SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2003-02-10** | Period of Report: **2002-12-28**
SEC Accession No. 0000205700-03-000003

(HTML Version on secdatabase.com)

FILER

NEW ENGLAND BUSINESS SERVICE INC

CIK:**205700**| IRS No.: **042942374** | State of Incorp.:**DE** | Fiscal Year End: **0629**
Type: **10-Q** | Act: **34** | File No.: **001-11427** | Film No.: **03547187**
SIC: **2761** Manifold business forms

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

FORM 10-Q

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

For the period ended December 28, 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 1-11427

NEW ENGLAND BUSINESS SERVICE, INC.
(Exact name of the registrant as specified in its charter)

Delaware	04-2942374
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

500 Main Street
Groton, Massachusetts, 01471
(Address of principal executive offices)
(Zip Code)

(978) 448-6111
(Registrant's telephone number, including area code)

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

Yes X No ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X No ___

The number of common shares of the Registrant outstanding on February 7, 2003 was 12,980,097.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

<TABLE>

NEW ENGLAND BUSINESS SERVICE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

<CAPTION>

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<S>	Dec. 28, 2002 <C>	June 29, 2002 <C>
ASSETS		
Current Assets		
Cash and cash equivalents	$ 4,293	$ 6,112
Accounts receivable, net	58,295	55,738
Inventories, net	34,669	34,095
Direct mail advertising materials, net and prepaid expenses	14,566	13,374
Deferred income tax benefit	11,581	13,240
Total current assets	123,404	122,559
Property and Equipment, net	71,721	73,602
Property Held for Sale	328	328
Deferred Income Tax Benefit	19,362	18,934
Goodwill	67,862	67,964
Other Intangible Assets, net	48,319	51,884
Long-Term Investment	-	30,521
Other Assets	3,074	3,130
TOTAL ASSETS	$334,070	$368,922
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 15,999	$ 16,858
Accrued expenses	47,961	48,126
Obligations under capital lease-current portion	670	1,102
Total current liabilities	64,630	66,086
Long-Term Debt	98,474	148,358
Deferred Income Taxes	17,987	17,758
STOCKHOLDERS' EQUITY		
Common stock	15,888	15,829
Additional paid-in capital	59,101	57,885
Unamortized value of restricted stock awards	(781)	(62)
Accumulated other comprehensive loss	(5,117)	(7,411)
Retained earnings	140,582	125,905
Total	209,673	192,146
Less Treasury stock, at cost	(56,694)	(55,426)
Stockholders' Equity	152,979	136,720
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$334,070	$368,922

</TABLE>
See Notes to Condensed Consolidated Financial Statements

<TABLE>

NEW ENGLAND BUSINESS SERVICE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

<CAPTION>

	Three Months Ended		Six Months Ended	
<S>	Dec. 28, 2002 <C>	Dec. 29, 2001 <C>	Dec. 28, 2002 <C>	Dec. 29, 2001 <C>
NET SALES	$152,599	$157,532	$281,450	$291,047
COST OF SALES	63,138	67,619	117,417	125,756

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GROSS PROFIT	89,461	89,913	164,033	165,291
OPERATING EXPENSES:				
Selling and advertising	51,599	52,995	95,598	99,492
General and administrative	19,198	18,300	38,515	36,342
Total operating expenses	70,797	71,295	134,113	135,834
INCOME FROM OPERATIONS	18,664	18,618	29,920	29,457
OTHER INCOME/(EXPENSE):				
Interest income	43	48	75	98
Interest expense	(1,978)	(3,488)	(5,055)	(6,835)
Loss on settlement of interest rate swaps	(66)	-	(3,277)	-
Gain on sale of long-term investment	4,075	-	10,397	-
INCOME BEFORE INCOME TAXES	20,738	15,178	32,060	22,720
PROVISION FOR INCOME TAXES	7,817	5,829	12,165	8,725
INCOME BEFORE THE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	12,921	9,349	19,895	13,995
EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	-	-	-	(2,792)
NET INCOME	$ 12,921	$ 9,349	$ 19,895	$ 11,203
PER SHARE AMOUNTS:				
Basic Earnings Per Share Before the Effect of a Change in Accounting Principle	$ .99	$ .74	$ 1.53	$ 1.11
Effect of a Change in Accounting Principle	$ .00	$ .00	$ .00	(.22)
Basic Earnings Per Share	$ .99	$ .74	$ 1.53	$ .89
Diluted Earnings Per Share Before the Effect of a Change in Accounting Principle	$ .97	$ .73	$ 1.49	$ 1.10
Effect of a Change in Accounting Principle	$ .00	$ .00	$ .00	$ (.22)
Diluted Earnings Per Share	$ .97	$ .73	$ 1.49	$ .88
Dividends	$ .20	$ .20	$ .40	$ .40
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	13,025	12,636	13,025	12,587
Plus incremental shares from assumed conversion of stock options and contingently returnable shares	323	112	336	140
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	13,348	12,748	13,361	12,727

</TABLE>

See Notes to Condensed Consolidated Financial Statements

<TABLE>

NEW ENGLAND BUSINESS SERVICE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

<CAPTION>

	Six Months Ended	
	Dec. 28, 2002	Dec. 29, 2001
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 19,895	$ 11,203
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,957	9,371
Amortization	3,567	4,516
(Gain)/Loss on disposal of asset	50	6

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Gain on sale of long-term investment	(10,397)	-
Change in accounting principle	-	2,792
Provision for losses on accounts receivable	2,925	2,617
Employee benefit charges	543	2,650
Changes in assets and liabilities:		
Accounts receivable	(5,540)	(5,745)
Inventories and prepaid expenses	(1,253)	3,621
Accounts payable	(875)	(1,560)
Income taxes payable	4,701	4,126
Accrued expenses	(1,257)	(722)
Net cash provided by operating activities	22,316	32,875
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(8,160)	(8,153)
Purchase of long-term investment	(5,421)	(17,652)
Proceeds from sale of long-term investment	46,339	-
Proceeds from sale of equipment	12	-
Net cash provided by/(used in) investing activities	32,770	(25,805)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(76,816)	(78,213)
Proceeds from borrowings, net of issuance costs	26,498	73,342
Proceeds from issuance of common stock	323	902
Acquisition of treasury stock	(1,553)	-
Dividends paid	(5,218)	(5,033)
Net cash used in financing activities	(56,766)	(9,002)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(139)	(130)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,819)	(2,062)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,112	7,154
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4,293	$ 5,092

</TABLE>

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

1. Basis of Presentation/Accounting Policies

The condensed consolidated financial statements contained in this report are unaudited but reflect all adjustments, consisting only of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the results of the interim periods reflected. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to applicable rules and regulations of the Securities and Exchange Commission. The condensed consolidated financial statements included herein should be read in conjunction with the consolidated financial statements and notes thereto, and the Independent Auditors' Report in the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 2002. Reference is made to the accounting policies of the Company described in the notes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 2002. The Company has consistently followed those policies in preparing this report. The results from operations for the interim periods reported herein are not necessarily indicative of results to be expected for the full year.

