

DONNELLEY R R & SONS CO
Form 10-Q/A
November 05, 2002
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended June 30, 2002

OR

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

Commission File Number 1-4694

R. R. DONNELLEY & SONS COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-1004130
(I.R.S. Employer
Identification No.)

**77 West Wacker Drive,
Chicago, Illinois**
(Address of principal executive offices)

60601
(Zip Code)

Registrant's Telephone Number (312) 326-8000

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 the filing requirements for the past 90 days.

Yes ii

No _____

**Number of shares of common stock
outstanding as of July 26, 2002**

113,313,056

Table of Contents**R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES****INDEX TO QUARTERLY REPORT ON FORM 10-Q/A****Explanatory Note**

The purpose of this amendment to the company's quarterly report on Form 10-Q is to reflect changes and provide information related to the restatement described below.

The accompanying condensed consolidated financial statements for the three-month and six-month periods ended June 30, 2002, have been restated to reflect an adjustment to the company's reported cost of transportation for its Logistics Services segment for the second quarter of 2002. In October 2002, prior to the release of the company's third quarter 2002 financial results, the company detected an error in its reported cost of transportation that had originated during the second quarter of 2002 (see Note 14 of the notes to condensed consolidated financial statements contained in Part I, Item 1 for additional information). The effect of this error resulted in an understatement of cost of sales of \$2.8 million for the Logistics Services segment in the second quarter of 2002. The adjustment to reflect the additional pretax charge of \$2.8 million resulted in a corresponding reduction of \$1.2 million in management incentive compensation expense for the Logistics Services segment in the second quarter of 2002. The net impact of both adjustments was to reduce second quarter 2002 earnings from operations of the Logistics Services segment and on a consolidated basis by \$1.6 million, or \$1.0 million after-tax (\$0.01 per diluted share). For purposes of this Form 10-Q/A, and in accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the company has amended and restated in its entirety each item of the 2002 Second Quarter Form 10-Q that has been affected by the restatement. In order to preserve the nature and character of the disclosures as of August 13, 2002, the date on which the Form 10-Q for the interim period ended June 30, 2002 was originally filed, no attempt has been made in this Form-10Q/A to modify or update such disclosures except as required to reflect the effects of the restatement.

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| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--------------------------------------|--------------------------------------|--------------|--------------------------------------|--------------|
| | 2002 | 2001 | 2002 | 2001 |
| | (As restated See Note 14) | | (As restated See Note 14) | |
| Net sales | \$ 1,148,892 | \$ 1,292,050 | \$ 2,242,542 | \$ 2,594,700 |
| Cost of sales | 954,639 | 1,069,568 | 1,880,383 | 2,172,845 |
| Gross profit | 194,253 | 222,482 | 362,159 | 421,855 |
| Selling and administrative expenses | 136,819 | 144,607 | 267,341 | 282,388 |
| Restructuring and impairment charges | 16,025 | 52,333 | 42,717 | 72,035 |
| Earnings from operations | 41,409 | 25,542 | 52,101 | 67,432 |
| Other income (expense): | | | | |
| Interest expense | (17,293) | (18,676) | (32,746) | (36,300) |
| Other, net | 12,948 | 3,129 | 6,056 | 2,448 |
| Earnings before income taxes | 37,064 | 9,995 | 25,411 | 33,580 |
| Provision (benefit) for income taxes | 13,287 | 3,848 | (21,025) | 12,928 |
| Net income | \$ 23,777 | \$ 6,147 | \$ 46,436 | \$ 20,652 |
| Net income per share of common stock | | | | |
| Basic | \$ 0.21 | \$ 0.05 | \$ 0.41 | \$ 0.17 |
| Diluted | 0.21 | 0.05 | 0.40 | 0.17 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

