DONNELLEY R R & SONS CO
Form 8-K/A
March 16, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **February 27, 2004**

R. R. DONNELLEY & SONS COMPANY

(Exact name of Registrant as Specified in Its Charter)

Delaware	**1-4694**	**36-1004130**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

77 West Wacker Drive, Chicago, Illinois	**60601**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s Telephone Number, Including Area Code: **(312) 326-8000**

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Item 7. Financial Statements and Exhibits.

This amended Item 7 contains the same financial statements as filed in the Current Report on Form 8-K filed March 15, 2004, but also includes the independent auditors consent attached as Exhibit 23.

(a) Financial Statements of Businesses Acquired.

MOORE WALLACE INCORPORATED

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31,

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

	2003	2002
ASSETS		
Current Assets		
Cash and cash equivalents	$ 148,704	$ 139,630
Accounts receivable, less allowance for doubtful accounts of $22,295 (2002 $19,538)	635,187	341,383
Inventories (Note 4)	246,440	129,889
Prepaid expenses	30,346	17,317
Deferred income taxes (Note 18)	61,656	31,912
Total Current Assets	1,122,333	660,131
Property, plant and equipment net (Note 5)	583,553	255,722
Assets held for sale (Note 16)	37,844	
Investments (Note 6)	31,761	32,256
Prepaid pension cost (Note 14)	230,049	221,520
Goodwill (Note 7)	853,136	106,254
Other intangibles net (Note 7)	187,793	6,434
Deferred income taxes (Note 18)	2,438	53,938
Other assets (Note 8)	171,101	103,504
Total Assets	$ 3,220,008	$ 1,439,759
LIABILITIES		
Current Liabilities		
Bank indebtedness	$ 56,827	$ 18,158
Accounts payable and accrued liabilities (Note 9)	668,198	486,507
Short-term debt (Note 10)	7,662	2,135
Income taxes	85,741	58,562
Deferred income taxes (Note 18)	660	3,184
Total Current Liabilities	819,088	568,546
Long-term debt (Note 10)	899,038	187,463
Postretirement benefits (Note 15)	261,525	241,344
Deferred income taxes (Note 18)	107,190	9,482
Other liabilities (Note 11)	103,963	43,776
Minority interest	5,045	6,652
Total Liabilities	2,195,849	1,057,263
SHAREHOLDERS EQUITY		
Share Capital (Note 12)		
Authorized: Unlimited number of preference (none outstanding for 2003 and 2002) and common shares without par value		
Issued: 159,701,411 common shares in 2003 111,842,348 common shares in 2002	915,500	403,800
Unearned restricted shares	(2,457)	(2,572)
Retained earnings	228,777	114,601
Cumulative translation adjustments (Note 13)	(117,661)	(133,333)
Total Shareholders Equity	1,024,159	382,496

Total Liabilities and Shareholders Equity	$ 3,220,008	$ 1,439,759

See notes to consolidated financial statements

MOORE WALLACE INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31,

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

	2003	2002	2001
Net sales	$ 2,872,796	$ 2,038,039	$ 2,154,574
Cost of sales	2,035,016	1,390,007	1,552,561
Selling, general and administrative expenses	525,726	459,613	575,586
Provision for (recovery of) restructuring costs net	6,408	(850)	129,679
Depreciation and amortization (includes impairment charges of $7,169 for 2003, $0 for 2002 and $131,393 for 2001)	125,746	86,746	239,072
	2,692,896	1,935,516	2,496,898
Income (loss) from operations	179,900	102,523	(342,324)
Investment and other income (expense)	(5,382)	3,720	(10,721)
Interest expense net	54,939	12,145	23,758
Debt settlement and issue costs	7,493	16,746	11,617
Earnings (loss) before income taxes and minority interest	112,086	77,352	(388,420)
Income tax expense (recovery)	(3,344)	2,472	(32,192)
Minority interest	1,254	1,622	1,810
Net earnings (loss)	$ 114,176	$ 73,258	$ (358,038)
Distribution to certain convertible debenture holders			15,345
Net earnings (loss) available to common shareholders	$ 114,176	$ 73,258	$ (373,383)
Net earnings (loss) per common share:			
Basic	$ 0.81	$ 0.66	$ (4.21)
Diluted	$ 0.81	$ 0.64	$ (4.21)
Average shares outstanding (in thousands):			
Basic	140,854	111,556	88,648
Diluted	141,643	114,022	88,648

See notes to consolidated financial statements

MOORE WALLACE INCORPORATED

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31,

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

	2003	2002	2001
Balance at beginning of the year	$ 114,601	$ 51,666	$ 431,821
Net earnings (loss)	114,176	73,258	(358,038)
	228,777	124,924	73,783
Repurchase of common shares (1,069,700 in 2002)		10,323	
Subordinated convertible debentures			17,694
Dividends (5¢ per share in 2001)			4,423
Balance at end of year	$ 228,777	$ 114,601	$ 51,666

See notes to consolidated financial statements

MOORE WALLACE INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31,

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

	2003	2002	2001
OPERATING ACTIVITIES			
Net earnings (loss)	$ 114,176	$ 73,258	$ (358,038)
Items not affecting cash resources:			
Depreciation and amortization	125,746	86,746	239,072
Net (gain) loss on sale and write-off of investment and other assets	(650)	(5,929)	5,824
Acquisition related charges:			
Inventory and backlog	38,590		
Derivative charges net	3,925		
Write-off of deferred debt issue costs	7,493		
Deferred income taxes	(24,081)	(25,996)	(35,103)
Pension settlement net			96,605
Provision for (recovery of) restructuring costs net	6,408	(850)	129,679
Debt settlement and issue costs		16,746	11,617
Restricted share compensation	1,027	1,093	
Other	4,887	(10,804)	3,048
Changes in operating assets and liabilities:			
Accounts receivable net	(18,304)	(638)	44,684
Inventories	(7,835)	6,026	21,037
Prepaid expenses	(4,946)	(3,777)	9,148
Accounts payable and accrued liabilities	(46,638)	(9,741)	(19,378)
Income taxes	16,125	32,133	(4,417)
Other	(3,343)	128	(6,657)
Net cash provided by operating activities	212,580	158,395	137,121
INVESTING ACTIVITIES			
Property, plant and equipment net	(51,500)	(8,941)	(37,072)
Long-term receivables and other investments	(27,766)	(5,028)	(3,489)
Acquisition of businesses net of cash acquired	(870,391)	(65,966)	(14,565)
Proceeds from sale of investment and other assets	31,417		38,495
Software expenditures	(5,467)	(10,958)	(6,517)
Other	3,549	(1,615)	1,210
Net cash used by investing activities	(920,158)	(92,508)	(21,938)
FINANCING ACTIVITIES			
Dividends paid			(8,846)
Net change in short-term debt	527	(15,899)	15,325
Proceeds from issuance of long-term debt	1,010,280	200,000	7,963
Payments on long-term debt	(309,372)	(140,264)	(104,166)
Debt issue costs	(33,972)		
Issuance (repurchase) of common shares net	11,884	(7,949)	
Other	(1,678)	(8,827)	(3,344)
Net cash provided (used) by financing activities	677,669	27,061	(93,068)
Effect of exchange rate on cash resources	314	(150)	(551)
(Decrease) increase in cash resources	(29,595)	92,798	21,564
Cash resources at beginning of year(a)	121,472	28,674	7,110

Cash resources at end of year(a)	$ 91,877	$ 121,472	$ 28,674
Supplemental disclosure of cash flow information:			
Interest paid net	$ 29,154	$ 13,324	$ 26,594
Income taxes (refunded) paid net	(18,926)	(1,041)	3,425

(a) Cash resources are defined as cash and cash equivalents less bank indebtedness.