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Certain reclassifications have been made to the comparative periods so as to be in conformity with the current quarter presentations.

2. Restructuring and Impairment of Assets

<TABLE>

During fiscal year 2001, the Company undertook two distinct restructuring actions. The first resulted in a restructuring charge of $3,500 in fiscal year 2001 and an additional charge of $1,023 in fiscal year 2002 to provide for costs primarily associated with the Company's decision to more closely align its direct marketing and direct sales activities. As part of the restructuring program, the McBee US headquarters was relocated from Parsippany, New Jersey to the existing RapidForms facility in Thorofare, New Jersey. In addition, the McBee manufacturing plant in Damascus, Virginia was closed and a portion of leased warehousing space occupied by Chiswick in Sudbury, Massachusetts was vacated. In Canada, the McBee sales and marketing organizations were combined with NEBS Direct Marketing and are operating under the NEBS name. Approximately 140 employees were affected by the restructuring either through elimination of their positions or relocation.

The second restructuring action resulted in the Company recording an additional charge in fiscal year 2001 of $3,645 to provide for costs associated with the Company's decision to eliminate excess capacity by closing a manufacturing facility in Ogden, Utah and a leased distribution facility in Sudbury, Massachusetts, along with other actions to reduce the workforce in various locations. Approximately 175 employees were affected by this restructuring, either through elimination of their positions or relocation. In fiscal year 2002, the Company recorded a credit to the restructuring charge of ($323) as certain cost estimates were revised. The closed manufacturing facility in Ogden, Utah is classified on the balance sheet as property held for sale. The property is carried at net book value which approximates fair value less the cost to sell. The following is a table of the charges incurred and the cash paid in fiscal 2003 pursuant to these actions:

<CAPTION>

Three Months Ended Dec. 28, 2002	First Restructuring	Second Restructuring		
	Facility closure costs	Employee termination benefit costs	Facility closure costs	Total
<S>	<C>	<C>	<C>	<C>
Balance Sept 28, 2002	$ 951	$ 118	$ 28	$1,097
Payments for the period	(101)	(2)	(28)	(131)
Balance Dec. 28, 2002	$ 850	$ 116	$ 0	$ 966

<CAPTION>

Six Months Ended Dec. 28, 2002	First Restructuring	Second Restructuring		
	Facility closure costs	Employee termination benefit costs	Facility closure costs	Total
<S>	<C>	<C>	<C>	<C>
Balance June 29, 2002	$1,038	$ 166	$ 451	$ 1,655
Payments				

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for the period	(188)	(50)	(451)	(689)
Balance Dec. 28, 2002	$ 850	$ 116	$ 0	$ 966

The activities related to all restructuring actions identified above are anticipated to be completed by the Company during fiscal year 2003 with the exception of lease payments, which may extend beyond this time frame.
</TABLE>

3. Inventories

Inventories are carried at the lower of first-in, first-out cost or market. Inventories at December 28, 2002 and June 29, 2002 consisted of:

<TABLE>
<CAPTION>

<S>	Dec.28, 2002 <C>	June 29, 2002 <C>
Raw Material	$ 1,444	$ 1,709
Work in Process	48	124
Finished Goods	33,177	32,262
Total	$34,669	$34,095

</TABLE>

4. Long-Term Investment

In July 2002, the Company invested, through the exercise of warrants, an additional $5,421 in the common stock of Advantage Payroll Services, Inc. ("Advantage"). In September 2002, Advantage merged with Paychex, Inc. At closing, the Company received the first payment of proceeds from the merger transaction of $42,264 and the Company recognized a $6,322 gain on the sale of its long-term investment. In the second quarter, the Company received the second payment of proceeds and recognized a gain of $4,075. Subject to certain potential post-closing adjustments, the Company expects to receive up to another $1,000 in proceeds during the fiscal year, which, if received, will result in an additional gain.

The Company used the proceeds from the sale of the Advantage investment to pay down floating rate debt and to terminate three interest rate swap agreements with a notional amount of $75,000 with two commercial banks. These interest rate swaps were no longer needed to hedge the reduced level of the Company's floating rate debt. The Company was required to make termination payments equivalent to the fair value of the swaps totaling $3,277. This amount, which was reclassified from other comprehensive income to other expense, represents a loss on settlement of interest rate swaps to terminate the agreements.

5. Goodwill and Other Intangible Assets

In the first quarter of fiscal 2002 SFAS No. 142 "Goodwill and Other Intangible Assets" was adopted. SFAS No. 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets,

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addresses the amortization of intangible assets with a defined life and addresses the impairment testing and recognition for goodwill and intangible assets.

In applying SFAS No. 142, the Company completed the transitional intangible asset impairment test by determining the carrying amount of its various reporting units and comparing that with their fair value, determined by using a multiple of earnings before interest, taxes, depreciation and amortization. As a result, the Company recognized an impairment charge to write off goodwill in the amount of $2,792 relating to its European business within its International business segment. The impairment loss is recognized in the condensed consolidated statements of income under the caption "Effect of a Change in Accounting Principle". The Company completed the fiscal 2002 annual intangible asset impairment test for all reporting units as of April 27, 2002. The Company determined there was no additional impairment as of the measurement date.

Intangible assets consist of the following:

	June 29, 2002		Dec. 28, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets with defined lives:				
Customer lists	$46,327	$36,562	$46,327	$39,450
Covenant not to compete	1,183	1,183	1,183	1,183
Debt issue costs	2,729	1,209	2,731	1,537
Long-term contracts	5,300	663	5,300	831
Bank referral agreements	7,400	1,511	7,400	1,694
Intangible assets with indefinite lives:				
Tradenames	32,800	2,727	32,800	2,727
Total intangible assets	$95,739	$43,855	$95,741	$47,422

Changes in the carrying amount of goodwill (net) for the six months ended December 28, 2002, by segment are as follows:

	June 29, 2002	Adjustments	Dec. 28, 2002
Direct Marketing-US	$24,237	-	$24,237
Direct Sales-US	7,501	-	7,501
Apparel	9,624	-	9,624
Packaging and Display Products	23,246	-	23,246
International	3,356	$ (102)	3,254
Total	$67,964	$ (102)	$67,862

The adjustment of $102 in the International segment is the effect of the change in foreign currency translation rates.

