APPLIED GRAPHICS TECHNOLOGIES INC
Form 10-Q
August 14, 2001

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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 quarterly period ended June 30, 2001

OR

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

For the transition period from _____ to_____

Commission File Number 1-16431

APPLIED GRAPHICS TECHNOLOGIES, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	13-
(State or other jurisdiction of incorporation or organization)	(I.R.S Identif

450 WEST 33RD STREET
NEW YORK, NY
(Address of principal executive offices)
10001
(Zip Code)

212-716-6600
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

N/A

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes[X] No[ ]

The number of shares of the registrant's common stock outstanding as of July 31, 2001, was 9,067,565.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

APPLIED GRAPHICS TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands of dollars, except per-share amounts)

	June 30, 2001
ASSETS	
Current assets:	
Cash and cash equivalents	$ 34,357
Marketable securities	
Trade accounts receivable (net of allowances of $5,814 in 2001 and $5,100 in 2000)	87,712
Due from affiliates	5,113
Inventory	20,472
Prepaid expenses	6,658
Deferred income taxes	12,933
Other current assets	5,509
Net assets held for sale	37,567
Net current assets of discontinued operations	
Total current assets	210,321
Property, plant, and equipment - net	60,802
Goodwill and other intangible assets (net of accumulated amortization of $38,103 in 2001 and $31,325 in 2000)	418,590
Deferred income taxes	1,557
Other assets	22,476
Total assets	$ 713,746
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	$ 61,713
Current portion of long-term debt and obligations under capital leases	1,469
Due to affiliates	708
Other current liabilities	21,853
Total current liabilities	85,743
Long-term debt	258,259
Subordinated notes	26,122
Obligations under capital leases	1,154
Deferred income taxes	
Other liabilities	12,438
Total liabilities	383,716
Commitments and contingencies	

Minority interest - Redeemable Preference Shares issued by subsidiary	37,426
Stockholders' Equity:	
Preferred stock (no par value, 10,000,000 shares authorized; no shares outstanding)	
Common stock ($0.01 par value, 150,000,000 shares authorized; shares issued and outstanding: 9,067,565 in 2001 and 9,033,603 in 2000)	91
Additional paid-in capital	389,459
Accumulated other comprehensive income (loss)	(313)
Retained deficit	(96,633)
Total stockholders' equity	292,604
Total liabilities and stockholders' equity	$ 713,746

See Notes to Interim Consolidated Financial Statements

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APPLIED GRAPHICS TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per-share amounts)

	For the Six Months Ended June 30,	
	2001	2000
Revenues	$ 234,829	$ 291,342
Cost of revenues	163,962	193,894
Gross profit	70,867	97,448
Selling, general, and administrative expenses	69,979	81,741
Amortization of intangibles	6,778	6,744
Loss (gain) on disposal of property and equipment	1,976	(47)
Restructuring charges	1,167	611
Impairment charges	97,766	1,241
Total operating expenses	177,666	90,290
Operating income (loss)	(106,799)	7,158
Interest expense	(11,749)	(13,194)
Interest income	337	433
Other income (expense) - net	2,170	(154)

Loss from continuing operations before provision for income taxes and minority interest	(116,041)	(5,757)	
Provision (benefit) for income taxes	(2,480)	2,068	
Loss from continuing operations before minority interest	(113,561)	(7,825)	
Minority interest	(1,186)	(1,296)	
Loss from continuing operations	(114,747)	(9,121)	
Income (loss) from discontinued operations	98,726	(98,383)	
Net loss	(16,021)	(107,504)	
Other comprehensive loss	(835)	(1,952)	
Comprehensive loss	$ (16,856)	$ (109,456)	$
Basic loss per common share:			
Loss from continuing operations	$ (12.66)	$ (1.01)	$
Income (loss) from discontinued operations	10.89	(10.87)	
Total	$ (1.77)	$ (11.88)	$
Diluted loss per common share:			
Loss from continuing operations	$ (12.66)	$ (1.01)	$
Income (loss) from discontinued operations	10.89	(10.87)	
Total	$ (1.77)	$ (11.88)	$
Weighted average number of common shares:			
Basic	9,068	9,046	
Diluted	9,068	9,046	

See Notes to Interim Consolidated Financial Statements

APPLIED GRAPHICS TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands of dollars)

	For t
	2001
Cash flows from operating activities:	
Net loss	$ (16,0
Adjustments to reconcile net loss to net cash from operating activities:	
Depreciation and amortization	17,5

Deferred taxes	(3,7
Loss (gain) on disposal of property and equipment	1,9
Provision for bad debts	1,3
Impairment charges	97,7
Loss (income) from discontinued operations	(98,7
Other	(
Changes in Operating Assets and Liabilities, net of effects of acquisitions and dispositions:	
Trade accounts receivable	9,3
Due from/to affiliates	(4
Inventory	1,1
Other assets	(5
Accounts payable and accrued expenses	(15,9
Other liabilities	2,5
Net cash provided by operating activities of discontinued operations	6,4
Net cash provided by operating activities	2,6
Cash flows from investing activities:	
Property, plant, and equipment expenditures	(9,2
Software expenditures	(5
Proceeds from sale of available-for-sale securities	1,6
Proceeds from sale of property and equipment	
Proceeds from sale of a business	
Other	(3,3
Net cash used in investing activities of discontinued operations	(3
Net cash provided by (used in) investing activities	(11,7
Cash flows from financing activities:	
Repayments of notes and capital lease obligations	(7
Repayments of term loans	(6,2
Borrowings (repayments) under revolving credit line - net	44,0
Net cash used in financing activities of discontinued operations	(
Net cash provided by (used in) financing activities	37,0
Net increase (decrease) in cash and cash equivalents	27,9
Effect of exchange rate changes on cash and cash equivalents	
Cash and cash equivalents at beginning of period	6,4
Cash and cash equivalents at end of period	$ 34,3

See Notes to Interim Consolidated Financial Statements

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APPLIED GRAPHICS TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands of dollars)