See notes to consolidated financial statements

MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(AMOUNTS EXPRESSED IN THOUSANDS OF U.S. DOLLARS, UNLESS OTHERWISE INDICATED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

Moore Wallace Incorporated is a corporation continued under the Canada Business Corporations Act. The consolidated financial statements, which are prepared in accordance with Canadian generally accepted accounting principles (GAAP), include the accounts of Moore Wallace Incorporated and its subsidiaries. The Corporation does not have any investments in unconsolidated special purpose entities or variable interest entities. All intercompany transactions have been eliminated. Comparative figures have been reclassified in the prior years where appropriate to conform to current year presentation. Significant differences between Canadian and U.S. GAAP are discussed in Note 24.

On May 15, 2003, the Corporation acquired (the Acquisition) all of the outstanding shares of Wallace Computer Services, Inc. (Wallace), a leading provider of printed products and print management services (see Note 3). The Corporation s results of operations for the year ended December 31, 2003 include the results of Wallace from May 15, 2003 (the acquisition date).

REVENUE RECOGNITION

The Corporation recognizes revenue for the majority of its products upon shipment to the customer and the transfer of title. Under agreements with certain customers, custom forms may be stored by the Corporation for future delivery. In these situations, the Corporation receives a logistics and warehouse management fee for the services provided. In these cases, delivery and billing schedules are outlined with the customer and product revenue is recognized when manufacturing is complete, title transfers to the customer, the order is invoiced and there is reasonable assurance of collectability. Since the majority of products are customized, product returns are not significant; however, the Corporation accrues for the estimated amount of customer credits at the time of sale.

Revenue from services is recognized as services are performed. Long-term product contract revenue is recognized based on the completed contract method or percentage of completion method. The percentage of completion method is used only for contracts that will take longer than three months to complete, and project stages are clearly defined and can be invoiced. The contract must also contain enforceable rights by both parties. Revenue related to short-term service contracts and contracts that do not meet the percentage of completion criteria is recognized when the contract is completed.

TRANSLATION OF FOREIGN CURRENCIES

The consolidated financial statements are expressed in United States dollars because a significant part of the Corporation s net assets and earnings are located or originate in the United States. Except for the foreign currency financial statements of subsidiaries in countries with highly inflationary economies, Canadian and other foreign currency financial statements are translated into United States dollars on the following bases: all assets and liabilities at the year-end exchange rates; income and expenses at average exchange rates during the year. Net unrealized exchange adjustments arising on translation of foreign currency financial statements are reported as cumulative translation adjustments, a component of shareholders equity.

The foreign currency financial statements of subsidiaries in countries with highly inflationary economies are translated into United States dollars using the temporal method whereby monetary items are translated at current exchange rates, and non-monetary items are translated at historical exchange rates. In 2001, Venezuela was the only highly inflationary economy in which the Corporation operated. In 2002, Venezuela s economy was no longer considered highly inflationary and the impact of this change in method of translation was not material to the consolidated financial statements.

Exchange losses or gains related to the translation of transactions denominated in foreign currencies are included in earnings. Amounts included in investment and other income for 2003 and 2002 were not material. In 2002, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) amended Handbook Section 1650, Foreign Currency Translation. The impact of the adoption of the standard was not material.

MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS

The Corporation enters into forward exchange contracts to hedge exposures resulting from foreign exchange fluctuations in the ordinary course of business. The contracts are normally for terms of less than one year and are used to mitigate the affect of fluctuations in foreign currencies. The unrealized gains and losses on outstanding contracts are included in investment and other income (expense). The Corporation uses interest rate swap agreements to manage its interest rate risk by balancing its exposure to fixed and variable interest rates while attempting to minimize interest costs (see Note 10).

At December 31, 2003, the aggregate amount of forward exchange contracts was \$15,769 (2002 \$13,648). Gains and losses from foreign exchange contracts for all years presented were not significant.

The Corporation may be exposed to losses if the counterparties to the above contracts fail to perform. The Corporation manages this risk by dealing only with what it believes to be financially sound counterparties and by establishing dollar and term limits for each counterparty. The Corporation does not use derivative financial instruments for trading or speculative purposes.

Short-term securities are highly liquid and consist of investment grade instruments in governments, financial institutions and corporations.

Unless otherwise disclosed in the notes to the consolidated financial statements, the estimated fair value of financial assets and liabilities approximates carrying value.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of highly liquid investments with a maturity of three months or less.

INVENTORIES

Inventories of raw materials and work-in-process are valued at the lower of cost or replacement cost and inventories of finished goods at the lower of cost or net realizable value. In the United States, the cost of certain inventories is determined on the last-in, first-out (LIFO) basis. The cost of all other inventories is determined on the first-in, first-out (FIFO) basis.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at historical cost and are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of buildings range from 20 to 50 years and from 3 to 17 years for machinery and equipment. All costs for repairs and maintenance are expensed as incurred. Gains or losses on the disposal of property, plant and equipment are included in investment and other income and the cost and accumulated depreciation related to these assets are removed from the accounts.

The Corporation reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. The Corporation then compares expected future undiscounted cash flows to be generated by the asset to its carrying value. If the carrying value exceeds the sum of the future undiscounted cash flows, the asset would be adjusted to its net recoverable amount and an impairment loss would be charged to operations in the period identified.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess cost of an acquired entity over the fair value assigned to the identifiable net assets acquired. Goodwill from acquisitions that occurred prior to July 1, 2001 was amortized over its useful life on a straight-line basis, not to exceed 40 years. Goodwill from acquisitions subsequent to July 1, 2001 is not amortized. Effective January 1, 2002, all goodwill ceased to be amortized.

Identifiable intangible assets are recognized apart from goodwill and are amortized over their estimated useful lives, except for identifiable intangible assets with indefinite lives, which are not amortized.

Goodwill and identifiable intangible assets are reviewed annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. In the absence of comparable market valuations, the Corporation compares expected future undiscounted cash flows to be generated by the asset or related reporting unit to its carrying value. If the carrying value exceeds the sum of the future undiscounted cash flows, the Corporation would perform an additional fair value measurement calculation to determine the impairment loss, which would be charged to operations in the period identified.

MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AMORTIZATION

Deferred charges include certain costs to acquire and develop internal-use computer software, which is amortized over its estimated useful life using the straight-line method, up to a maximum of seven years.

Deferred debt issue costs are amortized over the term of the related debt.

PENSION AND POSTRETIREMENT PLANS

The Corporation records annual amounts relating to its pension and postretirement plans based on calculations specified by GAAP, which include various actuarial assumptions, including discount rates, assumed rates of return, compensation increases, turnover rates and healthcare cost trend rates. The Corporation reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. The effect of modifications is generally recorded or amortized over future periods. The Corporation believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience, market conditions and input from its actuaries and investment advisors.