Amortization of intangible assets for the six months ended December 28, 2002 was $3,567. Estimated amortization of intangible assets for fiscal years 2003, 2004, 2005, 2006 and 2007, without consideration of any other increases or decreases in the balance of the assets, is $7,134, $5,434, $759, $752 and $749, respectively.

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</TABLE>

6. Other Comprehensive Income

Other Comprehensive Income consists of foreign currency translation adjustments, pension adjustments, unrealized gains and losses on investments and changes in the fair market value of cash flow hedges. The Company's comprehensive income is set forth below:

<TABLE>
<CAPTION>

	Three Months Ended		Six Months Ended	
	Dec. 28, 2002	Dec. 29, 2001	Dec. 28, 2002	Dec. 29, 2001
Net Income	$ 12,921	$ 9,349	$ 19,895	$ 11,203
Changes in:				
Unrealized gains/(losses) on investments, net of tax	52	(4)	211	(45)
Foreign currency translation adjustments, net	422	(80)	(345)	(638)
Unrealized gains/(losses) on derivatives held for hedging purposes, net of tax	351	624	2,427	(1,433)
Comprehensive income	$ 13,746	$ 9,889	$ 22,188	$ 9,087

</TABLE>

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The Company's accumulated other comprehensive income/(loss) is set forth below:

	Balance Dec. 28, 2002	Balance June 29, 2002
Unrealized losses on investments, net of tax	$ (81)	$ (292)
Foreign currency translation adjustments, net	(3,963)	(3,618)
Pension adjustments, net of tax	(305)	(305)
Unrealized losses on derivatives held for hedging purposes, net of tax	(768)	(3,196)

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Total	$(5,117)	$(7,411)

</TABLE>

7. Financial Information by Business Segment

The Company has identified five reportable segments. The first segment is "Direct Marketing-US" and represents those business operations that sell primarily printed products such as checks and business forms to small businesses through direct marketing in the United States. The second segment, "Direct Sales-US", also sells primarily checks and business forms to small businesses; however, they sell through a direct sales force to the customer in the United States and, to a lesser extent, through distributors. The third segment, "Apparel", utilizes independent sales representatives to market its specialty apparel products and to solicit orders from customers in the promotional products/advertising specialty industry. "Packaging and Display Products", the fourth segment, primarily resells packaging and shipping supplies and retail signage marketed through a combination of direct marketing and direct selling efforts. The fifth segment, "International", sells primarily printed products such as checks and business forms to small businesses in Europe and Canada through direct marketing, distributors or by directly selling to the customer.

The Company evaluates segment performance and allocates resources based on a profit from operations measure. This measure is similar to income from operations as reported on the condensed consolidated statement of income in that it excludes interest and other income and expense. This measure, however, also excludes certain items that are reported within income from operations. These include management incentive compensation, amortization, integration charges, restructuring charges, impairment charges, investment gains or losses and corporate expenses. The chief operating decision-maker, in assessing segment results, does not consider these items. In order to reconcile the segment numbers to the Company's income before income taxes, adjustments representing the items listed above totaling $3,819 and $8,998 for the three months and $9,981 and $17,792 for the six months ended December 28, 2002 and December 29, 2001, respectively, need to be made to the reported segment results.

<TABLE>
Net sales and profit from operations for each of the Company's business segments are set forth below:
<CAPTION>

	Direct Marketing-US	Direct Sales-US	Apparel	Packaging and Display Products	International	Total
Three months ended Dec. 28, 2002						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales	$80,894	$28,365	$ 9,847	$22,685	$10,808	$152,599
Profit (loss) from operations	18,967	3,653	(385)	1,166	1,156	24,557
Less adjustments listed above						3,819

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Income before income taxes	$ 20,738

</TABLE>

<TABLE>
<CAPTION>

Three months ended Dec. 29, 2001						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales	$84,419	$27,172	$13,145	$22,010	$10,786	$157,532
Profit (loss) from operations	20,022	2,746	(367)	652	1,123	24,176
Less adjustments listed above						8,998
Income before income taxes						$ 15,178

</TABLE>

<TABLE>
<CAPTION>

	Direct Marketing-US	Direct Sales-US	Apparel	Packaging and Display Products	International	Total
Six months ended Dec. 28, 2002						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales	$144,780	$54,911	$19,605	$42,314	$19,840	$281,450
Profit (loss) from operations	33,934	6,009	(1,093)	1,585	1,606	42,041
Less adjustments listed above						9,981
Income before income taxes						$ 32,060

</TABLE>

<TABLE>
<CAPTION>

Six months ended Dec. 29, 2001						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales	$151,208	$52,892	$24,991	$41,535	$20,421	$291,047
Profit (loss) from operations	34,160	4,149	(356)	958	1,601	40,512
Less adjustments listed above						17,792
Income before income taxes						$ 22,720

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8. New Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supercedes SFAS No. 121 on the same topic and the accounting and certain reporting provisions of APB Opinion 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as defined in that Opinion). This Statement also amends Accounting Research Bulletin ("ARB") 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The Company adopted this Statement in the first quarter of fiscal 2003. The implementation of this Statement did not impact the Company's consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 addresses the financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Consensus No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". Adoption of this Statement is required for exit activities initiated after December 31, 2003.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used in reported results. The Company will adopt this Statement in fiscal 2003. Management believes that the impact of this Statement on its consolidated financial statements will not be material.

9. Contingencies

On June 30, 2000, a complaint entitled "Perry Ellis International, Inc. v. PremiumWear Inc.", was filed. The Company was subsequently named a co-defendant. The amended complaint relates to a Right of First Refusal Agreement dated as of May 22, 1996 (the "RFR Agreement") between the plaintiff and PremiumWear, Inc., and to the Company's acquisition of all the outstanding shares of PremiumWear in July 2000. In the amended complaint, the plaintiff alleges breach of the RFR Agreement and breach of an implied covenant of good faith and fair dealing against PremiumWear as a result of PremiumWear's alleged failure to notify the plaintiff of certain discussions between PremiumWear and the Company preceding the Company's agreement to purchase all of the outstanding shares of PremiumWear. The amended complaint also alleges that the Company tortiously interfered with the plaintiff's rights under the RFR Agreement by allegedly inducing PremiumWear to breach its obligations to the plaintiff under the RFR Agreement. The plaintiff is seeking damages in an unspecified amount, attorneys' fees, interest and costs. The Company believes the allegations in the amended complaint are without merit and intends to defend the lawsuit vigorously.

