

RR Donnelley & Sons Co
Form 10-Q
August 08, 2006
Table of Contents

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, 2006

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)

Edgar Filing: RR Donnelley & Sons Co - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

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

111 South Wacker Drive,
Chicago, Illinois
(Address of principal executive offices)

60606
(Zip code)

(312) 326-8000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Sections 13 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 31, 2006, 216.3 million shares of common stock were outstanding.

Table of Contents

R.R. DONNELLEY & SONS COMPANY

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

TABLE OF CONTENTS

	Page
PART I	
<u>FINANCIAL INFORMATION</u>	3
<u>Item 1:</u> Financial Statements	3
<u>Condensed Consolidated Balance Sheets as of June 30, 2006 and December 31, 2005 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2006 and 2005 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2006 and 2005 (unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2:</u> Management's Discussion and Analysis of Financial Condition and Results of Operations	24
<u>Item 3:</u> Quantitative and Qualitative Disclosures About Market Risk	42
<u>Item 4:</u> Controls and Procedures	42
PART II	
<u>OTHER INFORMATION</u>	
<u>Item 2:</u> Unregistered Sales of Equity Securities and Use of Proceeds	43
<u>Item 4:</u> Submission of Matters to a Vote of Security Holders	43
<u>Item 6:</u> Exhibits	44
<u>Signatures</u>	48

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

As of June 30, 2006 and December 31, 2005

(In millions, except per share data)

(UNAUDITED)

	June 30, 2006	December 31, 2005
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 138.5	\$ 366.7
Receivables, less allowance for doubtful accounts of \$72.2 (2005 \$61.3)	1,570.9	1,529.1
Inventories - net (Note 4)	522.6	481.4
Prepaid expenses and other current assets	91.4	67.5
Deferred income taxes	168.7	177.0
	<u> </u>	<u> </u>
Total current assets	2,492.1	2,621.7
	<u> </u>	<u> </u>
Property, plant and equipment - net (Note 5)	2,138.9	2,138.6
Goodwill (Note 6)	2,974.5	2,750.7
Other intangible assets - net (Note 6)	1,166.3	1,094.3
Prepaid pension costs	517.1	514.1
Other noncurrent assets	311.7	254.3
	<u> </u>	<u> </u>
Total assets	\$ 9,600.6	\$ 9,373.7
	<u> </u>	<u> </u>
LIABILITIES		
Accounts payable	\$ 661.6	\$ 718.1
Accrued liabilities	810.8	826.9
Short-term and current portion of long-term debt (Note 7)	330.2	269.1
	<u> </u>	<u> </u>
Total current liabilities	1,802.6	1,814.1
	<u> </u>	<u> </u>
Long-term debt (Note 7)	2,357.9	2,365.4
Postretirement benefit obligations	333.4	330.6
Deferred income taxes	586.7	596.8
Other noncurrent liabilities	627.3	541.2
Liabilities of discontinued operations (Note 3)	3.5	1.4

Edgar Filing: RR Donnelley & Sons Co - Form 10-Q

Total liabilities	5,711.4	5,649.5
SHAREHOLDERS EQUITY		
Preferred stock, \$1.00 par value Authorized: 2.0 shares; Issued: None		
Common stock, \$1.25 par value Authorized: 500.0 shares; Issued: 243.0 shares in 2006 and 2005	303.7	303.7
Additional paid-in capital	2,850.6	2,888.2
Retained earnings	1,564.1	1,439.4
Accumulated other comprehensive loss	(71.1)	(90.2)
Unearned compensation		(44.9)
Treasury stock, at cost, 25.1 shares in 2006 (2005 25.5 shares)	(758.1)	(772.0)
Total shareholders equity	3,889.2	3,724.2
Total liabilities and shareholders equity	\$ 9,600.6	\$ 9,373.7

(See Notes to Condensed Consolidated Financial Statements)

Table of Contents**R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****Three and Six Months Ended June 30, 2006 and 2005****(In millions, except per share data)****(UNAUDITED)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Net sales	\$ 2,273.7	\$ 1,932.1	\$ 4,540.6	\$ 3,858.6
Cost of sales (exclusive of depreciation and amortization shown below)	1,648.0	1,399.2	3,309.4	2,766.2
Selling, general and administrative expenses (exclusive of depreciation and amortization shown below)	275.2	233.2	537.3	484.7
Restructuring and impairment charges net (Note 8)	14.6	24.4	31.2	36.6
Depreciation and amortization	114.2	99.6	229.0	198.3
Total operating expenses	2,052.0	1,756.4	4,106.9	3,485.8
Income from continuing operations	221.7	175.7	433.7	372.8
Interest expense net	35.6	23.7	70.5	44.8
Investment and other income (expense) net	(3.7)	(3.8)	(4.5)	(4.4)
Earnings from continuing operations before income taxes and minority interest	182.4	148.2	358.7	323.6
Income tax expense	58.2	53.1	120.7	119.6
Minority interest	(0.2)	(0.2)	(0.6)	(0.5)
Net earnings from continuing operations	124.4	95.3	238.6	204.5
Income (loss) from discontinued operations, net of tax (Note 3)	0.8	(4.6)	(1.5)	(6.9)
Net earnings	\$ 125.2	\$ 90.7	\$ 237.1	\$ 197.6
Earnings per share (Note 11):				
Basic:				
Net earnings from continuing operations	\$ 0.57	\$ 0.44	\$ 1.10	\$ 0.95
Loss from discontinued operations, net of tax		(0.02)	(0.01)	(0.03)
Net earnings	\$ 0.57	\$ 0.42	\$ 1.09	\$ 0.92
Diluted:				
Net earnings from continuing operations	\$ 0.57	\$ 0.44	\$ 1.09	\$ 0.94
Loss from discontinued operations, net of tax		(0.02)	(0.01)	(0.03)

Edgar Filing: RR Donnelley & Sons Co - Form 10-Q

Net earnings	\$ 0.57	\$ 0.42	\$ 1.08	\$ 0.91
Dividends declared per common share	\$ 0.26	\$	\$ 0.52	\$ 0.52
Weighted average number of common shares outstanding (Note 11):				
Basic	216.9	213.5	216.4	214.4
Diluted	218.9	215.1	218.3	216.1

(See Notes to Condensed Consolidated Financial Statements)

Table of Contents**R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****Six Months Ended June 30, 2006 and 2005****(In millions)****(UNAUDITED)**

	Six Months Ended	
	June 30,	
	2006	2005
OPERATING ACTIVITIES		
Net earnings	\$ 237.1	\$ 197.6
Adjustments to reconcile net earnings to cash provided by operating activities:		
Loss from discontinued operations, net of tax	1.5	6.9
Impairment charges	2.3	3.5
Depreciation and amortization	229.0	198.3
Provision for doubtful accounts receivable	13.2	6.0
Deferred taxes	10.5	37.0
Loss on sale of investment and other assets net	3.4	1.5
Share-based compensation	17.8	22.4
Other	14.5	29.9
Changes in operating assets and liabilities of continuing operations net of acquisitions:		
Accounts receivable net	(24.9)	15.6
Inventories net	(38.9)	(44.4)
Prepaid expenses	(20.1)	(5.5)
Accounts payable	(65.8)	(32.6)
Accrued liabilities and other	(136.3)	(7.4)
Net cash provided by operating activities of continuing operations	243.3	428.8
Net cash used in operating activities of discontinued operations	(0.5)	(8.2)
Net cash provided by operating activities	242.8	