INCOME TAXES

The Corporation applies the liability method of tax allocation for accounting for income taxes. Under the liability method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in income tax rates on deferred income tax liabilities and assets is recognized in income in the period that the change occurs. No provision has been made for taxes on undistributed earnings of subsidiaries not currently available for paying dividends as such earnings have been reinvested in the business.

STOCK-BASED COMPENSATION

The Corporation has stock-based compensation plans as described in Note 12. The Corporation accounts for stock options using the intrinsic value method. Stock options generally do not give rise to compensation expense as they have an exercise price equal to the fair market value at dates of grant. Stock option compensation expense was not significant in 2003. In 2002 and 2001, no compensation expense was recognized. See Notes 12 and 24 for the pro forma effect of accounting for stock options under the fair value method for both Canadian and U.S. GAAP, respectively.

The Corporation also awards restricted common shares. Compensation expense is measured based upon the fair value on the date of issue and is recognized as the shares vest (see Note 12).

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates. Estimates are used when accounting for items and matters including, but not limited to, allowance for uncollectible accounts receivable, inventory obsolescence, amortization, asset valuations, employee benefits, taxes, restructuring and other provisions and contingencies.

MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. CHANGES IN ACCOUNTING POLICIES

CICA ACCOUNTING GUIDELINE NO. 14 DISCLOSURE OF GUARANTEES

Effective January 1, 2003, the Corporation adopted CICA Accounting Guideline No. 14, Disclosure of Guarantees (AcG-14), which requires financial statement disclosures to be made by a guarantor about its obligations under contracts that contain guarantees. Significant guarantees that have been entered into by the Corporation are disclosed in Notes 10 and 22.

CICA SECTION 3062, 3063 AND 3475 IMPAIRMENT OF LONG-LIVED ASSETS, DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS AND GOODWILL AND OTHER ASSETS

In 2002, the CICA Handbook Sections 3063, Impairment of Long Lived Assets, and 3475, Disposal of Long Lived Assets and Discontinued Operations, were issued. The standards require an impairment loss to be recognized when the carrying amount of an asset held for use exceeds the sum of undiscounted cash flows. The impairment loss would be measured as the amount by which the carrying amount exceeds the fair value of the asset. An asset held for sale is to be measured at the lower of carrying cost or fair value less cost to sell. In addition, this guidance broadens the concept of a discontinued operation and eliminates the ability to accrue operating losses expected between the measurement date and the disposal date. CICA Handbook Section 3063 is effective for fiscal years beginning on or after April 1, 2003, and CICA Handbook Section 3475 applies to disposal activities initiated by an enterprise s commitment to a plan on or after May 1, 2003. The Corporation adopted these standards during 2003.

On January 1, 2002, the Corporation adopted the recommendations of CICA Handbook Section 3062, Goodwill and Other Intangible Assets. Under this standard goodwill from acquisitions subsequent to July 1, 2001 is not amortized but is subject to an annual impairment test. Effective January 1, 2002, all goodwill ceased to be amortized and is subject to an annual impairment test.

This standard requires reclassification of identifiable intangibles separately from previously reported goodwill. This standard also requires goodwill and identifiable intangible assets to be reviewed annually for impairment, and more frequently if events or changes in circumstances indicate their carrying values may not be recoverable.

The transitional impairment testing required by this standard had no impact on the Corporation s consolidated financial position and result of operations since the carrying amounts of goodwill and other intangible assets did not exceed their fair values.

CICA SECTION 1581 BUSINESS COMBINATIONS

In 2002, the Corporation adopted CICA Handbook Section 1581, Business Combinations. The standard requires that all business combinations be accounted for using the purchase method of accounting. This standard had no material impact on its consolidated financial condition or results of operations.

CICA SECTION 1650 FOREIGN CURRENCY TRANSLATION

Effective January 1, 2002, the Corporation adopted the provisions amending CICA Handbook Section 1650, Foreign Currency Translation. The amendment eliminates the deferral and amortization of unrealized translation gains and losses on non-current monetary assets and liabilities and requires that exchange gain or loss arising on translation of a foreign currency denominated non-monetary item carried at market be included in income in the current reporting period. The adoption of this standard did not have a material impact on the Corporation s consolidated financial condition or results of operations.

CICA SECTION 3870 STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

Effective January 1, 2002, the Corporation adopted CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments. The recommendations establish standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. It applies to transactions, including non-reciprocal transactions, in which an enterprise grants shares of common stock, stock options, or other equity instruments, or incurs liabilities based on the price of common stock or other equity instruments. Effective January 1, 2004, the standard will require fair value measurement and recognition of equity instruments awarded to employees and the cost of services received as consideration. A pro forma disclosure of net income and earnings per share using the fair value based method of accounting has been presented for the required periods.

MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. ACQUISITIONS AND PENDING COMBINATION

On May 15, 2003, the Corporation acquired all of the outstanding shares of Wallace, a leading provider of printed products and print management services, in exchange for consideration of $14.40 in cash and 1.05 shares of the Corporation for each outstanding share of Wallace. The aggregate consideration to the Wallace shareholders was $1.1 billion and was comprised of a cash payment of $609.7 million and 44,458,825 common shares of the Corporation with a fair value of $471.7 million. The fair value of the Corporation s shares was based upon the actual number of shares issued to the Wallace shareholders using the average closing trading price of the Corporation s common shares on the NYSE during a five-day trading period beginning two days prior to the announcement of the merger agreement on January 17, 2003. The total purchase price of $1.3 billion also included $218.2 million for the settlement of Wallace debt and other liabilities, and direct acquisition costs to date of $20.2 million.

The transaction was recorded by allocating the cost of the assets acquired, including intangible assets and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the cost of the Acquisition over the net of amounts assigned to the fair value of the assets acquired and the liabilities assumed was recorded as goodwill. The purchase price was allocated, based on the Corporation s estimates, which included valuations and appraisals, as follows:

Accounts receivable	$ 238,321
Inventory	137,562
Customer backlog	3,790
Other current assets	13,350
Property, plant and equipment net	388,266
Long-term and other assets	38,583
Capitalized software	45,400
Amortizable intangible assets	60,454
Intangible assets with indefinite lives	89,200
Goodwill	698,515
Accounts payable and accrued liabilities	(184,479)
Short-term and long-term debt	(16,189)
Postretirement and pension benefits	(50,915)
Deferred taxes net	(122,929)
Other long-term liabilities	(19,031)
Total purchase price net of cash acquired	$ 1,319,898

PRO FORMA RESULTS (unaudited)

The following unaudited pro forma financial information presents the combined results of operations of the Corporation and Wallace as if the Acquisition had occurred as of the beginning of the periods presented. The historical results for 2003 include the results of Wallace from the acquisition date. The pro forma results for 2003 combine the results of the Corporation for 2003 and the historical results of Wallace from January 1, 2003 through May 15, 2003. Due to the different historical fiscal period-ends for Moore and Wallace, the pro forma results for 2002 combine the historical results of Moore for 2002 and the historical results of Wallace for the twelve months ended October 31, 2002. The unaudited pro forma financial information is not intended to represent or be indicative of the Corporation s consolidated results of operations or financial condition that would have been reported had the Acquisition been completed as of the beginning of the periods presented and should not be taken as indicative of the Corporation s future consolidated results of operations or financial condition. Pro forma adjustments are tax effected at the Corporation s statutory tax rate.

