilutive stock warrants	27	-----	12	-----
Total	13,005	14,410	13,164	13,772
	=====	=====	=====	=====

### Diluted:

Income before extraordinary item	\$ 0.21	\$ 0.48	\$ 0.54	\$ 1.16
Extraordinary item	-----	-----	0.01	-----
Net Income	\$ 0.21	\$ 0.48	\$ 0.53	\$ 1.16
	=====	=====	=====	=====

\* 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 4,372 and 38 shares of common stock were anti-dilutive and outstanding during the nine months ended January 31, 2001 and January 22, 2000, respectively.

# Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

(Unaudited)

## NOTE 10 - BUSINESS COMBINATIONS

-----

During the nine month period ended January 31, 2001, the Company completed three business combinations, which were accounted for under the purchase method for an aggregate purchase price of \$11,914 consisting entirely of cash. The total assets related to these acquisitions were \$15,911, including goodwill and other intangible assets of \$9,281. The results of these acquisitions have been included in the Company's results from their respective dates of acquisition.

During Fiscal 2000, the Company made six acquisitions accounted for under the purchase method for an aggregate purchase price of \$46,807, consisting of \$36,470 in cash and notes payable of \$10,337. The total assets related to these acquisitions were \$69,584, including intangible assets of \$30,916. The results of these acquisitions have been included in the Company's results from their respective dates of acquisition.

Following the acquisition of Office Electronics, Inc. ("OEI") during Fiscal 2000, the Company decided to sell certain of OEI's manufacturing divisions and the related assets. As of January 31, 2001 all manufacturing divisions and assets except for the St. Louis division and the real estate upon which one other former OEI facility was located, have been sold. At January 31, 2001 the carrying value of these net assets held for sale is based upon the net realizable value of the facilities.

Most of the Company's 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. Additional purchase consideration of \$6,700 and \$1,289 was paid by the Company in connection with these earn-out provisions during the nine months ended January 31, 2001 and January 22, 2000, respectively, and another \$9,164 is accrued for these earn-out provisions at January 31, 2001. This additional consideration, whether paid or accrued, has been reflected in the accompanying balance sheet as goodwill at January 31, 2001.

The following presents the unaudited pro forma results of operations of the Company for the three and nine month periods ended January 31, 2001 and January 22, 2000, as if the divestiture of a subsidiary and the purchase acquisitions completed since the beginning of Fiscal 2000 had been consummated at the beginning of Fiscal 2000. The pro forma results of operations include certain pro forma adjustments including the amortization of intangible assets and reductions in executive compensation at the acquired companies of \$5, \$208, \$58 and \$729 for the three months ended January 31, 2001 and January 22, 2000, and the nine months ended January 31, 2001 and January 22, 2000, respectively.

	Three Months Ended		Nine Months Ended	
	January 31, 2001	January 22, 2000	January 31, 2001	January 22, 2000
Revenues	\$155,966	\$161,707	\$459,575	\$458,030
Net income	2,690	6,630	7,479	17,232
Earnings per share:				
Basic	\$ 0.21	\$ 0.52	\$ 0.58	\$ 1.36
Diluted	0.21	0.46	0.57	1.25

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

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 Fiscal 2000 or the results that may occur in the future.

NOTE 11 - SEGMENT REPORTING  
 -----

The Company's operating segments prepare separate financial information that is evaluated regularly by the Company's Executive Officers. 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, b) the sale of an internally manufactured product to the customer or c) the license of software source code and provision of warehousing services to other entities. The Company has determined that its operating activities consist of three reportable operating segments: the Company's Workflow Solutions Division, the Company's Workflow Printing Division and the Company's iGetSmart.com 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 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. The iGetSmart.com Division owns the proprietary iGetSmart electronic inventory and distribution system. The iGetSmart.com Division licenses the use of the iGetSmart source code to other entities, including subsidiaries of the Company, and provides warehousing services. 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		Nine Months Ended	
January 31, 2001	January 22, 2000	January 31, 2001	January 22, 2000
-----	-----	-----	-----

Revenues:

Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

Workflow Solutions Division	\$ 75,081	\$ 59,196	\$208,449	\$154,377
Workflow Printing Division	80,297	80,319	242,893	239,873
iGetSmart.com Division	5,623		11,866	
Intersegment	(5,813)	(1,037)	(16,965)	(5,550)
	-----	-----	-----	-----
Total	\$155,188	\$138,478	\$446,243	\$388,700
	=====	=====	=====	=====