For the six months ended June 30, 2001

	Common stock	Additional paid-in capital	Accum ot compre income
Balance at January 1, 2001	$ 90	$ 388,704	$
Issuance of 33,962 common shares as additional consideration in connection with prior period acquisition	1	719	
Compensation cost of stock options issued to non-employees		36	
Cumulative effect of change in accounting principle			
Effective portion of change in fair value of interest rate swap agreements			(
Unrealized gain from foreign currency translation adjustments			
Reclassification adjustment for losses realized in net income			(
Net loss			
Balance at June 30, 2001	$ 91	$ 389,459	$ (

See Notes to Interim Consolidated Financial Statements

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APPLIED GRAPHICS TECHNOLOGIES, INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Applied Graphics Technologies, Inc. and its subsidiaries (the "Company"), which have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles, should be read in conjunction with the notes to consolidated financial statements contained in the Company's 2000 Form 10-K. In the opinion of the management of the Company, all adjustments (consisting primarily of normal recurring accruals) necessary for a fair presentation have been included in the financial statements. The operating

results of any quarter are not necessarily indicative of results for any future period.

All references to the number of shares and per-share amounts in the Consolidated Statement of Operations for the six and three months ended June 30, 2000, have been adjusted to reflect the two-for-five reverse stock split effected on December 5, 2000. Certain prior-period amounts in the accompanying financial statements have been reclassified to conform with the 2001 presentation.

2. DISCONTINUED OPERATIONS AND NET ASSETS HELD FOR SALE

In connection with the Company's adoption of a plan in June 2000 to sell its publishing business, the results of operations of that business were reflected as a discontinued operation in the Company's financial statements. At such time, the Company solicited bids and entered into negotiations with a potential buyer. Such negotiations ceased after the Company believed it was no longer in its best interest to pursue the proposed transaction. The Company continued to pursue its plan to sell the publishing business, and in 2001 it retained a new investment banking firm and distributed an updated offering memorandum. The Company has received non-binding indications of interest from several parties, certain of which have commenced due diligence. However, as of June 30, 2001, one year from the measurement date, the Company had not reached definitive terms with a potential buyer. Accordingly, the net assets of the publishing business previously reported as a discontinued operation were reclassified as "Net assets held for sale" in the Company's Consolidated Balance Sheet at June 30, 2001.

The results of operations of the publishing business for the six and three months ended June 30, 2001 and 2000, and the estimated loss on disposal and the subsequent reversal of the loss on disposal, are presented as Discontinued Operations in the accompanying Consolidated Statements of Operations as follows:

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	For the six months ended June 30,		For the
	2001	2000	2001
Revenues	$ 36,007	$ 36,361	$ 17,578
Income (loss) from operations before income taxes	$ 1,598	$ (3,134)	$ 776
Provision (benefit) equivalent to income taxes	868	7	(150)
Income (loss) from operations	730	(3,141)	926
Reversal of (loss on) disposal	97,996	(95,242)	97,800
Income (loss) from discontinued operations	$ 98,726	$ (98,383)	$ 98,726

The results of operations for the six and three months ended June 30, 2001, include income from discontinued operations for the reversal of the remaining estimated accrued loss on disposal of the publishing business originally recognized in the second quarter of 2000. The results of operations of the publishing business include an allocation of interest expense of $646 and $2,950 for the six months ended June 30, 2001 and 2000, respectively, and $325 and $1,321 for the three months ended June 30, 2001 and 2000, respectively. The allocated interest expense consisted solely of the interest expense on the Company's borrowings under its credit facility (the "1999 Credit Agreement"), which represents the interest expense not directly attributable to the Company's other operations. Interest expense was allocated based on the ratio of the net assets of the discontinued operation to the sum of the consolidated net assets of the Company and the outstanding borrowings under the 1999 Credit Agreement.

Upon the reclassification of the publishing business to "Net assets held for sale," the Company recognized an impairment charge of $97,766 in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which requires assets held for sale to be valued at the lower of carrying amount or fair value less estimated costs to sell. The fair value of the publishing business was estimated based on the recently received non-binding indications of interest. Commencing July 1, 2001, the assets of the publishing business will not be depreciated and its results of operations will be included as part of continuing operations.

The results of operations and the cash flows of the publishing business include amounts for selected items as follows:

	For the six months ended June 30,		For the
	2001	2000	2001
Income (loss) from operations before income tax	$ 1,598	$ (3,134)	$ 776
Interest expense	$ 707	$ 3,026	$ 355
Interest income	$ 73	$ 68	$ 35
Depreciation and amortization expense	$ 734	$ 2,150	$ 358
Loss on disposal of property and equipment	$ 6	$ 8	$ 1
Property, plant, and equipment expenditures	$ 351	$ 706	$ 165
Repayments of notes and capital lease obligations	$ 51	$ 87	$ 26

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The net assets of discontinued operations include $312 of long-term debt and obligations under capital leases, inclusive of the current portion, at June 30, 2001.

3. RESTRUCTURING

In June 2001, the Company initiated and completed a plan (the "2001 Second Quarter Plan") to consolidate certain of its content management facilities in

Chicago. As part of the 2001 Second Quarter Plan, the Company terminated certain employees and consolidated the work previously performed at three facilities into a single facility. The results of operations for the six and three months ended June 30, 2001, include a charge of $1,167 for the 2001 Second Quarter Plan, which consisted of $614 for facility closure costs and $553 for employee termination costs for 50 employees. In addition, the Company completed various restructuring plans in prior periods (the "1998 Second Quarter Plan," the "1998 Fourth Quarter Plan," the "1999 Third Quarter Plan," the "1999 Fourth Quarter Plan," and the "2000 Second Quarter Plan," respectively). The amounts included in "Other current liabilities" in the accompanying Consolidated Balance Sheets as of June 30, 2001, for the future costs of the various restructuring plans, primarily future rental obligations for abandoned property and equipment, and the amounts charged against the respective restructuring liabilities during the six months ended June 30, 2001, were as follows:

	1998 Second Quarter Plan	1998 Fourth Quarter Plan	1999 Third Quarter Plan	1999 Fourth Quarter Plan	2 Se Qu P
Balance at January 1, 2001	$ 120	$ 249	$ 7	$ 407	$
Restructuring charge					
Facility closure costs		(20)			
Employee termination costs					
Abandoned assets	(60)		(7)	(108)	
Balance at June 30, 2001	$ 60	$ 229	$ -	$ 299	$

The charge against the 2001 Second Quarter Plan's liability for employee termination costs included 40 employees. The employees terminated under the 2001 Second Quarter Plan are principally production workers, salespeople, and administrative support staff.

