BANTA CORP
Form 10-K
March 18, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 3, 2004

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 1-14637

BANTA CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin (State or other jurisdiction of incorporation or organization)	39-0148550 (IRS Employer I.D. Number)
225 Main Street, Menasha, Wisconsin (Address of principal executive offices)	54952 (Zip Code)

Registrant s telephone number, including area code: (920) 751-7777

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, $.10 par value	New York Stock Exchange
Rights to Purchase Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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. (X) Yes (_) No

Indicate by check mark if disclosure of delinquent files pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

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

Aggregate market value of voting stock held by non-affiliates of the registrant as of June 27, 2003 : $ 833,209,163.

Number of shares of common stock outstanding as of March 1, 2004: 25,889,693.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the Definitive Proxy Statement for annual meeting of shareholders to be held on April 27, 2004 (incorporated into Part III).

PART I

Item 1. Business

General

Banta Corporation (the Corporation) operates in three business segments, print, supply-chain management and healthcare. The Corporation provides a comprehensive combination of printing and digital imaging solutions to leading publishers and direct marketers, including books, catalogs, publications, product brochures, literature management, educational materials and e-business services. The Corporation s global supply-chain management businesses provide a wide range of outsourcing capabilities, primarily to the world s largest technology companies. Services range from materials sourcing, product configuration and customized kitting, to order fulfillment and global distribution. The Corporation s healthcare segment produces and sources disposable products used in outpatient clinics, dental offices and hospitals. The Corporation was incorporated in Wisconsin in 1901. Its principal executive offices are located at 225 Main Street, Menasha, Wisconsin 54952. The Corporation had approximately 8,300 employees at the end of fiscal 2003.

Footnote 14 to the Corporation s Consolidated Financial Statements in the Corporation s Annual Report to Shareholders for the fiscal year ended January 3, 2004 includes further information on the Corporation s business segments, which information is incorporated herein by reference.

This document includes forward-looking statements. Statements that describe future expectations, including revenue and earnings projections, plans, results or strategies, are considered forward-looking. The statements that are not purely historical should be considered forward-looking statements. Often they can be identified by the use of forward-looking words, such as may, will, could, project, believe, anticipate, expect, estimate, continue, potential, plan, forecasts, and the like. Such statements are subject to certain risks and uncertaint could cause actual results to differ materially from those currently anticipated. Factors that could affect actual results include, among others, the factors cited under the heading Certain Risk Considerations below as well as changes in customers order patterns or demand for the Corporation s products and services, pricing, changes in raw material costs and availability, unanticipated changes in sourcing of raw materials (including paper) by customers, unanticipated changes in operating expenses, unanticipated production difficulties, changes in the pattern of outsourcing supply-chain management functions by customers, unanticipated acquisition or loss of significant customer contracts or relationships, unanticipated difficulties and costs associated with the design and implementation of new administrative systems, the impact of any acquisition or divestiture effected by the Corporation, and any unanticipated weakening of the economy. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. The forward-looking statements included herein are made as of the date hereof, and the Corporation undertakes no obligation to update publicly such statements to reflect subsequent events or circumstances.

Customers

The Corporation sells its products and services to a large number of customers and generally does not have long-term production contracts with its print or healthcare customers. Production agreements covering one to three years are, however, more frequent for supply-chain management services and magazine production, and to a lesser extent, catalog production. In addition to these production agreements, during 1999 the Corporation entered into a five-year agreement with Compaq Computer Corporation (now Hewlett-Packard Company). Revenue from Hewlett-Packard Company under this agreement totaled approximately $133 million in 2003, and comparable revenue is expected under this contract in fiscal 2004. Early in 2004 the contract was renewed for an additional one-year period, pursuant to the contract s evergreen clause.

Substantially all sales are made to customers through employees of the Corporation and its subsidiaries based on customer specifications. The fifteen largest customers accounted for approximately 33%, 33%, and 34% of net sales during 2003, 2002, and 2001, respectively. No customer accounted for more than 10% of the Corporation s net sales in 2003, 2002, or 2001.

International operations represented 19%, 15%, and 15% of consolidated net sales and 24%, 17%, and 14% of consolidated assets in 2003, 2002, and 2001, respectively.

Backlog

Lead-time for services varies, depending upon the type of customer, the industry being serviced and seasonal factors, including paper availability. Backlogs for the printing segment are expressed in terms of time scheduled on equipment and not dollar value. Consequently, the dollar value of backlog is not readily available for the print segment. Backlogs are not considered material in either the supply-chain management or healthcare segments.

Markets Served

The Corporation operates in three business segments; print, supply-chain management and healthcare products. These markets are summarized in the following table and described in greater detail below. Tables in this section set forth the approximate percentage of segment net sales contributed by each class of similar products for the last three fiscal years.