On July 24, 2002, a class action lawsuit entitled "OLDAPG, Inc. v. New England Business Service, Inc." was filed in the Court of Common Pleas of the Ninth Judicial Circuit in and for Charleston County, South Carolina. The named plaintiff in the lawsuit seeks to represent a class consisting of all

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persons who allegedly received facsimiles containing unsolicited advertising from the Company in violation of the Telephone Consumer Protection Act of 1991 (the "TCPA"). The plaintiff is seeking statutory damages in the amount of $500.00 per individual violation, which amount can be trebled to $1,500.00 for each violation found to have been "willful and knowing". The plaintiff is also seeking injunctive relief with respect to further violations of the TCPA and attorneys' fees and costs. The Company believes that it has valid defenses to the claims asserted in the complaint and intends to defend the lawsuit vigorously.

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

Overview

New England Business Service, Inc. (the "Company") was founded in 1952, incorporated in Massachusetts in 1955 and reincorporated in Delaware in 1986. The Company designs, produces and distributes business forms, checks, envelopes, labels, greeting cards, signs, stationery and related printed products and distributes packaging, shipping and warehouse supplies, software, work and promotional apparel and other business products through direct mail, direct sales, telesales, dealers and the Internet to small businesses throughout the United States, Canada, the United Kingdom and France. The Company also markets and sells payroll services provided by a payroll services company on a private label basis to small businesses in the United States as well as designs, embroiders and sells specialty apparel products through distributors and independent sales representatives to the promotional/advertising specialty industry and golf pro shops, primarily in the United States.

The Company has identified five reportable segments. The first segment is "Direct Marketing-US" and represents those business operations that sell primarily printed products such as checks and business forms to small businesses through direct marketing in the United States. The second segment, "Direct Sales-US," also sells primarily checks and business forms to small businesses; however, they sell through a direct sales force to the customer in the United States and, to a lesser extent, through distributors. The third segment, "Apparel", utilizes independent sales representatives to market its specialty apparel products and to solicit orders from customers in the promotional products/advertising specialty and golf industries. "Packaging and Display Products", the fourth segment, primarily resells packaging and shipping supplies and retail signage marketed through a combination of direct marketing and direct selling efforts. The fifth segment, "International", sells primarily printed products such as checks and business forms to small businesses in Europe and Canada through direct marketing, distributors or by directly selling to the customer.

Any sentence followed by an asterisk (*) in this section constitutes a forward-looking statement which reflects the Company's current expectations. There can be no assurance the Company's actual performance will not differ materially from those projected in such forward-looking statements due to the important factors described in the section to this Management's Discussion and Analysis of Financial Condition and Results of Operations titled "Certain Factors That May Affect Future Results."

Results of Operations

Net sales decreased $4.9 million or 3.1% to $152.6 million in the second

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quarter of fiscal year 2003 from $157.5 million in last year's second quarter. The sales change included decreases of approximately $3.5 million in the Direct Marketing-US segment and $3.3 million in the Apparel segment and are primarily attributable to a reduction in discretionary business spending by corporate customers impacting sales of seasonal greeting cards and embroidered apparel. These decreases were offset by an increase of $1.2 million in sales of the Company's Direct Sales-US segment which is benefiting from the implementation of direct marketing strategies and $.7 million in sales in the Packaging and Display Segments which is benefiting from an economic stabilization of the manufacturing market. Net sales in the International segment were level with last year's second quarter.

Net sales decreased $9.5 million or 3.3% to $281.5 million for the first six months of fiscal year 2003 from $291.0 million in last year's comparable period. The sales change included decreases of approximately $6.4 million in the Direct Marketing-US segment and $5.4 million in the Apparel segment and are primarily attributable to a reduction in discretionary business spending by corporate customers impacting sales of seasonal greeting cards and embroidered apparel. These decreases were offset by increases of $2.0 million in sales of the Company's Direct Sales-US segment which is benefiting from the implementation of direct marketing strategies and $.8 million in the Packaging and Display segment which is benefiting from an economic stabilization of the manufacturing market.

For the second quarter of fiscal year 2003, cost of sales declined to 41.4% of sales from 42.9% in last year's comparable period. For the first six months of fiscal year 2003, cost of sales decreased to 41.7% from 43.2% in last year's comparable period. The Company benefited from favorable channel and product mix, which resulted in a lower percentage of total sales coming from the Apparel segment. The Apparel segment has higher cost of sales as a percentage of sales than the other segments. In addition, gross margin in the Apparel segment improved due to a shift in the channel mix away from wholesalers and towards ad specially dealers. Cost of sales as a percent of sales is expected to increase slightly for the remainder of the fiscal year.*

Selling and advertising expense increased to 33.8% of sales in the second quarter of fiscal year 2003 as compared to 33.6% of sales in last year's comparable quarter. For the first six months of fiscal year 2003, selling and advertising expense decreased to 34.0% as compared to 34.2% of sales in last year's comparable period the result of cost management and lower amortization expense. Selling and advertising expense as a percentage of sales is expected to increase slightly for the remainder of the fiscal year.*

General and administrative expense increased to 12.6% of sales in the second quarter of fiscal year 2003 from 11.6% of sales in last year's comparable quarter. For the first six months of fiscal year 2003, general and administrative expense increased to 13.7% of sales from 12.5% in last year's comparable period. The increase is due to higher incentive compensation, legal costs and realized losses on deferred compensation investments in the first six months in fiscal year 2003 as compared to last year's comparable period. General and administrative expense as a percent of sales is expected to increase slightly for the remainder of the fiscal year.*

<TABLE>

During fiscal year 2001, the Company undertook two separate restructuring actions. The first resulted in a restructuring charge of $3.5 million in fiscal year 2001 and an additional charge of $1.0 million in fiscal year 2002 to provide for costs primarily associated with the Company's decision to more closely align its direct marketing and direct sales activities. As part of the restructuring program, the McBee US headquarters was relocated from Parsippany, New Jersey to the existing RapidForms facility in Thorofare, New Jersey. In addition, the McBee manufacturing plant in Damascus, Virginia was closed and a portion of leased warehousing space occupied by Chiswick in Sudbury, Massachusetts was vacated. In Canada, the McBee sales and marketing organizations were

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combined with NEBS Direct Marketing and are operating under the NEBS name. Approximately 140 employees were affected by the restructuring either through elimination of their positions or relocation.