Operating income:				
Workflow Solutions Division	\$ 4,225	\$ 5,264	\$ 11,351	\$ 13,900
Workflow Printing Division	6,088	7,426	19,230	20,465
iGetSmart.com Division	96		(245)	
Corporate	(2,271)	(2,770)	(8,151)	(6,567)
	-----	-----	-----	-----
Total	\$ 8,138	\$ 9,920	\$ 22,185	\$ 27,798
	=====	=====	=====	=====

Page 13

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

	January 31,	April 30,
	2001	2000
	-----	-----
Identifiable assets (at period end):		
Workflow Solutions Division	\$127,810	\$134,673
Workflow Printing Division	183,383	181,461
iGetSmart.com Division	8,553	
Corporate	15,641	15,578
	-----	-----
Total	\$335,387	\$331,712
	=====	=====

Geographic Segments

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

	Three Months Ended		Nine Months Ended	
	-----		-----	
	January 31,	January 22,	January 31,	January 22,
	2001	2000	2001	2000
	----	----	----	----
Revenues:				
United States	\$118,373	\$101,313	\$338,105	\$282,295
Canada	36,815	37,165	108,138	106,405
	-----	-----	-----	-----
Total	\$155,188	\$138,478	\$446,243	\$388,700
	=====	=====	=====	=====

## Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

Operating income:				
United States	\$ 4,763	\$ 6,265	\$ 13,339	\$ 18,560
Canada	3,375	3,655	8,846	9,238
	-----	-----	-----	-----
Total	\$ 8,138	\$ 9,920	\$ 22,185	\$ 27,798
	=====	=====	=====	=====

	January 31,	April 30,
	2001	2000
	-----	-----
Identifiable assets (at period end):		
United States	\$275,375	\$267,398
Canada	60,012	64,314
	-----	-----
Total	\$335,387	\$331,712
	=====	=====

Page 14

### 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 integrator of graphic arts companies, providing a variety of custom print products and office supplies and related management services to more than 44,000 businesses in the United States and Canada. The Company is comprised of three main operating divisions: 1) the Workflow Solutions Division, formerly known as the Integrated Business Services 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, 2) the Workflow Printing Division, formerly known as the Fulfillment Division, which prints and produces envelopes, custom business documents, commercial print, labels, packaging and direct mail literature and 3) the iGetSmart.com Division which owns the proprietary iGetSmart inventory and distribution system. The iGetSmart.com Division licenses the use of the source code to other entities for a fee, including subsidiaries of the Company. Workflow Management employs approximately 3,000 persons and has 20 manufacturing facilities in 6 states and 4 Canadian provinces, 12 distribution centers, 11 print-on-demand centers and 58 sales offices.

As used in this Management's Discussion and Analysis of Financial Condition and Results of Operations, "Fiscal 2001" and "Fiscal 2000" refer to the Company's fiscal years ending April 30, 2001 and ended April 30, 2000, respectively. During Fiscal 2000, the Company's Board of Directors approved a change in the definition of the Company's fiscal year-end date from the last Saturday in April to April 30th of each year. As a result of this change, the



## Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

three months ended January 31, 2001 and January 22, 2000 and the nine months ended January 31, 2001 and January 22, 2000 consisted of 92, 91, 276 and 273 days, 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, 2000 included in the Company's Annual Report on Form 10-K.

Page 15

### Consolidated Results of Operations

#### Three Months Ended January 31, 2001 Compared to Three Months Ended January 22, 2000

Consolidated revenues increased 12.1%, from \$138.5 million for the three months ended January 22, 2000, to \$155.2 million for the three months ended January 31, 2001. The Company's Workflow Solutions Division revenues increased by \$15.9 million or 26.8% and its Workflow Printing Division revenues decreased by \$22,000 or 0.03% when comparing the three months ended January 31, 2001 to the three months ended January 22, 2000. The increase in the Workflow Solutions Division was primarily due to the Company's business combinations consummated after January 22, 2000. The decrease in the Company's Workflow Printing Division was primarily due to the lower than expected revenues from the direct mail and envelope operations. Revenues for the three months ended January 31, 2001, include revenues from four companies acquired in business combinations accounted for under the purchase method after the beginning of the fourth quarter of Fiscal 2000 (the "Purchased Companies"). The Company's iGetSmart.com Division had total revenues of \$5.6 million for three months ended January 31, 2001. Total revenues at iGetSmart.com consisted of \$3.5 million in interdivisional revenues from the Company's other subsidiaries. These interdivisional revenues were eliminated upon consolidation.