	2003	2002
Net sales	$ 3,413,804	$ 3,560,165
Net earnings	130,200	52,318
Net earnings per share:		
Basic	$ 0.83	$ 0.34
Diluted	$ 0.82	$ 0.33

MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. ACQUISITIONS AND PENDING COMBINATION (continued)

The unaudited pro forma financial information in both 2003 and 2002 includes $8,752 for the amortization of purchased intangibles. The unaudited pro forma financial information also includes the following non-recurring charges: acquisition related charges of $67,896 for 2003 and 2002; and net restructuring charges of $6,408 and $40,518 for 2003 and 2002, respectively.

OTHER ACQUISITIONS

On December 31, 2003, the Corporation acquired all of the outstanding shares of Payment Processing Solutions, Inc. (PPS), a processor of printed statements, in exchange for total consideration of $82,611, net of cash acquired of $9,338. Consideration was comprised of a cash payment of $5,331 and the issuance of 1,580,213 shares of the Corporation with a fair value of $27,195. The fair value of the Corporation s common shares was based upon the actual number of shares issued to the PPS shareholders using the average closing trading price of the Corporation s common shares on the New York Stock Exchange (NYSE) during a five-day trading period beginning two days prior to the announcement of the acquisition agreement on November 26, 2003. The total purchase price also included $25,625 for the settlement of PPS debt and other liabilities, and direct acquisition costs to date of $583. In addition, at December 31, 2003, the Corporation has recorded a current liability to PPS shareholders for consideration outstanding of $33,215. Under the terms of the PPS acquisition agreement, the majority shareholder of PPS had a right to defer receipt of a portion of the cash consideration owed to them in connection with the sale and request that the Corporation seek the approval of the Corporation s shareholders to allow settlement in common shares instead of cash. The shareholder vote occurred on February 23, 2004 and the settlement of the liability in common shares instead of cash was approved. On February 25, 2004, the Corporation issued 2,233,989 common shares to the PPS shareholders. The allocation of the purchase price is preliminary and subject to change, based upon the determination and receipt of additional information, including the finalization of the fair value of real and personal property acquired and the recognition of certain liabilities in connection with the acquisition. The allocation of the purchase price to the assets acquired and liabilities assumed at their fair values at the date of acquisition, based on preliminary valuations and appraisals, was as follows:

Working capital, other than cash	$ 6,378
Property, plant and equipment	12,332
Other assets	969
Amortizable intangible assets	31,542
Intangible asset with indefinite life	6,400
Goodwill	44,447
Other liabilities	(1,364)
Deferred taxes net	(18,093)
Purchase price-net of cash acquired	$ 82,611

The majority shareholder of PPS was Greenwich Street Capital Partners (GSC Partners). Alfred C. Eckert III, the chairman and chief executive officer of GSC Partners, is also the chairman of the Corporation s Board of Directors. Mr. Eckert also holds the following positions with the Greenwich Street Funds: (i) a managing member of Greenwich Street Investments II, L.L.C., which is the general partner of the Greenwich Street Funds, (ii) a senior limited partner of GSCP (NJ), L.P. and (iii) an executive officer of GSCP (NJ), Inc., which is the general partner of GSCP (N.J.), L.P. Due to Mr. Eckert s affiliation with the Greenwich Street Funds, Mr. Eckert rescued himself from all proceedings of the Corporation s Board of Directors in connection with the PPS transaction. The Corporation s Board of Directors formed a special committee of independent directors, who retained independent legal and financial advisors, to evaluate the PPS transaction.

On December 31, 2001, and January 31, 2002, the Corporation acquired certain assets relating to the Document Management Services business of IBM Canada Limited and The Nielsen Company, a commercial printer, for total consideration of $14,592 and $57,202, respectively, net of cash acquired. The allocations of the purchase prices to the assets acquired and liabilities assumed based on fair values at the dates of acquisition were as follows:

Working capital, other than cash	$ 10,933
Property, plant and equipment	9,475
Other liabilities	(15,020)
Goodwill and other intangibles	66,406
Purchase price net of cash received	$ 71,794

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MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. ACQUISITIONS AND PENDING COMBINATION (continued)

In May 2002, the Corporation purchased the remaining minority interest in its consolidated subsidiary, Quality Color Press, Inc., for total consideration of $6,680. The cost of this acquisition exceeded the fair value of the net assets acquired by $5,437, which was allocated to goodwill and other intangible assets. Management has reclassified this business from the Commercial segment to the Forms and Labels segment in order to reflect the business synergies and integration plans. During August 2002, the Corporation purchased the remaining minority interest of its consolidated subsidiaries located in Central America for consideration of $2,750. The carrying value of the minority interests approximated the purchase price.

Pro forma disclosures for the aforementioned acquisitions have been excluded because they are not material to the Corporation s consolidated financial position or results of operations.

PENDING COMBINATION

In November 2003, the Corporation entered into a combination agreement with R.R. Donnelley & Sons Company (RR Donnelley), a leading provider of printing and publishing services, under which each common share of the Corporation will be exchanged for 0.63 of a share of common stock of RR Donnelley (the Combination). The purchase price is approximately $3.6 billion based on approximately 158 million of the Corporation s shares outstanding, which includes the assumption of the Corporation s debt of approximately $0.9 billion. The estimated purchase price was derived using the average of the RR Donnelley closing share price on the NYSE during the five-day trading period beginning two trading days before the date of the announcement of the transaction on November 9, 2003. The transaction is expected to close on February 27, 2004. Under certain terms specified in the Combination Agreement, the Corporation or RR Donnelley may terminate the agreement and, as a result, either party may be required to pay a termination fee of up to $85.0 million to the other party. Upon consummation, the Corporation s outstanding common shares will cease to trade. Unless otherwise indicated, the consolidated financial statements and related notes pertain to the Corporation as a stand-alone entity and do not reflect the impact of the pending business combination transaction with RR Donnelley.

4. INVENTORIES

	2003	2002
Raw materials	$ 67,226	$ 31,883
Work-in-process	41,885	10,303
Finished goods	134,077	84,190
Other	3,252	3,513
	$ 246,440	$ 129,889

The current cost of these inventories exceeds the last-in, first-out cost by approximately $15,459 at December 31, 2003 (2002 $16,239).

5. PROPERTY, PLANT AND EQUIPMENT

	2003	2002
Land	$ 30,328	$ 9,952
Building	234,048	155,454
Machinery and equipment	1,081,711	800,448
	1,346,087	965,854
Less: Accumulated depreciation	762,534	710,132
	$ 583,553	$ 255,722

Depreciation expense for 2003 was $86,124 (2002 $64,832; 2001 $108,436). In 2003 and 2001, the Corporation recognized asset impairment charges of $1,632 and $28,549, respectively, which were included in depreciation and amortization. No impairment charges were recorded in 2002.

MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. INVESTMENTS

	2003	**2002**
Long-term bonds	$ 31,761	$ 30,556
Cost basis		1,700
	$ 31,761	$ 32,256

In the fourth quarter of 2002, the Corporation recorded a $2,500 impairment charge against its cost basis investment for a permanent decline in market value. In 2003, the Corporation sold this investment for proceeds, which approximated the carrying value.

The fair market value of the long-term bonds at December 31, 2003 is approximately $31,600 (2002 $28,200).

7. GOODWILL AND OTHER INTANGIBLES

The changes in the carrying value of goodwill by operating segment for the year ended December 31, 2003 are as follows:

GOODWILL	**BALANCE AT JANUARY 1, 2003**	**ADDITIONS**	**FOREIGN EXCHANGE**	**BALANCE AT DECEMBER 31, 2003**
Forms and Labels	$ 45,550	$ 268,465	$ 1,364	$ 315,379
Outsourcing	11,846	44,447	2,556	58,849
Commercial	48,858	430,050		478,908
	$ 106,254	$ 742,962	$ 3,920	$ 853,136

The changes in the carrying value of goodwill by operating segment for the year ended December 31, 2002 are as follows:

GOODWILL	**BALANCE AT JANUARY 1,**	**ADDITIONS**	**FOREIGN**	**BALANCE AT DECEMBER 31,**

	2002		EXCHANGE	2002
Forms and Labels	$ 41,857	$ 3,773	$ (80)	$ 45,550
Outsourcing		11,866	(20)	11,846
Commercial		48,858		48,858
	$ 41,857	$ 64,497	$ (100)	$ 106,254

Other intangibles at December 31, 2003 consist of the following:

OTHER INTANGIBLES	GROSS CARRYING AMOUNT JANUARY 1, 2003	ADDITIONS	ACCUMULATED AMORTIZATION and FOREIGN EXCHANGE	BALANCE AT DECEMBER 31, 2003	AMORTIZABLE LIFE
Trademarks, license and agreements	$ 3,390	$ 22,896	$ (4,299)	$ 21,987	2-10 Years
Customer intangibles	2,729	69,100	(3,652)	68,177	2-12 Years
Indefinite-lived Trademarks	1,664	95,600	365	97,629	Indefinite
	$ 7,783	$ 187,596	$ (7,586)	$ 187,793	

MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. GOODWILL AND OTHER INTANGIBLES (continued)

Other intangibles at December 31, 2002 consisted of the following:

OTHER INTANGIBLES	GROSS CARRYING AMOUNT JANUARY 1, 2002	ADDITIONS	ACCUMULATED AMORTIZATION and FOREIGN EXCHANGE	BALANCE AT DECEMBER 31, 2002	AMORTIZABLE LIFE
Trademarks, license and agreements	$ 437	$ 2,953	$ (463)	$ 2,927	4-10 Years
Customer intangibles		2,729	(886)	1,843	3 Years
Indefinite-lived		1,664		1,664	Indefinite
Trademarks	$ 437	$ 7,346	$ (1,349)	$ 6,434	

The total intangible asset amortization expense for the year ended December 31, 2003, was $6,993 (2002 $1,349), included in the depreciation and amortization expense. Intangible asset amortization expense for the next five years is estimated to be:

2004	$ 13,487
2005	$ 10,526
2006	$ 7,627
2007	$ 7,615
2008	$ 7,615

The table below provides a reconciliation of the reported net loss for 2001 to the pro forma net loss, which excludes previously recorded goodwill amortization on goodwill outstanding at December 31, 2001:

	2001 PER SHARE		
	NET LOSS	BASIC	DILUTED
Net loss available to common shareholders (as reported)	$ (373,383)	$ (4.21)	$ (4.21)
Add back: Goodwill amortization net of tax	2,265	0.03	0.03
Pro forma net loss	$ (371,118)	$ (4.18)	$ (4.18)

In 2001, the Corporation recorded charges of $76,808, included in depreciation and amortization, for permanent impairment of goodwill related to dispositions and assets held for disposition (see Note 16). The impairment resulted from a significant sales decline, customer turnover and the decision to classify certain assets as held for sale.

MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. OTHER ASSETS

	2003	2002
Computer software net of accumulated amortization	$ 106,603	$ 89,208
Cash surrender value of life insurance for deferred compensation plan	16,273	
Assets held in trust for deferred compensation plan	12,899	
Deposit and other receivables	1,555	3,218
Deferred debt issue costs	30,692	7,955
Other	3,079	3,123
	$ 171,101	$ 103,504

Amortization expense related to computer software was $32,629 in 2003 ($20,553 2002; $22,936 2001).

In 2001, the Corporation recorded a charge of $26,036 included in depreciation and amortization for the write-off of certain computer software costs, primarily related to a component of its ERP system, which would not be deployed.

In 2003, the Corporation recorded a charge of $5,537, included in depreciation and amortization for the disposal of redundant enterprise software systems as a result of the Acquisition.

Pursuant to the Acquisition, the Corporation funded Wallace s historical deferred compensation plan liability with the cash surrender value of existing Wallace life insurance contracts and a cash payment into the deferred compensation plan trust.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2003	2002
Trade accounts payable	$ 186,511	$ 117,770
Deferred revenue	28,179	26,718
Other payables	80,708	40,986
	295,398	185,474
Payroll costs	93,019	85,439
Employee benefit costs	44,570	27,787
Restructuring liabilities (Note 17)	67,122	81,440

Other	168,089	106,367
	$ 668,198	$ 486,507

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MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. DEBT

	2003	2002
Senior Unsecured Notes, maturing January 15, 2011	$ 400,460	$
B Term Loan, maturing March 14, 2010	497,500	
Term Loan B Facility		179,500
Other, including capital leases	8,740	10,098
Total Debt	906,700	189,598
Less current portion	7,662	2,135
Long-term debt	$ 899,038	$ 187,463

At December 31, 2003, the maturities of the Corporation s debt are as follows:

2004	$ 7,662
2005	7,408
2006	6,192
2007	5,510
2008	5,486
Thereafter	874,442
	$ 906,700

In March 2003, the Corporation entered into an $850.0 million senior secured credit facility (the New Facility) in connection with the Acquisition, which replaced the Term Loan B Facility (the Old Facility). The New Facility consists of a seven-year $500.0 million B Term Loan, which was funded in escrow until the Acquisition, and a five-year $350.0 million Revolving Credit Facility, each of which is subject to a number of restrictive and financial covenants that, in part, limit additional indebtedness and the ability of the Corporation to engage in certain transactions with affiliates, create liens on assets, engage in mergers and consolidations, or dispose of assets. The financial covenants are calculated quarterly and include, in part, tests of leverage and interest coverage. At December 31, 2003 the interest rate on the New Facility was 3.19%, which is based on three-month LIBOR plus a 200 basis point margin.

Also, in March 2003, the Corporation issued $403.0 million of 7 7/8 % senior unsecured notes (the Senior Notes) due 2011 at a $2,825 discount to the principal amount. Interest on the Senior Notes is payable semiannually on January 15 and July 15 commencing on July 15, 2003. The indenture governing the Senior Notes contains certain restrictive covenants that, among other things, limit additional indebtedness and the Corporation s ability to engage in certain transactions with affiliates, create liens on assets, engage in mergers and consolidations or dispose of assets. The Corporation, at its option, may redeem up to 40% of the Senior Notes prior to January 15, 2006, at a predetermined redemption price with the proceeds of certain equity offerings. In addition, subsequent to January 15, 2007, the Senior Notes may be redeemed at predetermined redemption prices. On or prior to January 15, 2007, the Corporation may also redeem the Senior Notes upon a change of control at a price equal to 100% of the principal plus an applicable premium. At December 31, 2003, the fair market value of the Senior Notes was approximately

$450.0 million.