The second restructuring action resulted in the Company recording an additional charge in fiscal year 2001 of $3.6 million to provide for costs associated with the Company's decision to eliminate excess capacity by closing a manufacturing facility in Ogden, Utah and a leased distribution facility in Sudbury, Massachusetts, along with other actions to reduce the workforce in various locations. Approximately 175 employees were affected by the restructuring, either through elimination of their positions or relocation. In fiscal year 2002, the Company recorded a credit to the restructuring charge of $.3 million as certain cost estimates were revised. The closed manufacturing facility in Ogden, Utah is classified on the balance sheet as property held for sale. The property is carried at net book value which approximates fair value less the cost to sell. The following is a table of the charges incurred and the cash paid in fiscal 2003 pursuant to these actions (in thousands of dollars):

<CAPTION>

Three Months Ended Dec. 28, 2002	First Restructuring	Second Restructuring		
	Facility closure costs	Employee termination benefit costs	Facility closure costs	Total
<S>	<C>	<C>	<C>	<C>
Balance Sept. 29, 2002	$ 951	$ 118	$ 28	$1,097
Payments for the period	(101)	(2)	(28)	(131)
Balance Dec. 28, 2002	$ 850	$ 116	$ 0	$ 966

<CAPTION>

Six Months Ended Dec. 28, 2002	First Restructuring	Second Restructuring		
	Facility closure costs	Employee termination benefit costs	Facility closure costs	Total
<S>	<C>	<C>	<C>	<C>
Balance June 29, 2002	$1,038	$ 166	$ 451	$1,655
Payments for the period	(188)	(50)	(451)	(689)
Balance Dec. 28, 2002	$ 850	$ 116	$ 0	$ 966

The activities related to all restructuring actions identified above are anticipated to be completed by the Company during fiscal year 2003 with the exception of lease payments, which may extend beyond this time frame.

</TABLE>
<PAGE

Interest expense was 1.3% of sales in the second quarter of fiscal year 2003 as compared to 2.2% of sales in the prior year's comparable period. In the first six months of fiscal 2003 interest expense was 1.8% of sales as compared to 2.3% of sales in the prior year's comparable period. The

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decrease is the result of lower average balance of debt outstanding as compared to the same period last year. Proceeds from the sale of the Company's investment in Advantage Payroll Services, Inc. were used to reduce the debt.

The provision for income taxes as a percentage of pretax income was 37.7% for the second quarter and 37.9% for the first six months of fiscal year 2003 compared to 38.4% for the same quarter the prior year and for the first six months of fiscal year 2002. The decrease is the result of a reduction in the required state tax provision. The provision for income taxes as a percentage of pretax income is expected to remain consistent with the first six months for the remainder of fiscal 2003.*

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. On an on-going basis, the Company evaluates its estimates and judgments, including those related to revenue recognition, bad debts, inventories, intangible assets, and income taxes. Estimates and judgments are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. The Company believes the following critical accounting policies affect its more significant estimates and judgments used in preparation of its consolidated financial statements.

Revenue is recognized on product sales at the point in time when persuasive evidence of an arrangement exists, the price is fixed and final, delivery has occurred and there is reasonable assurance of collection of the sales proceeds. The Company generally obtains purchase authorizations from its customers for a specified amount of product at a specified price and considers delivery to have occurred at the point of shipment. While the Company does provide its customers with a right of return, revenue is not deferred. Rather, a reserve for sales returns is provided based on significant historical experience.

Asset valuation includes assessing the recorded value of certain assets, including accounts receivable, inventories, property, plant and equipment, investments, capitalized software, goodwill, deferred mail costs and intangible and other assets. Asset valuation is governed by various accounting principles, including Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment of Disposal of Long-Lived Assets, SFAS No. 142 "Goodwill and Other Intangible Assets" and Accounting Research Bulletin No. 43, among others. Management uses a variety of factors to assess valuation, depending on the asset. For example, accounts receivable are evaluated based upon an aging schedule. The recoverability of inventories is based upon the types and levels of inventory held. Property, plant and equipment, capitalized software and intangible and other assets are evaluated utilizing various factors, including the expected period the asset will be utilized, forecasted cash flows, the cost of capital and customer demand. Investments are evaluated for impairment based upon market conditions and the viability of the investment. Changes in judgments on any of these factors could impact the value of the asset.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each jurisdiction in which we operate that imposes a tax on income. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable

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income, and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance, we must include an expense within the tax provision in the consolidated statements of income. In the event that actual results differ from these estimates, our provision for income taxes could be materially impacted.

New Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supercedes SFAS No. 121 on the same topic and the accounting and certain reporting provisions of APB Opinion 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as defined in that Opinion). This Statement also amends Accounting Research Bulletin ("ARB") 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The Company adopted this Statement in the first quarter of fiscal 2003. The implementation of this Statement did not impact the Company's consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 addresses the financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Consensus No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". Adoption of this Statement is required for exit activities initiated after December 31, 2003

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of Statement 123 to require

prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used in reported results. The Company will adopt this Statement in fiscal 2003. Management believes that the impact of this Statement on its consolidated financial statements will not be material.

Liquidity and Capital Resources

Cash provided by operating activities for the six months ended December 28, 2002 was $ 22.3 million and represented a decrease of $10.5 million from the $32.8 million provided in the comparable period last year. This decrease in cash provided by operating activities was due to the impact of the after tax cost of terminating interest rate swaps and income taxes related to the gain on the sale of equity interests in Advantage Payroll Services, Inc., as well as the benefit from a higher inventory reduction in last year's comparable period.

Working capital at December 28, 2002 totaled $58.8 million, including $4.3 million of cash and short-term investments. At June 29, 2002, working capital was $56.5 million, including cash and short term investments of $6.1 million. The increase in working capital is primarily the result of higher trade receivables due to the higher sales of seasonal products in the Company's second quarter.

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Capital expenditures for the six months ended December 28, 2002 were $8.2 million, the same amount expended during last year's comparable period. Capital expenditures in the first six months of fiscal year 2003 included improvements in our information systems' infrastructure and investments to enhance manufacturing capability. The Company anticipates that total capital outlays will approximate $16.0 million in fiscal year 2003, which will include additional planned improvements in our information systems' capabilities and investments to enhance manufacturing capability.*

In July 2002, the Company invested, through the exercise of warrants, an additional $5.4 million in the common stock of Advantage Payroll Services, Inc. ("Advantage"). In September 2002, Advantage merged with Paychex, Inc. At closing, the Company received the first payment of proceeds from the merger transaction of $42.3 million and the Company recognized a $6.3 million gain on the sale of its long-term investment. In the second quarter, the Company received the second payment of proceeds and recognized a gain of $4.1 million. Subject to certain potential post-closing adjustments, the Company expects to receive up to another $1.0 million in proceeds during the fiscal year, which, if received, will result in an additional gain.

The Company used the proceeds from the sale of the Advantage investment to pay down floating rate debt and to terminate three interest rate swap agreements with a notional amount of $75.0 million with two commercial banks. These interest rate swaps were no longer needed to hedge the reduced level of the Company's floating rate debt. The Company was required to make termination payments equivalent to the fair value of the swaps totaling $3.3 million. This amount, which was reclassified from other comprehensive income to other expense, represents a loss on settlement of interest rate swaps to terminate the agreements.