International revenues decreased 0.9%, from \$37.2 million, or 26.8% of consolidated revenues, for the three months ended January 22, 2000, to \$36.8 million, or 23.7% of consolidated revenues, for the three months ended January 31, 2001. International revenues consisted exclusively of revenues generated in Canada. This decrease was entirely due to a decline in the Canadian exchange rate during the three months ended January 31, 2001. International revenues, when stated in the local currency, increased \$2.2 million (Canadian) or 4.0% for the three months ended January 31, 2001 when compared to the three months ended January 22, 2000.

Gross profit increased 10.3%, from \$40.1 million, or 28.9% of revenues, for the three months ended January 22, 2000, to \$44.2 million, or 28.5% of revenues, for the three months ended January 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 envelope printing and Canadian forms businesses as each of these product lines have experienced pressure to their gross margins as a result of competition and a slowing economy.

Selling, general and administrative expenses increased 19.5%, from \$29.6 million, or 21.4% of revenues, for the three months ended January 22, 2000, to \$35.4 million, or 22.8% of revenues, for the three months ended January 31, 2001. The increase in selling, general and administrative expenses was primarily due to the Purchased Companies and the spending in the Company's iGetSmart.com Division. During the quarter, the Company incurred approximately \$1.7 million

## Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

in additional expenses to further develop and market the iGetSmart technology and to hire additional personnel. As a percentage of revenues, selling, general and administrative expenses increased due to the depressed economy which slowed revenue growth at a greater rate than the Company was able to institute cost saving measures and workforce reductions.

Amortization expense increased 26.9% from \$535,000 or 0.4% of revenues for the three months ended January 22, 2000, to \$679,000 or 0.4% of revenues for the three months ended January 31, 2001. This increase was due exclusively to the increased number of acquisitions accounted for under the purchase method that are included in the Company's results for the three months ended January 31, 2001 versus the three months ended January 22, 2000.

Interest expense, net of interest income, increased 34.8%, from \$2.6 million for the three months ended January 22, 2000, to \$3.5 million for the three months ended January 31, 2001. This increase in net interest expense was due to the increased level of debt outstanding during the three months ended January 31, 2001 and the increase in overall market interest rates, including the interest rate associated with the Company's secured credit facility.

Page 16

In September 1999, the Company purchased shares of a corporation's common stock in one transaction for \$2.4 million. The Company sold shares during three months ended January 22, 2000 and recorded a realized gain of \$4.2 million. The remaining shares held by the Company at January 22, 2000 were classified as available-for-sale based on the Company's intent and ability to retain the shares and resulted in an unrealized holding gain of \$4.2 million which was included in other comprehensive income at January 22, 2000. At January 31, 2001, all shares of this corporation's common stock have been sold.

Other income increased 675.0% from \$20 for the three months ended January 22, 2000, to \$155 for the three months ended January 31, 2001. Other income primarily represents the net of gains and/or losses on sales of equipment and miscellaneous other income and expense items. During the three months ended January 31, 2001, the Company sold its 20% interest in Cortez III Service Corporation and recorded a gain of \$200,000 as other income.

Provision for income taxes decreased 57.0% from \$4.6 million for the three months ended January 22, 2000 to \$2.0 million for the three months ended January 31, 2001, reflecting effective income tax rates of 40.1% and 41.6%, respectively. During both periods, the effective income tax rates reflect the recording of tax provisions at the federal statutory rate of 34.0%, 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. During the three months ended January 22, 2000, the effective income tax rate was reduced due to the fact that the marketable securities gains were taxed at a 38.0% rate.

Nine Months Ended January 31, 2001 Compared to Nine Months Ended January 22, 2000

Consolidated revenues increased 14.8%, from \$388.7 million for the nine months ended January 22, 2000, to \$446.2 million for the nine months ended January 31, 2001. The Company's Workflow Solutions Division revenues increased by \$54.1 million or 35.0% and its Workflow Printing Division revenues increased by \$3.0 million or 1.3% when comparing the nine months ended January 31, 2001 to the nine months ended January 22, 2000. These increases were primarily due to the Purchased Companies. The Company's iGetSmart.com Division had total revenues of \$11.9 million for nine months ended January 31, 2001. Total revenues at

## Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

iGetSmart.com consisted of \$9.5 million in interdivisional revenues from the Company's other subsidiaries. These interdivisional revenues were eliminated upon consolidation.

International revenues increased 1.6%, from \$106.4 million, or 27.4% of consolidated revenues, for the nine months ended January 22, 2000, to \$108.1 million, or 24.2% of consolidated revenues, for the nine months ended January 31, 2001. International revenues, when stated in the local currency, increased \$6.1 million (Canadian) or 4.0% for the three months ended January 31, 2001 when compared to the three months ended January 22, 2000.

