

RR Donnelley & Sons Co  
Form 10-Q  
May 09, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2007

OR

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

Commission File Number 1-4694

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**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)

111 South Wacker Drive,

Chicago, Illinois  
(Address of principal executive offices)

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

60606  
(Zip code)

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(312) 326-8000

(Registrant's telephone number, including area code)

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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 April 30, 2007, 220.1 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 MARCH 31, 2007**

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

(In millions, except per share data)

(UNAUDITED)

	March 31, 2007	December 31, 2006
<b>ASSETS</b>		
Cash and cash equivalents	\$ 299.6	\$ 211.4
Restricted cash equivalents (Note 2)	34.8	
Receivables, less allowance for doubtful accounts of \$84.3 (2006 \$79.8)	2,010.9	1,638.6
Inventories (Note 4)	626.0	501.8
Prepaid expenses and other current assets	89.5	70.4
Deferred income taxes	124.4	94.8
Total current assets	3,185.2	2,517.0
Property, plant and equipment net (Note 5)	2,556.8	2,142.3
Goodwill (Note 6)	3,565.5	2,886.8
Other intangible assets net (Note 6)	1,485.8	1,119.8
Prepaid pension cost	763.9	638.6
Other noncurrent assets	438.7	331.3
Total assets	\$ 11,995.9	\$ 9,635.8
<b>LIABILITIES</b>		
Accounts payable	\$ 918.7	\$ 749.1
Accrued liabilities	965.0	839.2
Short-term and current portion of long-term debt (Note 14)	348.5	23.5
Total current liabilities	2,232.2	1,611.8
Long-term debt (Note 14)	3,601.8	2,358.6
Postretirement benefits	292.8	288.0
Deferred income taxes	860.0	604.1
Other noncurrent liabilities	730.1	645.4
Liabilities of discontinued operations (Note 3)	2.9	3.2
Total liabilities	7,719.8	5,511.1
<b>SHAREHOLDERS EQUITY</b>		
Preferred stock, \$1.00 par value		
Authorized: 2.0 shares; Issued: None		

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Common stock, \$1.25 par value		
Authorized: 500.0 shares;		
Issued: 243.0 shares in 2007 and 2006	303.7	303.7
Additional paid-in capital	2,831.3	2,871.8
Retained earnings (Note 15)	1,669.0	1,615.0
Accumulated other comprehensive income	140.7	62.1
Treasury stock, at cost, 22.3 shares in 2007 (2006 24.2 shares)	(668.6)	(727.9)
 Total shareholders' equity	 4,276.1	 4,124.7
 Total liabilities and shareholders' equity	 \$ 11,995.9	 \$ 9,635.8

(See Notes to Condensed Consolidated Financial Statements)

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**R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**Three Months Ended March 31, 2007 and 2006**

**(In millions, except per share data)**

**(UNAUDITED)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
Net sales	\$ 2,792.6	\$ 2,266.9
Cost of sales (exclusive of depreciation and amortization shown below)	2,056.0	1,661.5
Selling, general and administrative expenses (exclusive of depreciation and amortization shown below)	324.5	262.1
Restructuring and impairment charges net (Note 7)	11.4	16.6
Depreciation and amortization	142.2	114.8
Total operating expenses	2,534.1	2,055.0
Income from continuing operations	258.5	211.9
Interest expense net	53.4	34.8
Investment and other income (expense) net	2.2	(0.8)
Earnings from continuing operations before income taxes and minority interest	207.3	176.3
Income tax expense	67.9	62.6
Minority interest	0.5	(0.5)
Net earnings from continuing operations	138.9	114.2
Loss from discontinued operations, net of tax	(0.1)	(2.3)
Net earnings	\$ 138.8	\$ 111.9
Earnings per share (Note 10):		
Basic:		
Net earnings from continuing operations	\$ 0.64	\$ 0.53
Loss from discontinued operations, net of tax		(0.01)
Net earnings	\$ 0.64	\$ 0.52
Diluted:		
Net earnings from continuing operations	\$ 0.63	\$ 0.52
Loss from discontinued operations, net of tax		(0.01)
Net earnings	\$ 0.63	\$ 0.51
Dividends declared per common share	\$ 0.26	\$ 0.26
Weighted average number of common shares outstanding:		
Basic	218.5	216.5

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Diluted

(See Notes to Condensed Consolidated Financial Statements)

220.5

217.8

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**R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Three Months Ended March 31, 2007 and 2006**

