

RR Donnelley & Sons Co
Form 10-Q
November 08, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 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)

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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 October 31, 2006, 216.8 million shares of common stock were outstanding.

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R.R. DONNELLEY & SONS COMPANY

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

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

As of September 30, 2006 and December 31, 2005

(In millions, except per share data)

(UNAUDITED)

	September 30, 2006	December 31, 2005
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 250.7	\$ 366.7
Receivables, less allowance for doubtful accounts of \$76.5 (2005 \$61.3)	1,654.9	1,529.1
Inventories - net (Note 4)	552.6	481.4
Prepaid expenses and other current assets	80.6	67.5
Deferred income taxes	144.8	177.0
	<u> </u>	<u> </u>
Total current assets	2,683.6	2,621.7
	<u> </u>	<u> </u>
Property, plant and equipment - net (Note 5)	2,126.3	2,138.6
Goodwill (Note 6)	2,985.8	2,750.7
Other intangible assets - net (Note 6)	1,145.0	1,094.3
Prepaid pension costs	518.8	514.1
Other noncurrent assets	304.9	254.3
	<u> </u>	<u> </u>
Total assets	\$ 9,764.4	\$ 9,373.7
	<u> </u>	<u> </u>
LIABILITIES		
Accounts payable	\$ 721.4	\$ 718.1
Accrued liabilities	854.0	826.9
Short-term and current portion of long-term debt (Note 7)	255.4	269.1
	<u> </u>	<u> </u>
Total current liabilities	1,830.8	1,814.1
	<u> </u>	<u> </u>
Long-term debt (Note 7)	2,358.0	2,365.4
Postretirement benefit obligations	331.5	330.6
Deferred income taxes	584.9	596.8
Other noncurrent liabilities	608.9	541.2
Liabilities of discontinued operations (Note 3)	3.5	1.4

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Total liabilities	5,717.6	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	2,859.3	2,888.2
Retained earnings	1,672.7	1,439.4
Accumulated other comprehensive loss	(39.9)	(90.2)
Unearned compensation		(44.9)
Treasury stock, at cost, 24.8 shares in 2006 (2005 25.5 shares)	(749.0)	(772.0)
Total shareholders equity	4,046.8	3,724.2
Total liabilities and shareholders equity	\$ 9,764.4	\$ 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 Nine Months Ended September 30, 2006 and 2005****(In millions, except per share data)****(UNAUDITED)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Net sales	\$ 2,308.7	\$ 2,183.7	\$ 6,849.3	\$ 6,042.3
Cost of sales (exclusive of depreciation and amortization shown below)	1,656.8	1,562.9	4,966.2	4,329.1
Selling, general and administrative expenses (exclusive of depreciation and amortization shown below)	268.5	266.2	805.8	750.9
Restructuring and impairment charges net (Note 8)	6.6	5.5	37.8	42.1
Depreciation and amortization	116.0	113.0	345.0	311.4
Total operating expenses	2,047.9	1,947.6	6,154.8	5,433.5
Income from continuing operations	260.8	236.1	694.5	608.8
Interest expense net	35.2	32.0	105.7	76.8
Investment and other income (expense) net	0.5	(7.6)	(4.0)	(11.9)
Earnings from continuing operations before income taxes and minority interest	226.1	196.5	584.8	520.1
Income tax expense	61.4	69.2	182.1	188.8
Minority interest	(0.4)		(1.0)	(0.5)
Net earnings from continuing operations	165.1	127.3	403.7	331.8
Loss from discontinued operations, net of tax (Note 3)	(0.4)	(25.2)	(1.9)	(32.1)
Net earnings	\$ 164.7	\$ 102.1	\$ 401.8	\$ 299.7
Earnings per share (Note 11):				
Basic:				
Net earnings from continuing operations	\$ 0.76	\$ 0.59	\$ 1.87	\$ 1.55
Loss from discontinued operations, net of tax		(0.12)	(0.01)	(0.15)
Net earnings	\$ 0.76	\$ 0.47	\$ 1.86	\$ 1.40
Diluted:				
Net earnings from continuing operations	\$ 0.75	\$ 0.59	\$ 1.85	\$ 1.53
Loss from discontinued operations, net of tax		(0.12)	(0.01)	(0.15)

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Net earnings	\$ 0.75	\$ 0.47	\$ 1.84	\$ 1.38
Dividends declared per common share	\$ 0.26	\$ 0.26	\$ 0.78	\$ 0.78
Weighted average number of common shares outstanding (Note 11):				
Basic	216.4	215.1	216.1	214.7
Diluted	218.8	217.0	218.7	216.4

(See Notes to Condensed Consolidated Financial Statements)

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

	Nine Months Ended	
	September 30,	
	2006	2005
OPERATING ACTIVITIES		
Net earnings	\$ 401.8	\$ 299.7
Adjustments to reconcile net earnings to cash provided by operating activities:		
Loss from discontinued operations, net of tax	1.9	32.1
Impairment charges	2.3	5.8
Depreciation and amortization	345.0	311.4
Provision for doubtful accounts receivable	21.7	6.9
Deferred taxes	13.0	57.8
Loss on sale of property, plant and equipment	4.6	11.1
Share-based compensation	27.4	33.7
Other	16.9	38.0
Changes in operating assets and liabilities of continuing operations net of acquisitions:		
Accounts receivable	(111.1)	(159.0)
Inventories net	(67.2)	(90.8)
Prepaid expenses	(8.7)	6.9
Accounts payable	(9.2)	9.8
Accrued liabilities and other	(71.6)	76.2
Net cash provided by operating activities of continuing operations	566.8	639.6
Net cash (used in) provided by operating activities of discontinued operations	(0.7)	2.8
Net cash provided by operating activities		