Gross profit increased 14.3%, from \$113.3 million, or 29.2% of revenues, for the nine months ended January 22, 2000, to \$129.5 million, or 29.0% of revenues, for the nine months ended January 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 envelope printing and Canadian forms businesses as each of these product lines have experienced pressure to their gross margins as a result of competition and a slowing economy.

Selling, general and administrative expenses increased 25.4%, from \$84.0 million, or 21.6% of revenues, for the nine months ended January 22, 2000, to \$105.3 million, or 23.6% of revenues, for the nine months ended January 31, 2001. The increase in selling, general and administrative expenses was primarily due to the Purchased Companies and the spending in the Company's iGetSmart.com Division. During the nine months ended January 31, 2001, the Company incurred approximately \$4.7 million in additional expenses to further develop and market the iGetSmart technology. As a percentage of revenues, selling, general and administrative expenses increased due to the depressed economy which slowed revenue growth at a greater rate than the Company was able to institute cost saving measures and workforce reductions.

Page 17

Amortization expense increased 29.5%, from \$1.5 million, or 0.4% of revenues, for the nine months ended January 22, 2000, to \$2.0 million, or 0.5% of revenues, for the nine months ended January 31, 2001. This increase was due exclusively to the increased number of acquisitions accounted for under the purchase method that are included in the Company's results for the nine months ended January 31, 2001 versus the nine months ended January 22, 2000.

Interest expense, net of interest income, increased 40.9%, from \$7.4 million for the nine months ended January 22, 2000, to \$10.5 million for the nine months ended January 31, 2001. This increase in net interest expense was due to the increased level of debt outstanding during the nine months ended January 31, 2001 and the increase in overall market interest rates, including the interest rate associated with the Company's secured credit facility.

On September 24, 1999, the Company sold all of the outstanding capital stock of Hano Document Printers, Inc. ("Hano") for \$3.8 million and recorded a pre-tax loss on the sale of \$318,000. Sale proceeds consisted of a \$1.3 million 8% note due on November 30, 1999 ("Short Term Note") and a \$2.5 million 8% note payable in interest only installments until October 1, 2002 when principal and interest payments will be made until the maturity date of September 1, 2009. The purchaser of Hano's stock has paid off the Short Term Note. The remaining note is collateralized by all of the assets of Hano and is subject to a limited guarantee with a third party up to a maximum of \$2.0 million. The Company also entered into an agreement with Hano to sublease building space from Hano for \$32,000 per month through December 2004.

The limited guarantee on the sale of Hano is solely enforceable through

## Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

foreclosure on a warehouse, which the Company sold to the third party guarantor concurrent with the Hano sale. Sale proceeds consisted of a \$900,000, 7.5% note payable in interest only installments until September 24, 2005 when principal and interest payments will be made until the maturity date of August 31, 2009. The note is collateralized by a first mortgage on the warehouse. The Company entered into a lease for the warehouse for \$10,000 per month through August 2004, then increasing to \$15,000 per month through August 2009.

Other income increased 754.0% from \$41 for the nine months ended January 22, 2000, to \$350 for the nine months ended January 31, 2001. Other income primarily represents the net of gains and/or losses on sales of equipment and miscellaneous other income and expense items. During the nine months ended January 31, 2001, the Company sold its 20% interest in Cortez III Service Corporation and recorded a gain of \$200,000 as other income.

Provision for income taxes decreased 55.2% from \$11.2 million for the nine months ended January 22, 2000 to \$5.0 million for the nine months ended January 31, 2001, reflecting effective income tax rates of 41.1% and 41.6%, respectively. During both periods, the effective income tax rates reflect the recording of tax provisions at the federal statutory rate of 34.0%, 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. During the nine months ended January 22, 2000 the effective income tax rate was reduced due to the fact that the marketable security gains were taxed at a 38.0% rate.

Page 18

### Liquidity and Capital Resources

At January 31, 2001, the Company had working capital of \$80.8 million. The Company's capitalization, defined as the sum of long-term debt and stockholders' equity, at January 31, 2001 was approximately \$247.8 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, 2001, 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 \$12.0 million for new equipment and maintenance.

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 quarter, \$6.7 million for additional purchase considerations due under the earn-outs agreements, \$4.9 million in payment for termination of subordinated notes with attached warrants and \$2.7 million in payments of other short-term debt.