In addition to the restructuring charge incurred in connection with the 2001 Second Quarter Plan, for the six and three months ended June 30, 2001, the Company incurred nonrestructuring-related severance charges of $767 and $348, respectively, and incurred losses on the disposal of property and equipment of $1,976 and $1,948, respectively. The losses on disposal of property and equipment primarily consisted of equipment disposed of in connection with the 2001 Second Quarter Plan and other integration efforts at the Company's Midwest operations.

The Company is currently performing an overall review of its various operations in an effort to identify additional operating efficiencies and synergies and, as a result, may incur additional restructuring charges. The Company does not anticipate any material adverse effect on its future results of operations from the various restructuring plans.

4. INVENTORY

The components of inventory were as follows:

		June 30, 2001	
Work-in-process	$	18,063	$
Raw materials		2,409	
Total	$	20,472	$

5. LONG-TERM DEBT

In July 2001, the Company entered into an amendment to the 1999 Credit Agreement (the "Fifth Amendment") that modified all of the financial covenant requirements to be less restrictive than previously required for the quarterly fiscal periods through December 31, 2002, removed the minimum net worth covenant requirement, and established a minimum cumulative EBITDA covenant. If the Company does not satisfy such minimum cumulative EBITDA covenant for any non-quarter month end, the Company's short-term borrowing availability would be limited until such time as the Company is in compliance with the covenant, but such failure would not constitute an event of default. The terms of the Fifth Amendment also accelerated the maturity to January 2003, deferred scheduled principal payments until July 2002, and increased interest rates on borrowings by 50 basis points. In addition, with respect to the last $30,000 of availability under the revolving line of credit (the "Revolver"), the Company will be limited to borrowing an amount equal to a percentage of certain trade receivables. The first $51,000 of availability under the Revolver is not subject to such potential limitation. At June 30, 2001, there would have been no limitation on the amounts the Company could borrow under the Revolver. Furthermore, the Company agreed to attempt to raise $50,000 to be used to repay borrowings under the 1999 Credit Agreement. The Fifth Amendment contains a number of deadlines by which the Company must satisfy certain milestones in connection with raising such amount, the earliest of which is October 31, 2001. For each deadline missed, the Company will be required to either pay additional fees or issue warrants to its lenders to purchase shares representing a maximum of 10% of the then outstanding common stock or, until such time as the Company satisfies each requirement, incur an increase in interest rates on borrowings of a maximum of 200 basis points. The Company incurred bank fees and expenses of approximately $2,500 in connection with the Fifth Amendment.

The principal payments on long-term debt, reflecting the modified principal payment schedule of the Fifth Amendment, including the deferral of $22,188 of principal payments that otherwise would have been classified as a current liability, are due as follows:

2001	$
2002	
2003	
2004	
Total	
Less current portion	

Total long-term debt	$

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As a result of the substantial modifications to the principal payment schedule resulting from the Fifth Amendment, the Company's financial statements will reflect an extinguishment of old debt and the incurrence of new debt. Accordingly, the Company will recognize a loss on extinguishment in the third quarter of 2001 of approximately $3,500, net of taxes of approximately of $2,450, as an extraordinary item.

Based upon the modified financial covenants contained in the Fifth Amendment, the Company was in compliance with all covenants at June 30, 2001. Had the Company not entered into the Fifth Amendment, the Company would not have been in compliance with the financial covenants. There can be no assurance that the Company will be able to maintain compliance with the amended covenant requirements in future periods.

6. DERIVATIVES

In accordance with the terms of the 1999 Credit Agreement, the Company entered into four interest rate swap agreements with an aggregate notional amount of $90,000, two of which expire in 2001 (the "2001 Swaps") and two of which expire in 2003 (the "2003 Swaps") (collectively, the "Swaps"). Under the Swaps, the Company pays a fixed rate on a quarterly basis and is paid a floating rate based on the three-month LIBOR in effect at the beginning of each quarterly payment period. Through December 31, 2000, the Company accounted for the Swaps as hedges against the variable interest rate component of the 1999 Credit Agreement.

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities (an amendment of FASB Statement No. 133)." SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments and for hedging activities, and requires that entities measure derivative instruments at fair value and recognize those instruments as either assets or liabilities in the statement of financial position. The accounting for the change in fair value of a derivative instrument depends on the intended use of the instrument. In accordance with the provisions of SFAS No. 133, the Company designated the Swaps as cash flow hedging instruments of the variable interest rate component of the 1999 Credit Agreement. Upon the adoption of SFAS No. 133, the fair value of the Swaps, a net loss of $26, was recognized in "Other noncurrent liabilities" and reflected, net of tax, as a cumulative effect of a change in accounting principle in "Other comprehensive income (loss)."

At June 30, 2001, the fair value of the Swaps was a net loss of $1,311, resulting in a loss of $1,284 for the six months ended June 30, 2001, and income of $60 for the three months ended June 30, 2001. For the six and three months ended June 30, 2001, the Company recognized expense of $17 and income of $236, respectively, as a component of interest expense in the Consolidated Statement of Operations, representing the ineffectiveness of the Swaps during the periods.

For the six and three months ended June 30, 2001, the Company also recognized pretax losses of $1,267 and $176, respectively, as a component of "Other comprehensive income (loss)." During the six and three months ended June 30, 2001, the Company recognized a reduction of interest expense of $30 and $15, respectively, relating to the reclassification into earnings of the cumulative effect recorded in "Other comprehensive income (loss)" upon the adoption of SFAS No. 133.