	2003	2002	2001
Print	68 %	72 %	69 %
Supply-chain management	25	21	24
Healthcare	7	7	7
TOTAL	100 %	100 %	100 %

Print Segment

Within the print segment, the Corporation s net sales can be further subdivided into five general categories:

	2003	2002	2001
Book	36 %	37 %	33 %
Catalog	22	22	22
Direct Marketing	20	19	22
Publications	20	18	19
Other	2	4	4
TOTAL	100 %	100 %	100 %

Book

The Corporation provides the book publishing market with a variety of print, digital print and electronic media products, in addition to a full range of value-added packaging, fulfillment, document management and distribution services. With twenty-one manufacturing and distribution centers across the United States, the Corporation serves publishing customers in the educational, trade, professional and religious segments. The Corporation provides products including soft cover books, specialty calendars, multimedia kits and instructional games.

Catalog

The Corporation s catalog facility produces catalogs primarily for the specialty and retail catalog markets. In addition, other facilities produce business-to-business and industrial catalogs. Bindery services within all these facilities provide ink-jet labeling and demographic binding (which allows several different versions of the same catalog to be bound simultaneously). Distribution services are provided by various operating units within the Print Segment, including computerized mail distribution planning systems. These services assist the Corporation s customers in minimizing postage costs and are an integral part of catalog printing services.

Direct Marketing

Printed materials for direct marketing customers are provided by three facilities. These products vary in format and size and include magazine and catalog inserts, bill stuffers, brochures, booklets, cards and target market products designed to sample or sell a product or solicit a response. The Corporation s imaging technology enables customers to obtain complex personalized direct mail pieces produced at press speeds. The Corporation s direct marketing customers are primarily marketers of financial services, consumer packaged goods, retail products and ad agencies.

Publications

The Corporation s three facilities serving the magazine market print, sort and mail over 925 different magazines. These magazines are primarily short-to-medium run publications (usually less than 350,000 copies), which are generally distributed to subscribers by mail. The Corporation s primary magazine customers are publishers of specialty magazines, including religious, business and professional journals; and hobby, craft and sporting publications. The Corporation also provides its customers with computerized mailing lists, re-print services and distribution services.

Other

Prepress services are provided by several of the Corporation s facilities to publishers, printers and advertising agencies. Such services include the conversion of full-color photographs, art and text into color separated film and digital files for use in the production of printing plates. These units also provide electronic graphic design, digital photography and on-demand print services. During the last several years, these units have diversified their customer base to include packaging customers and have increased their ability to maximize plant utilization by connecting their facilities through an extensive network of high-speed telecommunication lines. The Corporation also offers multiple graphic communication solutions to its customers; interactive online products for the Internet, including web site design, hosting and maintenance; and standard or customized electronic commerce solutions.

Supply-Chain Management Segment

Banta Global Turnkey is a global supply-chain management business providing a wide range of outsourcing services, from materials sourcing, product configuration and customized kitting, to order fulfillment and global distribution. Customers include computer hardware, computer software, communications and networking companies, and medical device manufacturers in North America, Europe, and Asia. The Corporation provides the systems, technology and infrastructure to manage multiple elements of the supply chain, integrating the Corporation, its customers and the customers suppliers into a common information technology system, thereby increasing capacity while reducing costs, cycle times and inventory requirements. With nearly two decades of experience serving the technology marketplace, this segment of the Corporation is a significant contributor to the evolution of turnkey services around the world.

Healthcare Segment

Banta Healthcare Products manufactures and sources a broad range of disposable products used in primary care physician offices, acute and long-term care facilities and dental offices. The Corporation converts paper, tissue and poly film into single-use products. In addition, this division extrudes resin into film products for use in its manufacturing processes and for sale to external customers. Its products include exam room table paper, examination gowns, drape sheets and dental towels.

Certain Risk Considerations

The Corporation s business is exposed to risk from a variety of factors. Three key areas of risk, while not intended to be a comprehensive or definitive list, are summarized below.

Competition

Within the print segment, consolidation within the graphic arts industry has continued during the last few years. This trend has resulted in fewer competitors, creating several competitors that are larger than the Corporation in size, with broader product offerings. The major competitive factors in the Corporation s print business are quality of finished products, time-to-market and distribution capabilities, ongoing customer service, price, availability of time on equipment and schedule flexibility. The consolidation of customers within certain of the Corporation s markets could result in greater competitive pricing pressures and the potential for increased volume solicitation as customers reduce the number of vendors. In recent years, seasonal excess capacity in the printing industry has resulted in lower unit prices. The Corporation believes it has been able to remain competitive in part because it is financially able to invest in modern technologically advanced equipment, which helps reduce unit costs, and because of productivity gains resulting from continuous improvement programs.