A covenant in the Corporation s New Facility states that the Corporation may not agree to enter into any merger transaction, subject to certain exceptions. These exceptions do not cover agreeing to enter into the Combination with RR Donnelley announced November 9, 2003. The Corporation has advised the lenders under its New Facility of this situation and the lenders have granted a waiver of the covenant. The execution of the Combination Agreement did not breach any of the Senior Notes covenants. Other than the merger covenant under the New Facility, at December 31, 2003 the Corporation was in compliance with all covenants under the New Facility and the indenture for the Senior Notes.

MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. DEBT (continued)

In August 2002, the Corporation entered into the Old Facility which was comprised of a five-year $125.0 million Revolving Credit Facility, a five-year $75.0 million Delayed Draw Term Loan A Facility and a six-year $200.0 million Term Loan B Facility. On September 4, 2002, with proceeds from the Term Loan B Facility, the Corporation redeemed $100.0 million of senior guaranteed notes and incurred a net prepayment charge of $16.7 million.

As a result of replacing the Old Facility, the Corporation recorded a net charge in 2003, which is included in Investment and Other Income (Expense), of $3.9 million for the fair value on $150.0 million notional amount fixed rate interest rate swaps that were designated as cash flow hedges of the variable interest on the Old Facility. At December 31, 2003, Other Liabilities includes an amount equal to and resulting from this net charge that will be ratably reduced and recorded as income over the remaining term of the swaps.

For 2003, interest expense includes the following acquisition related items: pre-acquisition interest expense of $10.7 million; interest income of $1.3 million on the aforementioned debt proceeds held in escrow; and $4.0 million of bridge financing fees.

Debt settlement expense in both 2003 and 2001 represents the write-off of the respective deferred debt issue costs resulting from the extinguishment of the Old Facility in 2003 and the conversion of the convertible subordinated debentures in 2001. Debt settlement expense in 2002 represents the redemption premium paid to early extinguish senior guaranteed notes and the related debt issue costs.

At December 31, 2003, the Corporation had $400.0 million notional amount outstanding in swap agreements that exchange variable interest rates (LIBOR) for fixed interest rates over the terms of the agreements. The Corporation has designated these swaps as cash flow hedges of the interest rate risk attributable to forecasted variable interest payments. At December 31, 2003, the Corporation also had $250.0 million notional amount interest rate swaps that exchange the fixed rate interest on the Senior Notes to floating rate six-month LIBOR plus a basis point spread. The swaps are designated as a fair value hedge against $250.0 million of principal on the Senior Notes and mature January 2011.

The details of the Corporation s interest rate swaps at December 31, 2003 are as follows:

			Weighted average		
	Notional Amount	**Market Value Asset (Liability)**	**Remaining Term (yrs)**	**Interest Pay Rate**	**Interest Receive Rate**
Fixed Rate Swaps	$ 400,000	$ (2,979)	1.7	2.29%	Three-month LIBOR
Floating Rate Swaps	$ 250,000	$ (14,250)	7.0	Six-month LIBOR +4.19%	7.875%

The interest rate differential received or paid on both the cash flow and fair value hedges is recognized as an adjustment to interest expense.

The net book value of assets subject to liens in 2003, other than under the New Facility, which has the benefit of a lien covering virtually all of the Corporation s assets, is $21,157 (2002 $26,563, other than under the Old Facility). The liens are primarily mortgages against property, plant and equipment and other current assets.

The Corporation also maintains uncommitted bank operating lines in the majority of the domestic markets in which it operates. These lines of credit are maintained to cover temporary cash shortfalls. Maximum allowable borrowings under these uncommitted facilities amounted to $48,699 at December 31, 2003 ($551 outstanding) and may be terminated at any time at the Corporation s option. The amount available under these facilities at December 31, 2003 was $48,148.

The Corporation also had approximately $44,870 in outstanding letters of credit at December 31, 2003, of which $25,190 were issued against the $350.0 million Revolving Credit Facility.

MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. DEBT (continued)

On December 28, 2001, the $70.5 million subordinated convertible debentures held by Chancery Lane/GSC Investors L.P. (the Partnership) were converted into 21,692,311 common shares (see Note 24). The Corporation issued 1,650,000 additional common shares (additional shares) as an inducement to the Partnership s Class A limited partners to convert prior to December 22, 2005, the date the Corporation could have redeemed the debentures. The right to receive the additional shares was assigned by the Partnership to its Class A limited partners. Under the terms of the partnership agreement, the Class A limited partners were entitled to all the interest paid on the subordinated convertible debentures. As part of the inducement agreement, the Corporation agreed that if at December 31, 2003, the 20 day weighted average trading price of the common shares on the NYSE was less than $10.83 per share, the Corporation must make a payment equal to the lesser of $9.0 million or the value of 6,000,000 of its common shares at such date. As part of the agreement to acquire PPS, GSC waived this right. Certain officers of the Corporation, including the Chairman, the Chief Executive Officer, and the former Chairman, President and Chief Executive Officer, were investors in the Partnership.

11. OTHER LIABILITIES

	2003	2002
Unfunded pension obligations	$ 41,510	$ 28,170
Deferred compensation plan	35,439	
Workers compensation claims payable	7,243	2,672
Long-term supply agreement	5,513	10,820
Fair value of derivatives	3,925	
Other	10,333	2,114
	$ 103,963	$ 43,776

The deferred compensation plan liability reflects the approximate fair value of the plan obligation assumed pursuant to the Acquisition.

During 2000, the Corporation entered into a supply agreement to sell certain paper production assets and simultaneously entered into a long-term supply agreement with the purchaser of the assets. Proceeds received were allocated to the asset sale and supply agreement based on an appraisal. Since the Corporation anticipates making purchases ratably over the term of the supply agreement, the proceeds related to the agreement have been deferred and are being amortized on a straight-line basis over the term of the agreement as a reduction in cost of goods sold. The price terms of the supply agreement were no more favorable than those available from other parties.

Included in accounts payable and accrued liabilities at December 31, 2003 is $5,558 (2002 $6,138), representing the current portion of the supply agreement.

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MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. SHARE CAPITAL

The Corporation s articles of continuance provide that its authorized share capital be divided into an unlimited number of common shares and an unlimited number of preference shares, issuable in one or more series. On February 7, 2002, the Corporation announced a program to repurchase up to $50.0 million of its common shares. No shares were purchased during 2003. The program calls for shares to be purchased on the NYSE from time to time depending upon market conditions, market price of the common shares and the assessment of the cash flow needs by the Corporation s management.