As a result of the accelerated maturity of the 1999 Credit Agreement in accordance with the terms of the Fifth Amendment, the 2003 Swaps will no longer qualify for hedge accounting. Accordingly, the loss in "Accumulated other comprehensive income (loss)" pertaining to the 2003 Swaps on the effective date of the Fifth Amendment will be reclassified into earnings over the remaining term of the 1999 Credit Agreement, and all future changes in fair value of the 2003 Swaps will be included as a component of interest expense in the current period. The 2001 Swaps will continue to qualify for hedge accounting. Were the Company to unwind either of the 2001 Swaps, the gain or loss in "Accumulated other comprehensive income (loss)" associated with such swap agreement would be reclassified into earnings over the original term of that swap agreement. The Company expects $561 of the loss in "Accumulated other comprehensive income (loss)" to be reclassified into earnings in the next twelve months.

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The Financial Accounting Standards Board continues to discuss issues and release definitive guidance pertaining to SFAS No. 133, some of which could cause the 2001 Swaps to no longer qualify for hedge accounting. In such event, any gain or loss in "Accumulated other comprehensive income (loss)" associated with the 2001 Swaps would be reclassified into earnings over the original term of the 2001 Swaps, and all future changes in fair value of the 2001 Swaps would be included as a component of interest expense in the current period.

7. RELATED PARTY TRANSACTIONS

Sales to, purchases from, and administrative charges incurred with related parties during the six and three months ended June 30, 2001 and 2000, were as follows:

	Six months ended June 30,		Three months
	2001	2000	2001
Affiliate sales	$ 5,084	$ 5,493	$ 2,376
Affiliate purchases	$ 48	$ 278	$ 24
Administrative charges	$ 1,061	$ 734	$ 525

Administrative charges include charges for certain legal, administrative, and computer services provided by affiliates and for rent incurred for leases with affiliates.

8. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Payments of interest and income taxes for the six months ended June 30, 2001 and 2000, were as follows:

	2001	
Interest paid	$ 11,465	$ 15
Income taxes paid	$ 2,462	$ 1

Noncash investing and financing activities for the six months ended June 30, 2001 and 2000, were as follows:

	2001	2000
Issuance of common stock as additional consideration in connection with prior period acquisitions	$ 720	$ 2,000
Reduction of goodwill from amortization of excess tax deductible goodwill	$ 72	$ 98
Fair value of stock options issued to non-employees	$ 35	
Exchange of Preference Shares for subordinated notes		$ 68

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9. SEGMENT INFORMATION

Segment information relating to results of continuing operations for the six and three months ended June 30, 2001 and 2000, was as follows:

	Six months ended June 30, 2001	Six months ended June 30, 2000	Three months 2001
Revenue:			
Content Management Services	$ 219,703	$ 263,465	$ 110,657
Other operating segments	15,126	27,877	7,403
Total	$ 234,829	$ 291,342	$ 118,060
Operating Income (Loss):			
Content Management Services	$ 16,144	$ 28,434	$ 9,464
Other operating segments	(767)	3,602	(316)
Total	15,377	32,036	9,148
Other business activities	(14,581)	(16,579)	(7,688)
Amortization of intangibles	(6,778)	(6,744)	(3,389)
Restructuring charges	(1,167)	(611)	(1,167)

Gain (loss) on disposal of fixed assets	(1,976)	47	(1,948)
Impairment charges	(97,766)	(1,241)	(97,766)
Interest expense	(11,657)	(12,944)	(5,735)
Interest income	337	433	134
Other income (expense)	2,170	(154)	768
Consolidated loss from continuing operations before provision for income taxes and minority interest	$ (116,041)	$ (5,757)	$ (107,643)

Segment information relating to the Company's assets as of June 30, 2001, was as follows:

Total Assets:	
Content Management Services	$ 625
Other operating segments	27
Other business activities	23
Net assets held for sale	37
Total	$ 713

The net assets held for sale at June 30, 2001, relate entirely to the Company's publishing business that was previously reported as a discontinued operation (see Note 2 to the Interim Consolidated Financial Statements).

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10. RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," was issued in June 2001, and is effective for fiscal years beginning after December 15, 2001. SFAS No. 142 establishes accounting and reporting standards for acquired goodwill and other intangible assets, and supercedes Accounting Principles Board (APB) Opinion No. 17, "Intangible Assets." Under SFAS No. 142, acquired goodwill and other intangible assets without finite useful lives will no longer be amortized over an estimated useful life, but instead will be subject to an annual impairment test. SFAS No. 142 provides specific guidance for such impairment tests. Intangible assets with finite useful lives will continue to be amortized over their useful lives. Any impairment charge resulting from the initial adoption of SFAS No. 142 will be accounted for as a cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, "Accounting Changes." Impairment charges subsequent to the initial adoption of SFAS No. 142 will be reflected as a component of income from continuing operations. The calculation of the impairment charge will be based on valuations at January 1, 2002, and will be impacted by many factors, including the overall state of the economy. Based on preliminary analyses at June 30, 2001, the Company estimates that it will incur an impairment charge in the range of $300,000 to $350,000 upon the initial adoption of SFAS No. 142, which would exceed the book value of the Company's shareholders' equity. The actual impairment incurred could differ from this range due to a change in one or more of the factors that impact the valuations.

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

Certain statements made in this Quarterly Report on Form 10-Q are "forward-looking" statements (within the meaning of the Private Securities Litigation Reform Act of 1995). Such statements involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, the Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference include the following: the ability of the Company to maintain compliance with the financial covenant requirements under the 1999 Credit Agreement (as defined herein); the advertising market continuing to soften; the timing of completion and the success of the Company's various restructuring plans and integration efforts; the ability to consummate the sale of certain properties and non-core businesses, including the publishing business; the ability to raise funds to repay borrowings under the 1999 Credit Agreement by certain stated deadlines; the rate and level of capital expenditures; and the adequacy of the Company's credit facilities and cash flows to fund cash needs.

The following discussion and analysis (in thousands of dollars) should be read in conjunction with the Company's Interim Consolidated Financial Statements and notes thereto.