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The major competitive factors in the Corporation s supply-chain management segment are customer service, price, location relative to customer manufacturing sites, quality of information technology and the ability to develop creative and innovative solutions for customer manufacturing, fulfillment and distribution needs. In recent years, continuing pressure from customers to reduce costs, reduce time to market and improve quality of service have led to increased pricing pressures. The Corporation believes it has been able to remain competitive because of its continued investment in training employees and in technology in order to deliver excellent service.

Customers

The Corporation s supply-chain management segment primarily serves global technology customers. This concentration of customers within one industry creates increased risk when there is a significant decline in this industry. In addition, this segment has a concentration of revenues with several large customers.

General Economic Conditions

Global economic conditions have the potential to significantly impact the Corporation s financial results. Within the print segment, a change in economic conditions can impact many areas of spending, including government, business and individual spending. These changes can have a direct impact on the amount of print business available. Examples include:

- Reductions or increases in state government spending on education leads to a corresponding decrease or increase in the demand for educational materials, which are produced by the Corporation s book business unit.
- Reductions or increases in business spending on advertising impact advertising page counts in magazines, and the volume of direct marketing materials. These changes can affect results in the Corporation s publication, direct marketing and catalog business units.

Within the supply-chain management segment, a change in economic conditions that influence individual or business spending on technology has the potential to significantly affect the Corporation s major customers in this market, which could impact the Corporation s financial performance by lowering demand for its services.

Raw Materials

The principal raw material used by the Corporation in the print segment is paper. Most of the Corporation s production facilities are located in areas with concentrated papermaking resources, and the Corporation can generally obtain quality paper at competitive prices. The Corporation is not dependent upon any one source for its paper or other raw materials.

During 2003, the price of paper increased on a composite average by approximately 2%. It is customary for printers to adjust sales prices to reflect market fluctuations in paper prices. In 2002 and 2001, the price of paper decreased by approximately 10% and 9%, respectively. Prices for ink used in certain portions of the print segment of the business decreased in both 2003 and 2002. The Corporation uses a number of other raw materials including resins, packaging materials and subcontracted components. The cost of these materials for the print segment remained relatively stable in 2003, 2002 and 2001.

Materials used for assembly, testing and fulfillment in the supply-chain management segment are specific to the customers product and may include computer keyboards or components, cables, printed manuals, CD or DVD media, various hardware components and packing materials. There is no single dominant raw material used in this business segment.

The Corporation uses raw materials such as paper, resins, packaging materials and subcontracted components in the healthcare segment. The cost of paper increased by approximately 13% during 2003, and decreased by approximately 12% during 2002 from prices in 2001. The cost of resins, which are produced from natural gas, increased by approximately 27% during 2003, and decreased by approximately 2% during 2002 from prices in 2001. The cost of packaging materials and subcontracted components remained stable in 2003, 2002 and 2001.

Research and Development

The Corporation is engaged in research and development relating to technology and system enhancements, and has made investments for such purposes. One of the objectives of the technical research and development effort is to establish a competitive advantage in existing markets by focusing on improving operating procedures, increasing machine speeds and improving paper usage.

Environmental Considerations

The Corporation has environmental compliance programs primarily for the control of air quality, groundwater quality, disposal of waste material and all aspects of the work environment involving employee health. Capital expenditures for air quality equipment have approximated 1% to 3% of total capital expenditures in each of the last three years. Planned capital expenditures for environmental control equipment are expected to be in the same range for 2004. The Corporation also incurs ongoing costs in monitoring compliance with environmental laws concerning the disposal of waste materials and the remediation of sites previously used for the disposal of waste materials. Requirements of the U.S. Environmental Protection Agency and state agencies nationwide relating to disposal of waste in landfill sites are increasing, thus creating higher costs for the Corporation and its competitors. Costs for environmental compliance and waste disposal have not been material to the Corporation in the past, but management believes that expenditures for these purposes may have a negative impact on its earnings and those of its competitors in the future. However, any increased costs are not expected to have a material impact on the Corporation s competitive position, assuming similar costs are required of competitors. The Corporation does not believe at the present time that any cost, claims or penalties that may be incurred or assessed under environmental laws, in connection with known environmental assessment and remediation matters, beyond any reserves already provided, will have a material adverse effect upon the operations or consolidated financial position of the Corporation.

Foreign Operations

Footnote 14 to the Corporation s Consolidated Financial Statements for the fiscal year ended January 3, 2004 includes information on the Corporation s foreign operations.

Seasonality

There is no significant seasonal pattern to the Corporation s consolidated quarterly sales and earnings.