CHANGES IN THE ISSUED COMMON SHARE CAPITAL	SHARES ISSUED	AMOUNT
Balance, December 31, 2001	111,803,651	$ 397,761
Exercise of stock options and other	723,397	6,195
Restricted shares issued	385,000	3,665
Repurchase of common shares	(1,069,700)	(3,821)
Balance, December 31, 2002	111,842,348	403,800
Shares issued for acquisition of businesses	46,039,038	498,904
Exercise of stock options and other	1,740,025	11,884
Restricted shares issued net	80,000	912
Balance, December 31, 2003	159,701,411	$ 915,500

The Corporation has a long-term incentive program under which stock options and restricted stock awards may be granted to certain key employees. At December 31, 2003, there were 10,039,700 awards available for grant (2002 583,000; 2001 877,500). Stock options have an exercise price equal to the fair market value at date of grant. Options granted generally vest at 20% or 25% per year from the date of grant. Upon retirement, all options become vested. Options granted prior to 1999 are exercisable for five years after the date of retirement. Options granted after 1998 are exercisable for one year after the date of retirement. The options expire not more than 10 years from the date granted.

Restricted shares are approved by the Board of Directors of the Corporation and awarded under the Corporation s Long-Term Incentive Plans. The restricted shares are subject to repurchase by the Corporation at no cost in the event a holder s employment is terminated other than as a result of death, retirement or disability. These repurchase rights expire with respect to 25% of the initial restricted share grant each year beginning on the first anniversary of the restricted share award. Upon issuance of the restricted shares, unearned compensation expense equal to the market value is charged to share capital. The unearned compensation of the restricted shares is disclosed as a separate component of shareholders equity that will be recognized on a straight-line basis as compensation expense over the vesting period. Compensation expense related to restricted shares was $1,027 in 2003 and $1,093 in 2002.

On December 11, 2000, the Board of Directors approved the creation of Series 1 Preference Shares, which were non-voting and entitled the holder to a non-cumulative preferential annual dividend of CDN $0.001 per share and to receive any dividend paid on a common share. In the event of liquidation, dissolution or winding-up of the Corporation, a holder of a Series 1 Preference Share was entitled to receive a preferential amount of CDN $0.001 per share, together with all dividends declared and unpaid thereon. Thereafter, the Series 1 Preference Shares and common shares rank equally with each other on a share-for-share basis. Stock options to acquire 1,580,000 Series 1 Preference Shares were issued on December 11, 2000, and vest at 25% per annum. In April 2002, the shareholders of the Corporation approved the amendment of the options to purchase Series 1 Preference Shares to eliminate the cash-out provision and to make them exercisable for one common share per each Series 1 Preference Share option. The exercise price and the number of Series 1 Preference Share options remained unchanged.

MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. SHARE CAPITAL (continued)

A summary of the Corporation s stock option activity for the three years ended December 31, 2003, is presented below:

	YEARS ENDED DECEMBER 31,					
	2003		2002		2001	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
(EXPRESSED IN CANADIAN CURRENCY)						
Options outstanding at beginning of year	5,778,918	$ 14.14	7,942,169	$ 13.25	8,089,686	$ 13.96
Options granted	945,000	14.33	860,000	15.10	1,790,833	13.43
Options exercised	(1,740,025)	6.34	(714,069)	13.24	(4,400)	7.54
Options forfeited and expired	(1,036,653)	18.95	(2,309,182)	11.70	(1,933,950)	16.40
Options outstanding at year-end	3,947,240	$ 16.36	5,778,918	$ 14.14	7,942,169	$ 13.25
Options exercisable at year-end	2,283,303	$ 18.39	4,068,912	$ 15.00	3,227,715	$ 17.00

The following tables summarize information about stock options outstanding at December 31, 2003 (in Canadian currency):

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT DECEMBER 31, 2003	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DECEMBER 31, 2003	WEIGHTED AVERAGE EXERCISE PRICE
$3.65 to $11.88	649,425	6.61	$ 6.19	508,425	$ 6.70
$14.12 to $19.15	2,494,675	7.69	15.61	971,738	17.46
$21.33 to $28.23	803,140	2.98	26.91	803,140	26.91
	3,947,240	6.55	$ 16.36	2,283,303	$ 18.39

The weighted average fair value per option granted was $4.48 in 2003 and $4.70 in 2002. The estimated fair values were calculated using the Black-Scholes option pricing model and the following assumptions.

	2003	2002
Risk-free interest rates	3.0%	3.2%
Expected lives (in years)	5	5
Dividend yield		
Volatility	49%	49%

MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. SHARE CAPITAL (continued)

The Corporation s 2003 and 2002 net income and earnings per share on a pro forma basis using the fair value method are as follows:

	2003	2002
Net earnings, as reported	$ 114,176	$ 73,258
Pro forma adjustments, net of taxes		
Stock compensation recorded	678	667
Fair value stock compensation	(1,650)	(867)
Pro forma net earnings	$ 113,204	$ 73,058
Pro forma earnings per share:		
Basic	$ 0.80	$ 0.66
Diluted	$ 0.80	$ 0.64

In accordance with the transition rules of CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments, the pro forma results include the effect of options granted subsequent to December 31, 2001. This standard does not require pro forma presentation prior to 2002.

During 2003 and pursuant to the Share Plan for Non-Employee Directors, the Corporation issued 25,944 (2002 219,069; 2001 14,636) deferred share units as stock-based compensation for members of the Board of Directors. Deferred share units are exercisable for either cash or common shares at the discretion of the holder upon termination of the holder s service on the Board of Directors. At December 31, 2003, 259,649 deferred share units were outstanding. For 2003, the compensation expense recorded for these deferred share units was $1,089 (2002 $1,994; 2001 $139).

13. CUMULATIVE TRANSLATION ADJUSTMENTS

	2003	2002
Balance at beginning of year	$ (133,333)	$ (128,177)
Currency translation	15,672	(5,156)
Balance at end of year	$ (117,661)	$ (133,333)

14. RETIREMENT PROGRAMS

DEFINED BENEFIT PENSION PLANS

During 2000, the Corporation amended the United States pension plan (the Plan) to cease all benefit accruals and announced its intention to terminate and wind-up the Plan. In April 2001, the Plan was further amended to terminate effective June 2001. Upon termination, the Corporation sought a determination letter from the Internal Revenue Service (IRS) as to the Plan s tax qualification status. The terms of the April 2001 Plan amendment made the receipt of the IRS determination letter a prerequisite to the wind-up of the Plan and the distribution of the Plan assets. The IRS has imposed a moratorium on issuing such determination letters. Due to the uncertainty regarding the receipt of the determination letter and the effect such uncertainty has on the Corporation s ability to effectively manage the Plan s assets, on October 15, 2003, the Board of Directors of the Corporation resolved to take the steps necessary to revoke the amendment terminating the Plan. The Plan, as restored, remains frozen and will continue with no further benefit accruals.

During 2001, the Corporation purchased approximately $600.0 million in annuities to partially settle the Plan and recorded a settlement loss of $109.1 million. Pension expense on the unsettled portion of the Plan for 2003, 2002 and 2001 was calculated using a discount rate and expected return on plan assets, which were based upon estimated market rates to settle the remaining portion of the plan. The assumptions for the discount rate and expected return on Plan assets established at November 30, 2003 (the most recent measurement date) reflect the Corporation s decision to not settle the remainder of the Plan s obligations and, accordingly, the allocation of the Plan assets at December 31, 2003, which was 66% equity investments and 34% debt investments, reflect a long-term investment strategy.

MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. RETIREMENT PROGRAMS (continued)

The target asset allocation ranges for both the U.S. and Canadian pension plans is 60% to 70% equity securities and 30% to 40% debt securities. The plan asset allocations may deviate from the target allocations based upon market conditions. The expected long-term return on assets is based from these allocations and the projected rates of return of the respective asset type over approximately a ten-year period. The Corporation uses input from both its actuaries and investment managers in establishing its expected rate of return. The expected returns incorporate long-term historical returns, probability analysis and anticipated future returns under projected economic conditions.

During 2001, the Corporation purchased annuities to settle substantially all of the obligation under the United Kingdom pension plan. This settlement reduced the projected benefit obligation and fair value of plan assets by $99,144.

In some subsidiaries, where either state or funded retirement plans exist, there are certain small supplementary unfunded plans. Pensionable service prior to establishing funded contributory retirement plans in other subsidiaries, covered by former discretionary non-contributory retirement plans, was assumed as a prior service obligation. In addition, the Corporation has supplemental retirement programs for certain senior executives. These unfunded pension obligations are included in other liabilities and include the unfunded portion of this prior service obligation and the supplementary unfunded plans. All of the retirement plans are non-contributory. Retirement benefits are generally based on years of service and employees compensation during the last years of employment.

Plan assets and obligations are measured as of November 30 for all years presented. The components of net pension expense are as follows:

	UNITED STATES			**CANADA**			**INTERNATIONAL**		
	2003	**2002**	**2001**	**2003**	**2002**	**2001**	**2003**	**2002**	**2001**
NET PENSION EXPENSE									
Service cost	$ 36	$ 28	$ 20	$ 2,879	$ 2,871	$ 3,169	$	$	$ 76
Interest cost	14,518	14,962	23,107	6,296	5,232	5,523	388	358	4,382
Expected return on assets	(22,542)	(22,020)	(37,863)	(8,171)	(7,188)	(7,497)	(1,286)	(1,204)	(5,931)
Settlement loss			109,115						
Curtailment gain			2,154						
Amortization of net loss (gain)	3,665	2,560		801	429	172	384	335	(209)
Net pension expense (benefit)	$ (4,323)	$ (4,470)	$ 96,533	$ 1,805	$ 1,344	$ 1,367	$ (514)	$ (511)	$ (1,682)

MOORE WALLACE INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. RETIREMENT PROGRAMS (continued)

The following provides a reconciliation of the benefit obligation, plan assets and the funded status of the pension plans as of December 31, 2003 and 2002:

	UNITED STATES		CANADA		INTERNATIONAL	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
FUNDED STATUS						
Projected benefit obligation, beginning of year	$ 247,262	$ 227,730	$ 83,111	$ 82,347	$ 7,646	$ 6,576
Service cost	36	28	2,879	2,871		
Interest cost	14,518	14,962	6,296	5,232	388	358
Actuarial loss (gain)	4,500	15,668	9,533	(2,764)	183	86
Foreign currency adjustments			18,653	677	881	710
Benefits paid	(8,748)	(11,126)	(6,974)	(5,252)	(8)	(84)
Projected benefit obligation, end of year	$ 257,568	$ 247,262	$ 113,498	$ 83,111	$ 9,090	$ 7,646
Fair value of plan assets, beginning of year	$ 382,612	$ 401,882	$ 78,418	$ 85,283	$ 25,303	$ 22,048
Actual return on assets	2,336	(8,144)	9,146	(2,363)	335	962
Foreign currency adjustments			17,460	750	2,776	2,377
Benefits paid	(8,748)	(11,126)	(6,974)	(5,252)	(8)	(84)
Fair value of plan assets, end of year	$ 376,200	$ 382,612	$ 98,050	$ 78,418	$ 28,406	$ 25,303
Excess (shortfall) of plan assets over projected benefit obligation	$ 118,632	$ 135,350	$ (15,448)	$ (4,693)	$ 19,316	$ 17,657
Unrecognized net loss	71,798	50,756	31,171	19,056	4,580	3,394
Prepaid pension cost	$ 190,430	$ 186,106	$ 15,723	$ 14,363	$ 23,896	$ 21,051
Assumptions:						
Discount rates	6.0%	6.0%	6.2%	6.5%	5.0%	5.0%
Expected return on plan assets	7.2%	6.0%	8.0%	8.0%	5.0%	5.0%
Rate of compensation increase			4.0%	4.0%		
Allocation Percentage of Plan Assets Security Type:						
Equity	0%	0%	60%	62%	0%	0%
Debt	0%	0%	39%	38%	12%	12%
Short-term investments	100%	100%	1%	0%	88%	88%

The Corporation does not expect to be required to make contributions to any of the defined benefit plans during 2004.

DEFINED CONTRIBUTION SAVINGS PLANS

Defined contribution savings plans are maintained in Canada, the United States and the United Kingdom. Only the savings plan in the United Kingdom requires Corporation contributions for all employees who are eligible to participate in the retirement plans. These annual contributions consist of a retirement savings benefit contributions ranging from 1% to 3% of annual eligible compensation depending upon age. For all savings plans, if an employee contribution is made, a portion of such contribution may be eligible for a contribution match by the Corporation. For 2003, the defined contribution savings plan expense was $9,839 (2002 $8,745; 2001 $6,913).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The Corporation provides postretirement health care and life insurance benefits to certain grandfathered United States employees and to all eligible Canadian employees. The postretirement benefit obligation is measured as of November 30 for all years presented.

On January 12, 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FSP 106-1). FSP 106-1 permits employers that sponsor postretirement benefit plans (plan sponsors) that provide prescription drug benefits to retirees to make a one-time election to defer the accounting impact, if any, of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Act), which was enacted into law on December 8, 2003. The Corporation has elected to defer recognition of the provisions of the Act as permitted by FSP 106-1 due to uncertainties regarding some of the new Medicare provisions and a lack of authoritative accounting guidance regarding certain matters.

The components of net postretirement benefit cost are as follows:

	2003	2002	2001
NET POSTRETIREMENT BENEFIT COST			
Service cost	$ 1,475	$ 2,087	$ 1,638
Interest cost	17,046	17,373	13,939
Amortization of net loss	1,908	1,846	51
Amortization of prior service credit	(6,282)	(6,282)	(6,282)
Net postretirement benefit cost	$ 14,147	$ 15,024	$ 9,346

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (continued)

The following provides a reconciliation of the benefit obligation and the accrued postretirement benefit cost at December 31, 2003 and 2002:

	2003	2002
ACCRUED POSTRETIREMENT BENEFIT COST		
Projected postretirement benefit obligation, beginning of year	$ 257,238	$ 247,464
Service cost	1,475	2,087
Interest cost	17,046	17,373
Actuarial loss	23,854	3,169
Acquisitions	16,309	
Amendments	8,615	
Foreign currency adjustment	2,585	127
Benefits paid	(13,091)	(12,982)
Projected postretirement benefit obligation, end of year	314,031	257,238
Contributions paid in December	(1,118)	(1,012)
Unrecognized net (loss)	(71,522)	(49,913)
Unrecognized prior service credit	20,134	35,031
Accrued postretirement benefit cost	$ 261,525	$ 241,344