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2001, COMPARED WITH 2000

Revenues in the first six months of 2001 were $56,513 lower than in the comparable period in 2000. Revenues in the 2001 period decreased by $43,762 from content management services, $9,842 from digital services, and $2,909 from broadcast media distribution services. Decreased revenues from content management services primarily resulted from the softening advertising market, which adversely impacted the Company's Midwest prepress and creative services operations, the loss of a low-margin customer at the Company's West Coast operations, and the anticipated reduction in revenues associated with both the sale of the Company's photographic laboratory business and the closing of one of its Atlanta prepress facilities, the results of which are included in the 2000 period. Decreased revenues from digital services primarily resulted from the sale of the Company's digital portrait systems business in December 2000 and a decrease in revenues resulting from the continued contraction of Internet-related business. Decreased revenues from broadcast media distribution services primarily resulted from the softening advertising market and from price reductions made under a long-term contract with a significant customer.

Gross profit decreased $26,581 in the first six months of 2001 as a result of the decrease in revenues for the period as discussed above. The gross profit percentage in the first six months of 2001 was 30.2% as compared to 33.4% in the 2000 period. This decrease in the gross profit percentage primarily resulted from reduced margins at the Company's Midwest prepress and creative services operations as a result of the decrease in revenues discussed above, which resulted in lower absorption of fixed manufacturing costs, as well as from reduced margins from broadcast media distribution services as a result of the price reductions given to a significant customer and reduced margins from digital services due to the sale of the digital portrait systems business in

December 2000, which had higher margins than the Company's other digital operations. Such decreases were partially offset by an increase in margins resulting from the sale of the photographic laboratory business in April 2000, which had lower margins than the Company's other content management operations.

Selling, general, and administrative expenses in the first six months of 2001 were $11,762 lower than in the 2000 period, but as a percent of revenue increased to 29.8% in the 2001 period from 28.1% in the 2000 period. Selling, general, and administrative expenses in 2001 include charges of $767 for nonrestructuring-related employee termination costs and $1,174 for consultants retained to assist the Company with its restructuring and integration efforts. Selling, general, and administrative expenses in 2000 include a charge of $1,732 for non-restructuring-related employee termination costs.

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The results of operations for the six months ended June 30, 2001, include a restructuring charge of $1,167 related to the closing of certain of the Company's content management facilities in Chicago and the consolidation of those operations into a single facility (the "2001 Second Quarter Plan"). The charge for the 2001 Second Quarter Plan consisted of $614 for facility closure costs and $553 for employee termination costs for 50 employees.

The loss on disposal of property and equipment was $1,976 for the six months ended June 30, 2001. The loss included $654 resulting from equipment disposed of in connection with the 2001 Second Quarter Plan and $1,030 resulting from integration efforts at the Company's other Midwest content management facilities.

At June 30, 2001, the Company reclassified the net assets of its publishing business that were previously reported as a discontinued operation to "Net assets held for sale" in its Consolidated Balance Sheet. In connection with this reclassification, for the six months ended June 30, 2001, the Company reversed the estimated loss on disposal of the publishing business, resulting in income from discontinued operations of $98,726, and incurred an impairment charge of $97,766 relating to the write down of the net assets of the publishing business to their fair value less estimated costs to sell.

Interest expense in the first six months of 2001 was $1,445 lower than in the 2000 period due primarily to the reduced borrowings outstanding under the Company's credit facility (the "1999 Credit Agreement") as well as an overall reduction in interest rates throughout the 2001 period.

The Company recorded an income tax benefit of $2,480 for the first six months of 2001. The benefit recognized was at a lower rate than the statutory rate due primarily to additional Federal taxes on foreign earnings and the projected annual permanent items related to nondeductible goodwill and the nondeductible portion of meals and entertainment expenses.

Revenues from business transacted with affiliates for the six months ended June 30, 2001 and 2000, totaled $5,084 and $5,493, respectively, representing 2.2% and 1.9%, respectively, of the Company's revenues.

THREE MONTHS ENDED JUNE 30, 2001, COMPARED WITH 2000

Revenues in the second quarter of 2001 were $28,963 lower than in the comparable period in 2000. Revenues in the 2001 period decreased by $21,769 from content management services, $5,336 from digital services, and $1,858 from broadcast media distribution services. Decreased revenues from content

management services primarily resulted from the softening advertising market, which adversely impacted the Company's Midwest prepress and creative services operations, the loss of a low-margin customer at the Company's West Coast operations, and the anticipated reduction in revenues associated with both the sale of the Company's photographic laboratory business and the closing of one of its Atlanta prepress facilities, the results of which are included in the 2000 period. Decreased revenues from digital services primarily resulted from the sale of the Company's digital portrait systems business in December 2000 and a decrease in revenues resulting from the continued contraction of Internet-related business. Decreased revenues from broadcast media distribution services primarily resulted from the softening advertising market and from price reductions made under a long-term contract with a significant customer.

Gross profit decreased $14,482 in the second quarter of 2001 as a result of the decrease in revenues for the period as discussed above. The gross profit percentage in the second quarter of 2001 was 30.4% as compared to 34.3% in the 2000 period. This decrease in the gross profit percentage primarily resulted from reduced margins at the Company's Midwest prepress and creative services operations as a result of the decrease in revenues discussed above, which resulted in lower absorption of fixed manufacturing costs, as well as from reduced margins from broadcast media distribution services as a result of the price reductions given to a significant customer and reduced margins from digital services due to the sale of the digital portrait systems business in December 2000, which had higher margins than the Company's other digital operations. Such decreases were partially offset by an increase in margins resulting from the sale of the photographic laboratory business in April 2000, which had lower margins than the Company's other content management operations.

Selling, general, and administrative expenses in the second quarter of 2001 were $6,406 lower than in the 2000 period, but as a percent of revenue increased to 29.2% in the 2001 period from 27.8% in the 2000 period. Selling, general, and administrative expenses in the second quarter of 2001 include charges of $348 for nonrestructuring-related employee termination costs and $1,174 for consultants retained to assist the Company with its restructuring and integration efforts. Selling, general, and administration expenses in the second quarter of 2000 include a charge of $821 for nonrestructuring-related employee termination costs. Adjusting for these charges, selling, general, and administration expenses represented 27.9% and 27.2% of revenues in the 2001 and 2000 periods, respectively.