Available Information

The Corporation s Internet address is http://www.banta.com. The Corporation makes available free of charge (other than an investor s own Internet access charges) through its Internet website the Corporation s Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after it electronically files such material with, or furnishes such material to, the Securities and Exchange Commission. In addition, the Corporation also makes available through its Internet website the Banta Code of Business Conduct and Ethics, its Corporate Governance Guidelines and the charters of the Audit, Compensation and Nominating and Governance Committees of the Board of Directors. Documents available on the website are also available in print for any shareholder who requests them. The Corporation is not including the information contained on or available through its website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

EXECUTIVE OFFICERS OF THE CORPORATION

Name, Age, Position	Business Experience During Last Five Years
Donald D. Belcher; 65 Chairman	Chairman of the Company since May 1995; Chief Executive Officer of the Company from January 1995 to October 2002; President of the Corporation from September 1994 to January 2001.
Stephanie A. Streeter; 46 Chief Executive Officer and President	President and Chief Executive Officer since October 2002; President and Chief Operating Officer from January 2001 to August 2002; Chief Operating Officer of idealab! (creator and operator of Internet businesses) from January 2000 to December 2000; Group Vice President of Avery Dennison (diversified manufacturing company) from 1996 to 2000.
Geoffrey J. Hibner; 54 Chief Financial Officer	Chief Financial Officer since August 2003: independent management consultant and consultant with Bridge Associates, LLC (management consulting firm) from 2000 to 2003; Senior Vice President, Finance & Administration, and Chief Financial Officer of The Timberland Company (branded footwear, apparel and accessories) from 1997 to 2000.
Ronald D. Kneezel; 47 Vice President, General Counsel and Secretary	Vice President, General Counsel and Secretary of the Corporation.
Dennis J. Meyer; 48 Vice President Marketing and Planning	Vice President Marketing and Planning of the Corporation.
Frank W. Rudolph; 47 Vice President Human Resources	Vice President Human Resources of the Corporation since September 2000; Chief Administrative Officer of Overhead Door Corporation (designer, manufacturer and distributor of entrance systems) from 1997 until joining the Corporation.

There are no family relationships among the executive officers of the Corporation.

All of the executive officers are elected or appointed annually by the Corporation s Board of Directors. Each officer holds office until his or her successor has been elected or appointed or until his or her death, resignation or removal.

Item 2. Properties

At the end of fiscal 2003, the Corporation s operations were conducted at 35 production facilities in the United States and at six foreign production facilities. The detail of the domestic owned and leased facilities by state, along with total square footage is as follows:

Print Segment				Supply-Chain Management Segment			
State	Owned Facilities	Leased Facilities	Total Facilities	State	Owned Facilities	Leased Facilities	Total Facilities
Connecticut	1	--	1	California	--	1	1
Georgia	--	1	1	Texas	--	1	1

Print Segment

Illinois	--	1	1
Massachusetts	--	1	1
Minnesota	4	3	7
Missouri	1	--	1
Ohio	1	--	1
Pennsylvania	--	1	1
Tennessee	1	--	1
Utah	1	1	2
Virginia	2	--	2
Washington	--	1	1
Wisconsin	3	6	9
Total	**14**	**15**	**29**

Supply-Chain Management Segment

Wisconsin	--	1	1
Total		**3**	**3**

Healthcare Segment

State	Owned Facilities	Leased Facilities	Total Facilities
Wisconsin	1	--	1
California	1	--	1
Total	**2**	**--**	**2**

Square Footage of owned facilities:

Office Space	343,000
Manufacturing	1,879,000
Warehouse	1,596,000
Total	3,818,000

Foreign production facilities located in Ireland, Scotland, The Netherlands, and Singapore are also leased. The total of all leased facilities contain approximately 3,490,000 square feet of space. The buildings owned and leased by the Corporation are primarily of steel and brick construction, and are considered well maintained and adequate for the Corporation s needs.

Item 3. Legal Proceedings

On June 26, 2003, the Corporation settled a lawsuit with Singapore-based Mentor Media, Ltd. (Mentor) relating to its proposed acquisition of Mentor. The Corporation recorded a charge of $4.6 million in the second quarter of 2003 in connection with the settlement.

In the ordinary course of its business, the Corporation is also involved in other litigation matters. Based on the Corporation s assessment of these matters and on the existing reserves provided for them, the Corporation does not believe that any of these matters, either individually or in the aggregate, will have a material adverse effect on its results of operations or financial condition.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the Corporation s shareholders during the quarter ended January 3, 2004.

PART II

Item 5. Market for Registrant s Common Equity and Related Stockholder Matters

The Corporation s stock is listed on the New York Stock Exchange.

Under long-term debt agreements to which the Corporation is a party, the payment of cash dividends by the Corporation is subject to certain limitations. As of January 3, 2004, approximately $114,263,000 of retained earnings were not restricted under these agreements.