During the six months ended December 28, 2002, $1.6 million was spent to repurchase 70,615 shares of the Company's common stock. There were no repurchases of the Company's common stock during fiscal year 2002.

In addition to its present cash and short-term investment balances, the Company has consistently generated sufficient cash internally to fund its needs for working capital, dividends and capital expenditures. The Company currently has a committed, unsecured, revolving credit agreement for $200 million. The credit agreement contains various restrictive covenants which, among other things, require the Company to maintain certain minimum levels of consolidated net worth and specific consolidated debt and fixed charge ratios. The Company is in compliance with these covenants. At December 28, 2002, the Company had $48.2 million outstanding under this arrangement.

In November 2001, the Company entered into a $50 million Note Purchase Agreement with The Prudential Insurance Company of America. Under this agreement, the Company borrowed at the Eurodollar rate plus a spread for one year, after which the interest rate was fixed at a rate of 7.23%. This agreement contains various restrictive covenants, which, among other things, require the Company to maintain certain minimum levels of consolidated net worth and specific consolidated debt and fixed charge ratios. The Company is in compliance with these covenants. At December 28, 2002, the Company had $50 million outstanding under this arrangement.

In order to effectively fix the interest rate on a portion of the debt outstanding under the revolving credit agreement, the Company as of December 28, 2002 had two interest rate swap agreements with two of the banks party to the credit agreement. These swap agreements contain notional principal amounts and other terms (including rate of interest paid and received and maturity date) determined with respect to the Company's forecasts of future cash flows and borrowing requirements. At December 28, 2002 the notional principal amount outstanding under the interest rate swap agreements totaled $45.0 million. In the first six months of fiscal year 2003, a credit of approximately $21 thousand was transferred from other comprehensive income to earnings related to the ineffective portion of the Company's swaps. No amounts were transferred during the comparable period in the prior year. During the first six months of fiscal year 2003, the Company terminated three

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other interest rate swaps at a pretax cost of $3.3 million.

The Company anticipates that its current cash on hand, cash flow from operations and additional availability under the revolving credit agreement will be sufficient to meet the Company's liquidity requirements for its operations and capital expenditures during fiscal year 2003.* However, the Company may pursue additional acquisitions from time to time, which would likely be funded through the use of available cash, issuance of stock, obtaining of additional credit, or any combination thereof.*

Certain Factors That May Affect Future Results

References in this section to "we", "us" and "our" refer to New England Business Service, Inc.

We may make forward-looking statements in this report and in other documents filed with the SEC, in press releases, and in discussions with analysts, investors and others. These statements include:

- descriptions of our operational and strategic plans,
- expectations about our future sales and profits,
- views of conditions and trends in our markets, and
- other statements that include words like "expects", "estimates", "anticipates", "believes" and "intends", and which describe opinions about future events.

You should not rely on these forward-looking statements as though they were guarantees. These statements are based on our expectations at the time the statements are made, and we are not required to revise or update these statements based on future developments. Known and unknown risks may cause our actual results, performance or achievements to be materially different from those expressed or implied by these statements.

A majority of our sales and profits come from selling standardized business forms, checks and related products by mail order, telesales and direct sales to a target market consisting mainly of small businesses. We believe that the critical success factors to compete in this market include competitive pricing, breadth of product offering, product quality and the ability to attract and retain a large number of individual customers. These critical success factors are also applicable to the success of our packaging, shipping and warehouse supplies markets as well. Known material risks that may affect those critical success factors are described below.

A majority of the sales in our apparel business come from selling knit and woven sport shirts under labels licensed from third parties to the promotional products/advertising specialty and golf industries. We believe that the critical success factors to compete in this market include product quality, timely fulfillment of customer orders and brand awareness. Known material risks that may affect those success factors are also described below.

Our printed product lines face increased competition from various sources, such as office supply superstores. Increased competition may require us to reduce prices or offer other incentives in order to attract new customers and retain existing customers, which could reduce our profits.

Low-price, high-volume office supply chain stores offer standardized business forms, checks and related products to small businesses. Because of their size, these superstores have the buying power to offer many of these products at competitive prices. These superstores also offer the convenience of "one-stop shopping" for a broad array of office supplies that we do not offer. In addition, national superstore competitors have greater financial strength to reduce prices or increase promotional discounts in order to seek

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or retain market share.

If any of these new competitors seek to gain or retain market share through price reductions or increased discounting, we may be forced to reduce our prices or match the discounts in order to stay competitive, which could reduce our profits.

Technological improvements may reduce our competitive advantage over our smaller competitors, which could reduce our profits.

Historically, our relatively greater financial strength and size have enabled us to offer a broader array of products, particularly those having a complex construction, at lower prices than the small local and regional dealers, distributors and printers who constitute our primary competition. Improvements in the cost and quality of printing technology are enabling these smaller competitors to gain access to products of complex design and functionality at competitive costs. Increased competition from local and regional competitors could force us to reduce our prices in order to attract and retain customers, which could reduce our profits.

Because our sales growth is dependent on our ability to continually attract new customers in our target small business market, economic events that adversely affect the small business economy may reduce our sales and profits.

Average annual sales per customer of our core products have remained relatively stable over time. As a result, we rely, in part, on continually attracting new customers for these products. Our sales and profits have been adversely affected by economic-related contractions in the small business economy. We expect that our sales and profits will continue to be affected by changes in the levels of small business formations and failures and from other economic events that affect the small business economy generally.

Because our sales growth is dependent on our ability to continually attract new customers in our target small business market, changes in the direct marketing industry that reduce our competitive advantage in contacting prospective customers may reduce our sales and profits.

Growth in the total number of our direct mail customers depends on continued access to high-quality lists of newly-formed small businesses. In the past, our ability to compile proprietary prospect lists was a distinct competitive advantage. However, the external list compilation industry has become more sophisticated and comprehensive lists of new small business formations are now commercially available to our competitors. In addition, the Internet has the potential to eliminate our advantage of scale in direct marketing by providing all competitors, regardless of current size, with access to prospective customers.

We currently rely on the speed of our delivery of promotional materials to prospective customers to gain advantage over competitors. We are also expanding our Internet product offerings and capabilities and seeking to increase our visibility on the Internet. Notwithstanding these efforts, a deterioration in our competitive advantage in contacting prospective customers could reduce our sales and profits.

In addition, the enactment of privacy laws could constrain our ability to obtain prospect lists or to telemarket to prospective customers.

Declining response rates to the Company's catalogs and other direct mail promotional materials could reduce our sales and profits.