The results of operations in the second quarter of 2001 include a restructuring charge of $1,167 related to the 2001 Second Quarter Plan.

The loss on disposal of property and equipment was $1,948 in the second quarter of 2001. The loss included $654 resulting from equipment disposed of in connection with the 2001 Second Quarter Plan and $1,030 resulting from nonrestructuring-related integration efforts at the Company's other Midwest content management facilities.

At June 30, 2001, the Company reclassified the net assets of its publishing business that were previously reported as a discontinued operation to "Net assets held for sale" in its Consolidated Balance Sheet. In connection with this reclassification, for the three months ended June 30, 2001, the Company reversed the estimated loss on disposal of the publishing business, resulting in income from discontinued operations of $98,726, and incurred an impairment charge of $97,766 relating to the write down of the net assets of the publishing business to their fair value less estimated costs to sell.

The Company recorded an income tax benefit of $2,123 in the second quarter

of 2001. The benefit recognized was at a lower rate than the statutory rate due primarily to additional Federal taxes on foreign earnings and the projected annual permanent items related to nondeductible goodwill and the nondeductible portion of meals and entertainment expenses.

Revenues from business transacted with affiliates for the three months ended June 30, 2001 and 2000, totaled $2,376 and $2,734, respectively, representing 2.0% and 1.9%, respectively, of the Company's revenues.

FINANCIAL CONDITION

In July 2001, the Company entered into an amendment to the 1999 Credit Agreement (the "Fifth Amendment") that modified all of the financial covenant requirements to be less restrictive than previously required for the quarterly fiscal periods through December 31, 2002, removed the minimum net worth covenant requirement, and established a minimum cumulative EBITDA covenant. If the Company does not satisfy such minimum cumulative EBITDA covenant for any non-quarter month end, the Company's short-term borrowing availability would be limited until such time as the Company is in compliance with the covenant, but such failure would not constitute an event of default. The terms of the Fifth Amendment also accelerated the maturity to January 2003, deferred scheduled principal payments until July 2002, and increased interest rates on borrowings by 50 basis points. In addition, with respect to the last $30,000 of availability under the revolving line of credit (the "Revolver"), the Company will be limited to borrowing an amount equal to a percentage of certain trade receivables. The first $51,000 of availability under the Revolver is not subject to such potential limitation. At June 30, 2001, there would have been no limitation on the amounts the Company could borrow under the Revolver. Furthermore, the Company agreed to attempt to raise $50,000 to be used to repay borrowings under the 1999 Credit Agreement. The Fifth Amendment contains a number of deadlines by which the Company must satisfy certain milestones in connection with raising such amount, the earliest of which is October 31, 2001. For each deadline missed, the Company will be required to either pay additional fees or issue warrants to its lenders to purchase shares representing a maximum of 10% of the then outstanding common stock or, until such time as the Company satisfies each requirement, incur an increase in interest rates on borrowings of a maximum of 200 basis points. The Company incurred bank fees and expenses of approximately $2,500 in connection with the Fifth Amendment.

As a result of the substantial modifications to the principal payment schedule resulting from the Fifth Amendment, the Company's financial statements will reflect an extinguishment of old debt and the incurrence of new debt. Accordingly, the Company will recognize a loss on extinguishment in the third quarter of 2001 of approximately $3,500, net of taxes of approximately of $2,450, as an extraordinary item.

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Based upon the modified financial covenants contained in the Fifth Amendment, the Company was in compliance with all covenants at June 30, 2001. Had the Company not entered into the Fifth Amendment, the Company would not have been in compliance with the financial covenants. There can be no assurance that the Company will be able to maintain compliance with the amended covenant requirements in future periods.

During the first six months of 2001, the Company repaid $752 of notes and capital lease obligations, made contingent payments related to acquisitions of $3,313, and invested $9,803 in facility construction, new equipment, and software-related projects. Such amounts were primarily generated from borrowings under the 1999 Credit Agreement and cash from operating activities.

Cash flows from operating activities of continuing operations during the first six months of 2001 decreased by $10,808 as compared to the comparable period in 2000 due primarily to a decrease in cash from operating income and the timing of vendor payments, partially offset by the timing of collections from customers. Cash generated by discontinued operations during the first six months of 2001 decreased by $2,152 as compared to the 2000 period.

The Company expects to spend approximately $15,000 over the course of the next twelve months for capital improvements and management information systems, essentially all of which is for modernization and growth. The Company intends to finance a substantial portion of these expenditures with working capital or borrowings under the 1999 Credit Agreement.

The Company believes that the cash flow from operations, including potential improvements in operations as a result of its various integration and restructuring efforts, sales of certain properties and noncore businesses, and available borrowing capacity, subject to the Company's ability to remain in compliance with the revised financial covenants under the 1999 Credit Agreement, will provide sufficient cash flows to fund its cash needs through 2002.

Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," was issued in June 2001, and is effective for fiscal years beginning after December 15, 2001. SFAS No. 142 establishes accounting and reporting standards for acquired goodwill and other intangible assets, and supercedes Accounting Principles Board (APB) Opinion No. 17, "Intangible Assets." Under SFAS No. 142, acquired goodwill and other intangible assets without finite useful lives will no longer be amortized over an estimated useful life, but instead will be subject to an annual impairment test. SFAS No. 142 provides specific guidance for such impairment tests. Intangible assets with finite useful lives will continue to be amortized over their useful lives. Any impairment charge resulting from the initial adoption of SFAS No. 142 will be accounted for as a cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, "Accounting Changes." Impairment charges subsequent to the initial adoption of SFAS No. 142 will be reflected as a component of income from continuing operations. The calculation of the impairment charge will be based on valuations at January 1, 2002, and will be impacted by many factors, including the overall state of the economy. Based on preliminary analyses at June 30, 2001, the Company estimates that it will incur an impairment charge in the range of $300,000 to $350,000 upon the initial adoption of SFAS No. 142, which would exceed the book value of the Company's shareholders' equity. The actual impairment incurred could differ from this range due to a change in one or more of the factors that impact the valuations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company's primary exposure to market risk is interest rate risk. The Company had $257,235 outstanding under its credit facilities at June 30, 2001. Interest rates on funds borrowed under the Company's credit facilities vary based on changes to the prime rate or LIBOR. The Company partially manages its interest rate risk through four interest rate swap agreements under which the Company pays a fixed rate and is paid a floating rate based on the three-month LIBOR rate. The notional amounts of the four interest rate swaps totaled $90,000 at June 30, 2001. A change in interest rates of 1.0% would result in an annual change in income before taxes of $1,672 based on the outstanding balance under the Company's credit facilities and the notional amounts of the interest rate swap agreements at June 30, 2001.