Per Share of Common Stock	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Entire Year
2003 dividends paid	$ .16	$ .16	$ .17	$ .17	$ .66
Price range:					
High	$ 33.47	$ 35.00	$ 37.26	$ 41.06	$ 41.06
Low	27.00	28.68	32.30	35.93	27.00
2002 dividends paid	$ .16	$ .16	$ .16	$ .16	$ .64
Price range:					
High	$ 35.38	$ 38.91	$ 37.54	$ 35.90	$ 38.91
Low	29.45	32.35	29.48	29.30	29.30

The stock prices listed above are the high and low trades. As of January 26, 2004 the Corporation had 1,725 shareholders of record.

Item 6. Selected Financial Data

Summary of Earnings	2003	2002	2001	2000	1999
Net sales	$1,418,497	$1,366,457	$1,457,935	$1,537,729	$1,315,278
Net earnings	46,614	43,799	49,997	58,743	16,010
Diluted earnings per share of common stock	1.81	1.71	2.01	2.35	.59
Dividends paid per common share	.66	.64	.61	.60	.56
Financial Summary					
Working capital	299,315	274,368	188,866	166,356	110,508
Net plant and equipment	286,347	277,971	324,984	344,261	327,350
Total assets	886,023	805,264	788,046	854,524	773,344
Long-term debt, excluding current maturities	87,712	111,489	130,981	179,202	113,520
Shareholders' investment	513,429	453,113	407,278	370,912	353,775

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Banta Corporation (the Corporation) operates in three business segments, print, supply-chain management and healthcare. The Corporation s print segment provides a comprehensive combination of printing and digital imaging solutions to leading publishers and direct marketers. Products and services in this segment include books, catalogs, publications, product brochures, literature management services, educational materials and e-business services. The Corporation s global supply-chain management businesses provide a wide range of outsourcing capabilities, primarily to the world s largest technology companies. Services range from materials sourcing, product configuration and customized kitting, to order fulfillment and global distribution. The Corporation s healthcare segment produces and sources disposable products used in outpatient clinics, dental offices and hospitals.

Results for 2003 included the following:

- Improved results in both revenues and earnings per share compared with the prior year
- A difficult year for the print segment, with reductions in both revenues and operating earnings compared with the prior year
- Excellent performance in the supply-chain management segment, with record revenues and operating earnings

- Continued growth in revenues and operating earnings within the healthcare segment
- Completion of a $17 million restructuring program in the print and supply-chain management segments

Net sales for 2003 were $1.42 billion, a 4% increase from the prior-year sales of $1.37 billion. Operating earnings in 2003 were equal to the prior year. Revenues and operating earnings in the print segment declined, while revenues and operating earnings increased in both the supply-chain management and healthcare segments. The Corporation s net earnings were $46.6 million for 2003, 6% higher than the $43.8 million in 2002. Diluted earnings per share were $1.81 in 2003 compared with $1.71 in the prior year.

Special charges were $21.6 million in 2003 and $26.8 million in 2002. Special charges in 2003 included $17 million in restructuring and $4.6 million in litigation settlement charges. Special charges in 2002 related to a non-cash asset impairment.

The print segment accounted for approximately 68% of the Corporation s total revenue in 2003. Factors monitored by management in this segment include:

- Economic conditions in the United States, particularly advertising and promotional spending. This spending directly impacts three of the four operating units in this segment, namely direct marketing, publications and catalogs. Key indicators in this area include capital spending by businesses, general advertising spending and advertising pages printed, which is tracked by several publishing organizations. Each of these factors was down in 2003, which was reflected in reduced print segment revenue.
- The level of educational spending in the United States, which directly impacts the book operating unit. Educational spending is dependent on both the general level of budgetary appropriations for educational materials by state and local governments and the rate of adoption of new materials. Educational spending and adoptions were down in 2003, as was revenue in the book operating unit.
- Trends in outsourcing non-core activities by corporations, which impact sales in the Corporation s literature management programs. Increased outsourcing activity has resulted in higher sales in the Corporation s literature management programs in recent years.
- Trends in foreign sourcing of printed materials. To date, these trends have not had a significant impact on revenues.
- Paper pricing, which has had a significant impact on this segment in prior years. Paper prices are influenced by world pulp prices, capacity utilization and the value of the dollar in comparison to other currencies. Paper prices decreased by 2% in 2003 and by 10% in 2002, with a minimal impact on revenues in 2003.

The supply-chain management segment accounted for approximately 25% of the Corporation s revenue in 2003. Factors monitored by management in this segment include:

- The performance of the segment s significant customers. These customers primarily sell hardware, consumer software, and communications and networking equipment. The Corporation provides a customized service to each customer and makes significant commitments in technology and location of facilities. Performance by these customers, and the continuation of these relationships, has a significant impact on this segment. Improved 2003 performance by these customers was reflected in the increased revenues in this segment in 2003.
- The general level of spending within the economy on technology, and the mix of that spending. Spending in this sector of the economy appeared to be increasing during 2003, and was reflected in the increased revenues in this segment.
- Trends in outsourcing non-core activities by corporations. Increased outsourcing activity resulted in higher sales in this segment in recent years.