Our direct mail-based businesses have recently experienced declines in the response rates to our catalogs and other direct mail promotional materials from both existing customers and prospects. We believe that these declines are attributable to a number of factors, including current economic conditions, the overall increase in direct mail solicitations received by our target customers generally, and the gradual obsolescence of our standardized

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forms products. To the extent that we cannot compensate for reduced response rates through increases in average order value or improve response rates through new product introductions and improved direct mail contact strategies, our sales and profits may be adversely affected.

Increases in the cost of paper and in postal rates adversely impact our costs, which we may be unable to offset by reducing costs in other areas or by raising prices.

The cost of paper to produce our products, catalogs and advertising materials makes up a significant portion of our total costs. Also, we rely on the U.S. Postal Service to deliver most of our promotional materials. Prices for the various types of paper that we use have been volatile, and we expect them to continue to be so. Third class postal rates have generally increased over the past ten years, at times significantly. We are not sure that we will always be able to reduce costs in other areas or to increase prices for our products sufficiently to offset increases in paper costs and postal rates. If we are unable to offset these cost and expense increases, our profits will be adversely affected.

Disruption in the services provided by certain of our critical vendors may adversely affect our operating performance and profits.

We use a limited number of vendors to provide key services to our business. Examples of this are as follows:

- we use MCI WorldCom and Qwest Communications International to provide a majority of the toll-free telephone lines for our direct marketing business,

- we use United Parcel Service to deliver most of the products that we ship to customers,

- we rely on the postal services of the countries in which we do business to deliver our catalogs and other advertising material to customers.

In the past, we have been adversely affected by disruption of some of these services due to labor actions, system failures, adverse weather conditions and other natural disasters. If there are future interruptions in service from one or more of these vendors, we believe that there could be a significant disruption to our business due to our inability to readily find alternative service providers at comparable rates.

Sales of our standardized forms products face technological obsolescence and changing customer preferences, which could reduce our sales and profits.

Our standardized business forms, checks and related products provide our customers with financial and business records to manage their businesses. Continual technological improvements have provided our target customers in several market segments with alternative means to enact and record business transactions. For example, the price and performance capabilities of personal computers and related printers now provide a cost-competitive means to print low-quality versions of our business forms on plain paper. In addition, electronic transaction systems and off-the-shelf business software applications have been designed to automate several of the functions performed by our business form products.

In response to the gradual obsolescence of our standardized forms business, we continue to develop our capability to provide custom and full-color products. However, we have less of a cost advantage with these products than with standardized forms, due to improvements in the cost and quality of printing technology available to our smaller local and regional competitors. We are also seeking to introduce new products and services that are less susceptible to technological obsolescence. We may develop new products internally, procure them from third party vendors, or obtain them through the acquisition of a new business. We generally realize lower gross margins on outsourced products than on products that we manufacture ourselves. The risks associated with the acquisition of new businesses are described below.

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If new printing capabilities and new product introductions do not continue to offset the obsolescence of our standardized business forms products, there is a risk that the number of new customers we attract and existing customers we retain may diminish, which could reduce our sales and profits. Decreases in sales of our historically high margin standardized business forms products due to obsolescence could also reduce our gross margins. This reduction could in turn adversely impact our profits unless we are able to offset the reduction through the introduction of new high margin products and services or realize cost savings in other areas.

We source our apparel products from offshore third party manufacturers. Difficulty in securing reliable sources for these products could adversely affect our ability to maintain inventory levels that are adequate to satisfy customer demand.

We purchase a majority of our apparel products from "full package" manufacturers outside the United States. In most cases, these same manufacturers supply other apparel companies, many of which are significantly larger than our apparel business and are able, when necessary, to secure preferential treatment from the manufacturers. The availability of product from these manufacturers can also be adversely affected by social, political and economic conditions in their respective regions. Any significant disruption in our relationships with our current manufacturers could adversely affect our apparel business to the extent we cannot readily find alternative sources of supply at comparable levels of price and quality.

Inaccurate forecasting of the demand for specific apparel styles and sizes could reduce our sales and profits.

We believe that success in our apparel business depends in part on our ability to immediately ship ordered products, either directly or through our distributors. Given the relatively long lead time in procuring inventory, we must estimate demand for specific styles and sizes well in advance of receiving firm orders from customers in order to ensure the timely availability of these products. Inaccurate forecasting of demand for specific styles and sizes can result in either lost sales due to product unavailability, or reduced margins from liquidating overstocked items.

Failure of our apparel licensors to adequately promote our licensed brands and protect those brands from infringement could reduce our sales and profits.

We believe that brand awareness is an important factor to the end-user of our apparel products, and in that regard we market and sell a majority of our apparel products under nationally-recognized brands licensed from third parties. In each case, the licensor is primarily responsible for promoting its brand and protecting its brand from infringement. The failure of one or more of our licensors to adequately promote or defend their brands could diminish the perceived value of those brands to our customers, which could lead to reduced sales and profits.

Reductions in the number of apparel lines carried by wholesalers in the promotional products/advertising specialty industry may adversely impact our sales and profits.

Until recently, a significant portion of the sales in our apparel business has been to a relatively small number of wholesalers serving the promotional products/advertising specialty market. Sales to these wholesalers has been recently decreasing, and has been partially offset by increases in direct sales to advertising specialty dealers and golf pro shops. We believe that the wholesale apparel business serving this market is undergoing fundamental change, with wholesalers increasingly carrying only private label lines and branded lines on an exclusive basis. We believe that these changes, together with current economic conditions, are likely to result in an accelerated decrease in our sales to wholesalers. To the extent that increases in our direct sales to advertising specialty dealers, together with increases in our

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apparel sales to other markets, cannot keep pace with the erosion in our sales to wholesalers, sales and profits could be adversely impacted.

Our growth strategy depends, in part, on the acquisition of complementary businesses that address our target small business market.

The acquisition of complementary businesses that address our target small business market has been important to our growth strategy. We intend to continue this acquisition activity in the future. The success of this activity depends on the following:

- our ability to identify suitable businesses and to negotiate agreements on acceptable terms,

- our ability to obtain financing through additional borrowings, by issuing additional shares of common stock, or through internally generated cash flow, and

- our ability to achieve anticipated savings and growth and avoid disruption to our existing businesses.

In evaluating a potential acquisition, we conduct a business, financial and legal review of the target. This review is intended to support our assumptions with respect to the projected future performance of the target and to identify the benefits and risks associated with those assumptions. We cannot be certain that our review will identify all potential risks associated with the purchase, integration or operation of acquired businesses. Unanticipated risks may adversely affect the benefits that we expect to obtain from any given acquisition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to a number of market risks, primarily the effects of changes in foreign currency exchange rates and interest rates. Investments in and loans and advances to foreign subsidiaries and branches, and their resultant operations, denominated in foreign currencies, create exposures to changes in exchange rates. The Company's utilization of its revolving line of credit (which carries a variable interest rate) creates an exposure to changes in interest rates. The effect, however, of changes in exchange rates and interest rates on the Company's earnings generally has been small relative to other factors that also affect earnings, such as business unit sales and operating margins. For more information on these market risks and financial exposures, see the Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended June 29, 2002. The Company does not hold or issue financial instruments for trading, profit or speculative purposes.