June 30, 2002 and December 31, 2001
(Thousands of dollars, except share data)

| ASSETS | 2002 | 2001 |
|---|------------------------------|---------------------|
| | (As restated See Note 14) | |
| Cash and equivalents | \$ 33,952 | \$ 48,615 |
| Receivables, less allowance for doubtful accounts of \$20,488 in 2002 and \$22,571 in 2001 | 633,343 | 681,459 |
| Inventories | 126,638 | 126,718 |
| Prepaid expenses | 68,731 | 83,402 |
| Total current assets | 862,664 | 940,194 |
| Net property, plant and equipment, at cost, less accumulated depreciation of \$3,213,772 in 2002 and \$3,148,018 in 2001 | 1,446,769 | 1,490,118 |
| Goodwill and other intangibles, net of accumulated amortization of \$297,946 in 2002 and \$313,422 in 2001 | 428,208 | 445,281 |
| Other noncurrent assets | 492,782 | 510,024 |
| Total assets | \$ 3,230,423 | \$ 3,385,617 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Accounts payable | \$ 246,555 | \$ 295,444 |
| Accrued compensation | 158,321 | 162,573 |
| Short-term debt | 335,174 | 168,497 |
| Current and deferred income taxes | 28,960 | 46,849 |
| Other accrued liabilities | 289,585 | 310,927 |
| Total current liabilities | 1,058,595 | 984,290 |
| Long-term debt | 768,031 | 881,318 |
| Deferred income taxes | 229,599 | 212,099 |
| Other noncurrent liabilities | 308,919 | 419,503 |
| Total noncurrent liabilities | 1,306,549 | 1,512,920 |
| Shareholders' equity: | | |
| Common stock at stated value (\$1.25 par value) | | |
| Authorized shares: 500,000,000; Issued 140,889,050 in 2002 and 2001 | 308,462 | 308,462 |
| Retained earnings | 1,552,650 | 1,569,596 |
| Accumulated other comprehensive loss | (122,284) | (109,002) |
| Unearned compensation | (6,456) | (6,998) |
| Reacquired common stock, at cost | (867,093) | (873,651) |
| Total shareholders' equity | 865,279 | 888,407 |

| | | |
|---|--------------|--------------|
| Total liabilities and shareholders equity | \$ 3,230,423 | \$ 3,385,617 |
|---|--------------|--------------|

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

For the Six Months Ended June 30
(Thousands of dollars)

| | 2002 | 2001 |
|---|--|------------------|
| | (As restated See Note 14) | |
| Cash flows provided by (used for) operating activities: | | |
| Net income | \$ 46,436 | \$ 20,652 |
| Restructuring and impairment charges | 42,717 | 72,035 |
| Gain from reversal of excess tax reserves | (30,000) | |
| Loss on write-down of investments | | 2,040 |
| Depreciation | 145,811 | 162,278 |
| Amortization | 20,487 | 29,084 |
| Gain on sale of assets and investments | (6,290) | (6,426) |
| Net change in operating working capital | (43,618) | (29,174) |
| Net change in other assets and liabilities | (84,651) | (37,166) |
| Other | 7,564 | 7,197 |
| Net cash provided by operating activities | 98,456 | 220,520 |
| Cash flows provided by (used for) investing activities: | | |
| Capital expenditures | (117,839) | (95,055) |
| Other investments including acquisitions | 87 | (326) |
| Dispositions of assets and investments | 9,553 | 7,349 |
| Net cash used for investing activities | (108,199) | (88,032) |
| Cash flows provided by (used for) financing activities: | | |
| Net increase in borrowings | 57,948 | 103,936 |
| Disposition of reacquired common stock | 11,789 | 12,356 |
| Acquisition of common stock | (18,563) | (167,504) |
| Cash dividends paid | (54,302) | (54,639) |
| Net cash used for financing activities | (3,128) | (105,851) |
| Effect of exchange rate changes on cash and equivalents | (1,792) | (211) |
| Net change in cash and equivalents | (14,663) | 26,426 |
| Cash and equivalents at beginning of period | 48,615 | 60,873 |
| Cash and equivalents at end of period | \$ 33,952 | \$ 87,299 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. The condensed consolidated financial statements included herein are unaudited (although the balance sheet at December 31, 2001 is derived from the audited balance sheet at that date) and have been prepared by the company to conform with the requirements applicable to this quarterly report on Form 10-Q/A. Certain information and disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted as permitted by such requirements. However, the company believes that the disclosures made are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in the company's 2001 Annual Report on Form 10-K.

The condensed consolidated financial statements included herein reflect, in the opinion of the company, all adjustments (which include only normal, recurring adjustments) necessary to present fairly the financial information for such periods. Certain prior year amounts have been reclassified to maintain comparability with current year classifications.

NOTE 2. Components of the company's inventories at June 30, 2002, and December 31, 2001, were as follows:

Thousands o