The healthcare segment accounted for approximately 7% of the Corporation s revenue in 2003. The key factors monitored by management in this segment include sales growth of major healthcare distributors, raw material prices and the general trend in healthcare spending.

Net Sales

2003 compared with 2002

Print segment net sales of $959 million for 2003 were $18 million, or 2%, lower than the prior-year total of $977 million. The decrease in print segment net sales was related to economic trends in the printing industry, including reduced educational spending and lower advertising and promotional spending. Several of the Corporation s major print customers chose to supply their own paper in 2003, which further reduced sales since the cost of paper, when supplied by the Corporation, is passed through to the customer. In addition, print segment sales continue to be impacted by a very competitive pricing climate resulting from excess capacity in the industry.

Net sales for the print segment operating units, as a percent of total print segment sales, were as follows:

	2003	2002	2001
Book	36%	37%	33%

	2003	2002	2001
Catalog	22	22	22
Direct Marketing	20	19	22
Publications	20	18	19
Other	2	4	4
	100%	100%	100%

Book operating unit revenues for 2003 were approximately 9% lower than the prior year due to a few major customers who supplied their own paper and lower educational spending. The direct sourcing of paper by customers accounted for approximately 65% of the decrease in net sales from 2002 to 2003. The remaining decrease was the result of delayed spending on educational materials because of reduced state budget appropriations, and fewer adoptions of new educational materials.

Catalog operating unit revenues decreased by 7% in 2003.Approximately 45% of the decrease was related to sales that were transferred to other Banta plants as a result of the restructuring activity in 2003. The remaining decrease was the result of business-to-business catalogs printed on a two-year cycle, with 2003 as the off year. Sales of direct marketing materials were approximately 4% below the levels of the prior year due to reduced advertising and promotional spending and very competitive pricing in the commercial print market. In the publications operating unit, sales increased by 9% primarily as the result of increased market share. Despite the high incidence of magazine attrition and the competitive operating environment within the magazine market, the Corporation in 2003 increased the number of magazines it prints to over 925 titles.

Supply-chain management segment sales were $359 million in 2003, an increase of 23% from 2002. Of this increase, $19 million was related to the increased value of local currencies in comparison to the dollar. The remaining increase was the result of a recovery in technology spending in 2003 and increased outsourcing of non-core activities, which drove the significant increase in demand for products and services by the Corporation s major technology customers.

Healthcare segment sales for 2003 of $100 million were 4% above the prior year, primarily as a result of increased sales to several large distributors of healthcare products.

2002 compared with 2001

Print segment net sales of $977 million for 2002 were $32 million, or 3%, lower than the prior-year total of $1.0 billion. The decrease in print segment net sales was primarily related to lower paper prices during 2002 compared with the prior year, which reduced sales by approximately $30 million. For the full year, paper prices decreased on a composite average by approximately 10%. Paper prices are influenced by world pulp prices, capacity utilization and the strength of the dollar. As is customary in print markets, the customer generally absorbs fluctuations in paper prices. In addition, print segment sales were impacted by a very competitive pricing climate resulting from excess capacity in the industry.

Book operating unit revenues for 2002 were approximately 3% higher than the prior year due to strong activity in the educational market and expansion of literature management activities. The trend toward customized textbooks, which results in shorter run lengths, increased versioning and just-in-time delivery, is consistent with the book operating unit s manufacturing capabilities. These capabilities also support the Corporation s literature management services, which are expanding to serve a broader range of customers, including healthcare, telecommunications, retail and financial services businesses. These trends helped to offset the impact of lower paper prices in the book market.

Catalog operating unit sales decreased slightly in 2002 due to paper price reductions. Sales of direct marketing materials were approximately 12% below the levels of the prior year due to significantly reduced advertising and promotional spending, lower paper prices and the dampening effect of a postal increase. Retailers, consumer package goods companies and several financial service companies reduced both the number of mailings and amount of pieces mailed. At the same time, commercial print price levels were driven down by excess industry capacity. In the publications operating unit, sales were also slightly lower due to a reduction in magazine page counts resulting from a weak advertising environment and an unusually high incidence of magazine attrition. On average, page counts for the Corporation s customers were approximately 10% lower than the prior year. In any given year, page count levels tend to vary based on economic growth trends. Despite the high incidence of magazine attrition and the operating environment within the magazine market, the Corporation increased the number of magazines it prints to nearly 900 titles, an increase of 8% over the prior year.

Supply-chain management segment sales were $293 million in 2002, a decrease of 15% from 2001. Softness in the technology sector exerted downward pressure on revenues in this segment during 2002.

Healthcare segment sales for 2002 of $97 million were 6% below the prior year, due to lower prices realized on foreign-sourced products.