In order to effectively convert the interest rate on a portion of the Company's debt from a Eurodollar-based floating rate to a fixed rate, the Company has entered into interest rate swap agreements with major commercial banks. Although the Company is exposed to credit and market risk in the event of future nonperformance by any of the banks, management has no reason to believe that such an event will occur.

During the first six months of fiscal year 2003 as part of paying down floating rate debt, the Company terminated three interest rate swap agreements with a notional amount of $75.0 million with two commercial banks. These interest rate swaps were no longer needed to hedge the reduced level of the Company's floating rate debt. The Company was required to make termination payments equivalent to the fair value of the swaps totaling $3.3 million. This amount, which was reclassified from other comprehensive income to other expense, represents a loss on settlement of interest rate swaps to terminate the agreements.

Upon reviewing its derivatives and other foreign currency and interest

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rate instruments, based on historical foreign currency rate movements and the fair value of market-rate sensitive instruments at year-end, the Company does not believe that changes in foreign currency or interest rates will have a material impact on its near-term earnings, fair values or cash flows.

Item 4. Controls and Procedures

Within the 90-day period prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of management, including its principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c)promulgated under the Securities Exchange Act of 1934). Based upon that evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective.

There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in the Company's

internal controls or in other factors that could significantly affect internal controls subsequent to the date that the Company carried out its evaluation referenced in the preceding paragraph.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

On June 30, 2000, a lawsuit entitled "Perry Ellis International, Inc. v. PremiumWear, Inc.", was filed in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida. The case has been removed to federal court and is currently pending in the United States District Court for the Southern District of Florida. On April 11, 2001, the court granted the plaintiff's motion to amend its complaint to add the Company as a co-defendant. The amended complaint relates to a Right of First Refusal Agreement dated as of May 22, 1996 (the "RFR Agreement") between the plaintiff and PremiumWear, Inc., and to the Company's acquisition of all the outstanding shares of PremiumWear in July 2000. In the amended complaint, the plaintiff alleges breach of the RFR Agreement and breach of an implied covenant of good faith and fair dealing against PremiumWear as a result of PremiumWear's alleged failure to notify the plaintiff of certain discussions between PremiumWear and the Company preceding the Company's agreement to purchase all of the outstanding shares of PremiumWear. The amended complaint also alleges that the Company tortiously interfered with the plaintiff's rights under the RFR Agreement by allegedly inducing PremiumWear to breach its obligations to the plaintiff under the RFR Agreement. The plaintiff is seeking damages in an unspecified amount, attorneys' fees, interest and costs. The Company believes the allegations in the amended complaint are without merit and intends to defend the lawsuit vigorously.

On July 24, 2002, a class action lawsuit entitled "OLDAPG, Inc. v. New England Business Service, Inc." was filed in the Court of Common Pleas of the Ninth Judicial Circuit in and for Charleston County, South Carolina. The named plaintiff in the lawsuit seeks to represent a class consisting of all persons who allegedly received facsimiles containing unsolicited advertising from the Company in violation of the Telephone Consumer Protection Act of 1991 (the "TCPA"). The plaintiff is seeking statutory damages in the amount of $500.00 per individual violation, which amount can be trebled to $1,500.00 for each violation found to have been "willful and knowing". The plaintiff is also seeking injunctive relief with respect to further violations of the TCPA and attorneys' fees and costs. The Company believes that it has valid defenses to the claims asserted in the complaint and intends to defend the

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lawsuit vigorously.

From time to time the Company is involved in other disputes and/or litigation encountered in the ordinary course of its business. The Company does not believe that the ultimate impact of the resolution of such other outstanding matters will have a material effect on the Company's business, operating results or financial condition.

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

a. The Annual Meeting of Stockholders was held on October 25, 2002.

b. See Item 4c below.

c. The stockholders fixed the number of Directors to be elected at ten and elected the following Directors:

	For	Authority Withheld
Robert J. Murray	11,617,514	501,258
William T. End	11,553,873	564,899
Neil S. Fox	11,554,437	564,335
Robert L. Gable	11,620,365	498,407
Thomas J. May	11,554,187	564,585
Herbert W. Moller	11,623,009	495,763
Joseph R. Ramrath	11,622,337	496,435
Richard T. Riley	11,622,772	496,000
Brian E. Stern	11,616,956	501,816
M. Anne Szostak	11,616,642	502,130

The stockholders voted to approve the NEBS 2002 Equity Incentive Plan.

For	Against	Abstain	No Vote
8,484,942	1,553,868	1,060,570	1,019,392

The stockholders voted to ratify the selection of Deloitte & Touche LLP as independent auditors of the Company for the fiscal year ending June 28, 2003.

For	Against	Abstain
12,077,784	33,048	7,940

Item 5. OTHER INFORMATION

Not applicable.

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Item 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

Exhibit No.	Description
99.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)
99.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer).

b. Reports on Form 8-K.

None

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 hereunto duly authorized.

NEW ENGLAND BUSINESS SERVICE,INC.
(Registrant)

February 10, 2003
Date

/s/Daniel M. Junius
Daniel M. Junius
Executive Vice President-Chief
Financial Officer
(Principal Financial Officer)

Certifications

I, Robert J. Murray, certify that:

1. I have reviewed this quarterly report on Form 10-Q of New England Business Service, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

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3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report it being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

February 10, 2003	/s/Robert J. Murray
	Robert J. Murray Chairman and Chief Executive Officer (Principal Executive Officer)

I, Daniel M. Junius, certify that:

1. I have reviewed this quarterly report on Form 10-Q of New England Business Service, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

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4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report it being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

February 10, 2003	/s/Daniel M. Junius
Date	Daniel M. Junius Executive Vice President-Chief Financial Officer (Principal Financial Officer)

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Exhibit 99.1
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of New England Business Service, Inc. (the "Company") for the period ended December 28, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert J. Murray, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 10, 2003
/s/Robert J. Murray

Robert J. Murray
Chairman and Chief Executive Officer

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Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of New England Business Service, Inc. (the "Company") for the quarter ended December 28, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel M. Junius, Executive Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 10, 2003

/s/ Daniel M. Junius

Daniel M. Junius
Executive Vice President,
Chief Financial Officer and Treasurer

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