During the nine months ended January 22, 2000, net cash provided by operating activities was \$5.8 million. Net cash used in investing activities was \$26.8 million, including \$25.3 million used for acquisitions, \$10.1 million used for capital expenditures and \$2.4 million used for the purchase of marketable securities which were partially offset by \$8.9 million generated from

## Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

the sale of certain securities and the collection of a \$1.5 million note receivable issued in conjunction with the divestiture of a subsidiary. Net cash provided by financing activities was \$21.8 million, which included \$19.8 million in net borrowings by the Company on its revolving credit facility to primarily pay for acquisitions and \$2.2 million in proceeds from the issuance of common stock.

Workflow Management has significant operations in Canada. Net sales from the Company's Canadian operations accounted for approximately 24.2% of the Company's total net sales for the nine months ended January 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.

During Fiscal 2000, the Company entered into a secured \$250.0 million revolving credit facility (the "Credit Facility") underwritten and agented by Fleet Bank. The Credit Facility is composed of a \$200.0 million revolver, including a \$50.0 million sublimit for Canadian borrowings, and a \$50.0 million amortizing term note. 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 proforma EBITDA maximum of 3.75 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 March 13, 2001, the Company had approximately \$156.8 million outstanding under the Credit Facility, at an annual interest rate of approximately 8.8%, and \$93.2 million available under the Credit Facility for acquisitions and working capital purposes.

During Fiscal 1999, the Company issued \$4.1 million in subordinated unsecured notes including attached warrants with a value of \$751,000 at the time of the debt issuance (the "Subordinated Notes") to certain members of the Company's management for \$4.9 million. The proceeds from the Subordinated Notes were used to repurchase the Company's common stock. The Subordinated Notes were

Page 19

to mature on January 18, 2009, and had a stated coupon of 12% payable semi-annually in arrears. On December 8, 2000, the Company repaid in full the Subordinated Notes and repurchased the attached warrants for \$4.9 million. As required under the terms of the Subordinated Notes, warrants previously issued to the note holders were returned to the Company and reissued in an amount sufficient to provide a 15.0% total annual return to each holder. The Company issued 42,104 warrants, which are exercisable into shares of Company Common Stock at a nominal cost. Debt issue costs of \$111,000 were written-off upon termination of the Subordinated Notes and the after tax impact of \$64,000 was recorded as an extraordinary loss. Interest expense for the nine months ended January 31, 2001 relating to the Subordinated Notes was \$394,000.

The Company was spun-off from U.S. Office Products Company ("U.S. Office Products") on June 9, 1998, pursuant to the terms and conditions of a distribution agreement ("Distribution Agreement") between the Company, U.S. Office Products and certain other entities that were also spun-off by U.S. Office Products. Under the terms of the Distribution Agreement, 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

## Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

"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.

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 transaction consummated pursuant to the Distribution Agreement. 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) are likely 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.

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 business is subject to seasonal influences from year-end mailings. Both the Company's Workflow Solutions Division and its 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 quarters 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.

Page 20

### 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, 2001 and January 22, 2000, respectively.

### Factors Affecting the Company's Business

## Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

### Risks Associated with Acquisitions and 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. 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.

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.

Workflow Management may in the future seek to finance its acquisitions by using shares of Company Common Stock. 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 be required to use more of its cash resources or more borrowed funds in order to initiate and maintain its acquisition program. 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. The Company does not anticipate utilizing Company Common Stock for acquisition purposes during the current fiscal year.

Approximately \$105.7 million, or 31.5% of the Company's total assets at January 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. The Company amortizes goodwill on 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. The Company will be required to 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

## Edgar Filing: WORKFLOW MANAGEMENT INC - Form 10-Q

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 amortization or write down of goodwill could have a material and adverse impact upon the market price of the Company Common Stock.

Page 21

### Risks Associated with Canadian Operations

Workflow Management has significant operations in Canada. Net sales from the Company's Canadian operations accounted for approximately 24.2% and 27.0% of the Company's total net sales in the nine months ended January 31, 2001 and the fiscal year ended April 30, 2000, 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 year ended April 30, 2000.

Page 22

### 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, 2001.

The Company does not hold or issue derivative financial instruments for trading purposes. To manage interest rate risk on the variable rate borrowings under the Credit Facility, the Company enters into, from time to time, interest rate collar agreements to mitigate fluctuations in the Credit Facility's variable base interest rate. At January 31, 2001, the Company had no outstanding derivatives, swaps, collars or similar type agreements to mitigate such fluctuating interest rates.

Page 23

## PART II - OTHER INFORMATION

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

(a) Exhibits

None.

(b) Reports on Form 8-K



None.

Page 24

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 16, 2001

-----

Date

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

-----

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

March 16, 2001

-----

Date

By: /s/ Michael L. Schmickle

-----

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

Page 25