PART II. - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds.

In April 2001, the Company issued 33,962 shares of its common stock as additional consideration to the former shareholders of Agile Enterprise, Inc., which the Company acquired in September 1998. The sale and issuance of such securities by the Registrant were effected in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

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

The annual meeting of the stockholders of Applied Graphics Technologies, Inc., was held on June 14, 2001. The stockholders voted on the following matter:

1. The election of the following eleven directors of the Company for terms expiring at the 2002 annual meeting of stockholders:

	Shares Voted For	Sh Wit
Fred Drasner	6,151,546	1,7
John W. Dreyer	7,660,847	1
John R. Harris	7,661,167	1
Martin D. Krall	6,154,550	1,7
Marne Obernauer, Jr.	6,153,510	1,7
David R. Parker	7,661,567	1
Howard Stringer	7,661,567	1
Joseph D. Vecchiolla	6,154,190	1,7
John R. Walter	7,661,087	1
John Zuccotti	7,660,967	1
Mortimer B. Zuckerman	7,659,494	1

Item 5. Other Information

At its meeting on June 5, 2001, the Board of Directors of the Company appointed Fred Drasner as Chairman of the Board. Mortimer Zuckerman, the former Chairman of the Board, will remain as a director of the Company.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

2.1 Asset Purchase Agreement by and among Applied Graphics Technol Inc., and Flying Color Graphics, Inc. and its Shareholders dat January 16, 1998 (Incorporated by reference to Exhibit No. 2.1 part of the Registrant's Report on Form 8-K (File No. 0-28208) with the Securities and Exchange Commission under the Securiti

	Exchange Act of 1934, as amended, on January 30, 1998).
2.2	Agreement and Plan of Merger, dated as of February 13, 1998, b among Devon Group, Inc., Applied Graphics Technologies, Inc., Acquisition Corp. (Incorporated by reference to Exhibit No. 2 forming part of the Registrant's Report on Form 10-K (File No. 0-28208) filed with the Securities and Exchange Commission und Securities Exchange Act of 1934, as amended, for the fiscal ye December 31, 1997).
3.1(a)	First Restated Certificate of Incorporation (Incorporated by r to Exhibit No. 3.1 forming part of the Registrant's Registrati Statement on Form S-1 (File No. 333-00478) filed with the Secu and Exchange Commission under the Securities Act of 1933, as a
3.1(b)	Certificate of Amendment of First Restated Certificate of Inco (Incorporated by reference to Exhibit No. 3.1(b) forming part Registrant's Report on Form 10-Q (File No. 0-28208) filed with Securities and Exchange Commission under the Securities Exchan 1934, as amended, for the quarterly period ended June 30, 1998
3.1(c)	Second Certificate of Amendment of First Restated Certificate Incorporation (Incorporated by reference to Exhibit No. 3.1(c) part of the Registrant's Report on Form 10-K (File No. 0-28208 with the Securities and Exchange Commission under the Securiti Act of 1934, as amended, for the fiscal year ended December 31
3.2(a)	Amended and Restated By-Laws of Applied Graphics Technologies, (Incorporated by reference to Exhibit No. 3.2 forming part of Amendment No. 3 to the Registrant's Registration Statement on (File No. 333-00478) filed with the Securities and Exchange Co under the Securities Act of 1933, as amended).
3.2(b)	Amendment to Amended and Restated By-Laws of Applied Graphics Technologies, Inc. (Incorporated by reference to Exhibit No. 3 forming part of the Registrant's Registration Statement on For (File No. 333-51135) filed with the Securities and Exchange Co under the Securities Act of 1933, as amended).

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3.2(c)	Amendment to Amended and Restated By-Laws of Applied Graphics Technologies, Inc. (Incorporated by reference to Exhibit No. 3 forming part of Registrant's Report on Form 10-Q (File No. 0-2 filed with the Securities and Exchange Commission under the Se Exchange Act of 1934, as amended, for the quarterly period end September 30, 2000).
4	Specimen Stock Certificate (Incorporated by reference to Exhib forming part of Registrant's Registration Statement on Form 8- No. 1-16431) filed with the Securities and Exchange Commission the Securities Exchange Act of 1934, as amended, on April 5, 2
10.2	Applied Graphics Technologies, Inc. 1996 Stock Option Plan (Incorporated by reference to Exhibit No. 10.2 forming part of Amendment No. 3 to the Registrant's Registration Statement on (File No. 333-00478) filed with the Securities and Exchange Co

under the Securities Act of 1933, as amended).

10.3	Applied Graphics Technologies, Inc. Non-Employee Directors Nonqualified Stock Option Plan (Incorporated by reference to E No. 10.3 forming part of Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-00478) filed Securities and Exchange Commission under the Securities Act of as amended).
10.6(a)	Employment Agreement, effective as of November 30, 2000, betwe Company and Joseph D. Vecchiolla (Incorporated by reference to No. 10.6(a) forming part of the Registrant's Report on Form 10 No. 0-28208) filed with the Securities and Exchange Commission the Securities Exchange Act of 1934, as amended, for the fisca ended December 31, 2000).
10.6(b)	Agreement and General Release, effective June 4, 2000, between Company and Louis Salamone, Jr. (Incorporated by reference to No. 10.6 (b) forming part of the Registrant's Report on Form 1 (File No. 0-28208) filed with the Securities and Exchange Comm under the Securities Exchange Act of 1934, as amended, for the quarterly period ended June 30, 2000).
10.6(c)(i)	Employment Agreement, effective as of May 24, 1999, between th Company and Derek Ashley (Incorporated by reference to Exhibit 10.6 (c) forming part of Registrant's Report on Form 10-Q (Fil 0-28208) filed with the Securities and Exchange Commission und the Securities Exchange Act of 1934, as amended, for the quart period ended June 30, 1999).
10.6(c)(ii)	Agreement and General Release, dated December 15, 2000, betwee Company and Derek Ashley (Incorporated by reference to Exhibit No. 10.6(c)(ii) forming part of the Registrant's Report on For (File No. 0-28208) filed with the Securities and Exchange Comm under the Securities Exchange Act of 1934, as amended, for the fiscal year ended December 31, 2000).