Earnings from Operations

2003 compared with 2002
Earnings from operations for 2003 were $81.6 million, equal to the prior year. Special charges, which are discussed in more detail below, were $21.6 million in 2003 and $26.8 million in 2002. Gross margins on a corporate wide basis decreased from 22.2% in 2002 to 21.5% in 2003, due to increased pricing pressure throughout the print segment and additional costs incurred in the catalog operating unit during the restructuring activities. Both the supply-chain management and healthcare segments had improved earnings from operations in 2003 compared with 2002, while the print segment earnings were below the prior year.

Print segment earnings from operations for 2003 were $54.7 million, 24% lower than the prior year s $72 million. Operating margins for the print segment were 5.7% for 2003 compared with 7.4% during 2002. Special charges were recorded in both years, $12 million in restructuring charges in 2003 and $16 million in non-cash impairment charges in 2002. Excluding the impact of the special charges, the reduction in 2003 print segment earnings was primarily the result of reduced operating earnings from the catalog operating unit, which were negatively impacted by the costs of relocating existing equipment and placing new equipment in service during the restructuring actions in 2003. This unit had reduced operating earnings compared to the prior year of $14 million. The remaining $7 million decrease was the result of continued pricing pressures throughout the print segment, particularly in the direct marketing operating unit.

Earnings from operations for the supply-chain management segment increased to $35.8 million in 2003 compared with $27.8 million in 2002 and operating margins increased to 10% compared with 9.5% in the prior year. This improvement in operating margin was primarily due to a higher proportion of value-added content in the product mix. Earnings from operations were reduced during 2003 by restructuring charges totaling $5 million.

Healthcare earnings from operations for 2003 were $12.1 million compared with the prior year s $10.3 million. Operating margins for 2003 were 12% compared with 10.6% for 2002. Improvements in operating margins were the result of improved productivity and cost-containment initiatives.

2002 compared with 2001
Earnings from operations during 2002 were $81.6 million, a reduction of 25% from the $108.4 million in 2001. Gross margins increased from 20.4% in 2001 to 22.2% in 2002. Changes in the product mix in the supply-chain management segment contributed 0.7 percentage points of this increase. The balance of the increase in gross margin for the Corporation was the result of improved operating efficiencies and aggressive cost-control measures in all segments. Both the supply-chain management and healthcare segments had improved earnings from operations in 2002 compared with 2001, while the print segment earnings were below 2001 levels.

Print segment earnings from operations for 2002 were $72 million, 23% lower than the prior year s $93.8 million. Operating margins for the print segment were 7.4% for 2002 compared with 9.3% in 2001. The reductions in earnings and operating margins were primarily the result of a $16 million non-cash asset impairment charge recorded in the fourth quarter of 2002, with the remaining decrease due to increased pricing pressures.

Earnings from operations for the supply-chain management segment increased to $27.8 million in 2002 compared with $24.7 million in 2001 and operating margins increased to 9.5% compared with 7.1% in the prior year. This improvement in operating margin was primarily due to a higher proportion of value-added content in the product mix, aggressive cost control measures, cessation of contractual royalty payments, and elimination of an under-performing facility.

Healthcare earnings from operations for 2002 were $10.3 million compared with the prior year s $9.5 million. Operating margins for 2002 were 10.6% compared with 9.3% for 2001. The 2002 operating margins were positively impacted by improved productivity and cost-containment initiatives.

Special Charges

During 2003, the Corporation announced and completed a restructuring involving its consumer catalog business and a realignment of operating activities within its printing and supply-chain management segment. Charges incurred in the restructuring totaled $17.0 million. The objective of the plan was to consolidate certain operations, leverage existing capacity, improve efficiencies and reduce costs. The components of the restructuring expenses were as follows: employees severance and benefits, $9.3 million; facility costs, including lease terminations, $2.8 million;

and reduction in the carrying value of impaired assets and other, $4.9 million. Approximately $12.0 million of the restructuring charges related to the print segment and the remaining $5.0 million related to the supply-chain management segment.

During 2003, the Corporation settled a lawsuit with Singapore-based Mentor Media, Ltd. (Mentor) relating to its proposed acquisition of Mentor. The Corporation recorded a charge of $4.6 million in the second quarter of 2003 in connection with the settlement.

The Corporation recorded a non-cash impairment charge of $26.8 million during the fourth quarter of 2002. The impairment charge included a $9.8 million reduction in the carrying value of the Corporation s digital content management software product, based on an analysis of future cash flow projections for the product. The charge also included a $7.4 million impairment of an investment in a Mexican joint venture; a reduction of $2.2 million of goodwill associated with a past acquisition; a $3.9 million reduction in the carrying value of assets held-for-sale in the print segment; and updated assessments of other long-lived assets.

