

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

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FORM 10-Q/A
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(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

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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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(Thousands of dollars, except per-share data)

	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

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