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10.6(d)(i)	Employment Agreement, effective as of April 1, 1996, between t Company and Scott A. Brownstein (Incorporated by reference to No. 10.6 forming part of Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-00478) filed Securities and Exchange Commission under the Securities Act of as amended).
10.6(d)(ii)	Employment Agreement Extension dated March 23, 1998, between t Company and Scott Brownstein (Incorporated by reference to Exh 10.6 (d)(ii) forming part of the Registrant's Registration Sta on Form S-4 (File No. 333-51135) filed with the Securities and Exchange Commission under the Securities Act of 1933, as amend
10.6(d)(iii)	Separation Agreement, effective December 18, 2000, between the and Scott Brownstein (Incorporated by reference to Exhibit No. forming part of the Registrant's Report on Form 10-K (File No. filed with the Securities and Exchange Commission under the Se Exchange Act of 1934, as amended, for the fiscal year ended

December 31, 2000).

10.7 Form of Registration Rights Agreement (Incorporated by referen Exhibit No. 10.7 forming part of Amendment No. 3 to the Regist Registration Statement on Form S-1 (File No. 333-00478) filed Securities and Exchange Commission under the Securities Act of as amended).

10.8 Applied Graphics Technologies, Inc., 1998 Incentive Compensati as Amended and Restated (Incorporated by reference to Exhibit forming part of Registrant's Report on Form 10-Q (File No. 0-2 filed with the Securities and Exchange Commission under the Se Exchange Act of 1934, as amended, for the quarterly period end 30, 1999).

10.8(a) Amendment No. 1, dated as of May 8, 2000, to the Applied Graph Technologies, Inc., Amended and Restated 1998 Incentive Compen Plan (Incorporated by reference to Exhibit No. 10.8(a) forming the Registrant's Report on Form 10-Q (File No. 0-28208) filed Securities and Exchange Commission under the Securities Exchan 1934, as amended, for the quarterly period ended June 30, 2000

10.9(a) Amended and Restated Credit Agreement, dated as of March 10, 1 among Applied Graphics Technologies, Inc., Other Institutional as Initial Lenders, and Fleet Bank, N.A. (Incorporated by ref Exhibit No. 99.2 of the Registrant's Report on Form 8-K (File 0-28208) filed with the Securities and Exchange Commission und Securities Exchange Act of 1934, as amended, on March 22, 1999

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10.9(b) Amendment No. 1, dated as of June 2, 1999, to the Amended and Credit Agreement among Applied Graphics Technologies, Inc., Ot Institutional Lenders as Initial Lenders, and Fleet Bank, N.A. (Incorporated by reference to Exhibit No. 10.9(b) forming part Registrant's Report on Form 10-Q (File No. 0-28208) filed with Securities and Exchange Commission under the Securities Exchan 1934, as amended, for the quarterly period ended June 30, 1999

10.9(c) Amendment No. 2, dated July 28, 1999, to the Amended and Resta Credit Agreement among Applied Graphics Technologies, Inc., Ot Institutional Lenders as Initial Lenders, and Fleet Bank, N.A. (Incorporated by reference to Exhibit No. 10.9(c) forming part Registrant's Report on Form 10-Q (File No. 0-28208) filed with Securities and Exchange Commission under the Securities Exchan 1934, as amended, for the quarterly period ended September 30,

10.9(d) Amendment No. 3, dated as of July 21, 2000, to the Amended and Credit Agreement among Applied Graphics Technologies, Inc., Ot Institutional Lenders as Initial Lenders, and Fleet Bank, N.A. (Incorporated by reference to Exhibit No. 10.9(d) forming part Registrant's Report on Form 10-Q (File No. 0-28208) filed with Securities and Exchange Commission under the Securities Exchan 1934, as amended, for the quarterly period ended June 30, 2000

10.9(e) Amendment No. 4, dated as of August 11, 2000, to the Amended a Restated Credit Agreement among Applied Graphics Technologies,

	Other Institutional Lenders as Initial Lenders, and Fleet Bank (Incorporated by reference to Exhibit No. 10.9(e) forming part Registrant's Report on Form 10-Q (File No. 0-28208) filed with Securities and Exchange Commission under the Securities Exchan 1934, as amended, for the quarterly period ended June 30, 2000
10.9(f)	Fifth Amendment, dated as of July 27, 2001, to the Amended and Credit Agreement by and among Applied Graphics Technologies, I lenders party thereto, and Fleet National Bank, as agent.
10.10	Consulting Agreement, dated as of March 1, 2001, by and betwee Company and Knollwood Associates, LLC. (Incorporated by refere Exhibit No. 10.10 forming part of the Registrant's Report on F (File No. 1-16431) filed with the Securities and Exchange Comm under the Securities Exchange Act of 1934, as amended, for the quarterly period ended March 31, 2001).

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b) The Registrant filed the following reports on Form 8-K during the quarter ended June 30, 2001:

Current report on Form 8-K filed on April 13, 2001, announcing the listing of the Company's common stock on the American Stock Exchange and the concurrent withdrawal from listing on the NASDAQ National Market.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

APPLIED GRAPHICS TECHNOLOGIES
(Regis

By:

Date: August 14, 2001 --------------------------

(Pr

Date: August 14, 2001

Chief Operating Officer a
(Pr