Write-off of Investment

During 2000, the Corporation acquired a minority equity interest of approximately 13% in Xyan.com Inc. (Xyan.com), a start-up Internet-enabled digital document solutions provider. In March 2001, Xyan.com filed for bankruptcy under Chapter 11 as a result of the inability to obtain additional financing for its continued operation, coupled with unfavorable operating results due to the economic downturn in its market. In response to Xyan.com s filing for bankruptcy, the Corporation wrote-off the cost of its minority interest in Xyan.com. This write-off resulted in a non-operating charge of $12.5 million in 2001.

Interest Expense and Other Expense

Interest expense of $8.4 million in 2003 was $2.9 million lower than the prior-year interest expense of $11.3 million. Interest expense has continued to decline as the Corporation makes its scheduled long-term debt payments. In addition, the Corporation capitalized approximately $800,000 of interest in connection with major ongoing capital projects, compared with approximately $170,000 in 2002.

Interest expense decreased from $13.7 million in 2001 to $11.3 million in 2002. This decrease was due to reduced interest on short-term debt, as all short-term borrowing was eliminated in 2001, and lower long-term debt levels.

Other income for 2003 was approximately $300,000 lower than 2002 due to reduced interest income earned as a result of lower interest rates on invested cash. Other income for 2002 was approximately $1.5 million higher than the prior year due to increased invested cash balances, the elimination of goodwill amortization expense and other miscellaneous income.

Provision for Income Taxes

Effective income tax rates were 37.4%, 39.0% and 39.2% in 2003, 2002 and 2001, respectively. The continuing reductions in the effective tax rates were due to a greater mix of earnings generated by the supply-chain management segment, which has extensive operations in countries whose tax rates are more favorable than the rates in the United States.

Net Earnings

The Corporation s net earnings were $46.6 million for 2003, 6% higher than the $43.8 million in 2002. Diluted earnings per share were $1.81 in 2003 compared with $1.71 the prior year. The increase in net earnings reflects the increased profitability of the supply-chain management and healthcare segments, and lower special charges compared with the prior year. These improvements were partially offset by reduced earnings in the print segment. The Corporation s net earnings were $43.8 million for 2002, 12% lower than the $50.0 million in 2001. Diluted earnings per share were $1.71 in 2002 compared with $2.01in the prior year. This decrease was primarily the result of the asset impairment charge recorded in the fourth quarter of 2002.

Liquidity and Capital Resources

On January 3, 2004, the Corporation had cash and cash equivalents of $181 million. Management believes the Corporation s liquidity continues to be strong and the current level of leverage will allow the Corporation to finance, at attractive borrowing rates, its capital expenditures and any other investment opportunities that may arise in the foreseeable future.

The Corporation has historically met its long-term debt financing needs by periodically issuing unsecured promissory notes to institutional investors on a private placement basis. The Corporation did not incur any long-term borrowings in 2003 or 2002. Of the $111.8 million of total debt at the end of 2003, $24.1 million matures in 2004 with the remaining balance maturing at varying intervals through 2015. The Corporation has historically raised short-term funds by selling commercial paper. Such borrowings are supported by a credit facility with three banks which provide a total borrowing capacity of $105 million. Due to the Corporation s strong cash position, there were no short-term borrowings during 2003 or 2002 under this facility.

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During 2003, working capital increased by approximately $25 million. This increase was primarily due to two factors higher cash generated from operations and strong revenue in the supply-chain management segment during fourth quarter of 2003, which increased accounts receivable. Revenues in the supply-chain management segment increased by 31% in the fourth quarter of 2003 over the fourth quarter of 2002, resulting in an additional $30 million in accounts receivable in this segment. This contributed to increases in receivables of approximately 10% over the prior year. The Corporation also recorded increases in inventories and accounts payable in each of the three major segments based on strong volume in the fourth quarter of 2003.

During 2003, no shares of the Corporation s common stock were repurchased. During 2002, the Corporation repurchased 112,000 shares of its common stock at an aggregate price of $3.4 million. The share repurchase program, authorized by the Corporation s Board of Directors during 1998 and expanded during 1999, has approximately $80 million in authority remaining for future share repurchases. The Corporation may continue its repurchase of shares in the future pursuant to this authorization if market conditions warrant. Any future stock repurchases are expected to be funded by a combination of existing cash, cash provided from operations and short-term borrowings.

The Corporation s capital expenditures were $71 million in 2003 compared with $31 million in 2002. The Corporation is committed to maintaining modern, efficient plants and to providing customers with enhanced supply-chain management services, and new printing and digital imaging technologies. Expenditures in 2003 were closer to historical spending levels than the unusually low expenditures in 2002. Preliminary plans for 2004 are for capital expenditures projected in the range of $80 million to $100 million. Capital expenditures are expected to be funded by existing cash, cash provided from operations and short-term borrowings.

At January 3, 2004, the Corporation had the following contractual obligations. These obligations are discussed in more detail in Notes 5 and 9 to the Cons