**(In millions)**

**(UNAUDITED)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$ 138.8	\$ 111.9
Adjustments to reconcile net earnings to cash provided by operating activities:		
Loss from discontinued operations	0.1	2.3
Impairment charges	0.1	0.4
Depreciation and amortization	142.2	114.8
Provision for doubtful accounts receivable	3.2	7.7
Share-based compensation	8.9	8.9
Deferred taxes	(4.8)	2.3
Loss on sale of property, plant and equipment	0.3	1.3
Other	3.7	6.6
Changes in operating assets and liabilities of continuing operations net of acquisitions:		
Accounts receivable net	(20.0)	18.1
Inventories	(12.3)	(24.2)
Prepaid expenses and other current assets	(14.0)	(19.6)
Accounts payable		(54.3)
Accrued liabilities and other	(24.5)	(66.6)
Net cash provided by operating activities of continuing operations	221.7	109.6
Net cash used in operating activities of discontinued operations	(0.3)	(0.6)
Net cash provided by operating activities	221.4	109.0
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(109.4)	(90.9)
Acquisition of businesses, net of cash acquired	(1,546.4)	
Proceeds from sale of investments and other assets	0.9	0.8
Net cash used in investing activities	(1,654.9)	(90.1)
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt	1,244.2	
Net change in short-term debt	324.7	5.7
Payments of current maturities and long-term debt	(4.1)	(19.5)
Debt issuance costs	(13.0)	
Issuance of common stock, net	24.1	4.8
Acquisition of common stock		(0.7)
Dividends paid	(56.7)	(56.1)
Net cash provided by (used in) financing activities	1,519.2	(65.8)



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Effect of exchange rate on cash flows and cash equivalents	2.5	0.9
Net increase (decrease) in cash and cash equivalents	88.2	(46.0)
Cash and cash equivalents at beginning of period	211.4	366.7
Cash and cash equivalents at end of period	\$ 299.6	\$ 320.7

(See Notes to Condensed Consolidated Financial Statements)

**Table of Contents****R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****(Tabular amounts in millions, except per share data unless otherwise indicated)****1. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated interim financial statements include the accounts of R.R. Donnelley & Sons Company and its subsidiaries (the Company or RR Donnelley ) and have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information and in accordance with the rules and regulations of the United States Securities and Exchange Commission (the SEC ). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These unaudited condensed consolidated interim financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. These unaudited condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and the related notes thereto included in the Company 's latest Annual Report on Form 10-K for the year ended December 31, 2006 filed with the SEC on February 28, 2007. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2007. All significant intercompany transactions have been eliminated in consolidation. These unaudited condensed consolidated interim financial statements include estimates and assumptions of management that affect the amounts reported in the condensed consolidated financial statements. Actual results could differ from these estimates. Certain prior year amounts have been reclassified to conform to the Company 's current segment structure.

**2. ACQUISITIONS***2007 Acquisitions*

On January 9, 2007, the Company acquired Banta Corporation ( Banta ), a provider of comprehensive printing and digital imaging solutions to leading publishers and direct marketers, including advanced digital content management and e-business services. Additionally, Banta provides a wide range of procurement management and other outsourcing capabilities to the world 's largest technology companies. The purchase price for Banta was approximately \$1,386.5 million, net of cash acquired of \$38.6 million and including \$13.5 million of acquisition costs and the assumption of \$17.6 million of Banta 's debt. Banta is included in the Global Print Solutions segment with the exception of its premedia and labels operations, which are included in the Global Services segment.

On January 24, 2007, the Company acquired Perry Judd 's Holdings Incorporated ( Perry Judd 's ), a provider of consumer and business-to-business catalogs as well as consumer, trade, and association magazines. The purchase price for Perry Judd 's was approximately \$177.1 million, net of cash acquired of \$0.3 million and including acquisition costs of \$2.5 million. Perry Judd 's is included in the Global Print Solutions segment.

These acquisitions were recorded by allocating the cost of the assets acquired, including intangible assets and liabilities assumed, based on their estimated fair values at the acquisition dates. The excess of the cost of each acquisition over the net amounts assigned to the fair value of the assets acquired and the liability assumed was recorded as goodwill. The allocation below is preliminary, as the final valuation of identifiable intangible assets, property, plant and equipment, leases, deferred taxes and tax contingencies has not been completed. The preliminary purchase price allocation is as follows:

Restricted cash equivalents	\$ 102.5
Accounts receivable	352.7
Inventories	111.0
Other current assets	40.2
Property, plant and equipment and other long-term assets	468.6
Amortizable intangible assets	387.0
Goodwill	639.1
Accounts payable and accrued liabilities	(308.5)
Postretirement and pension benefits and other long-term liabilities	(32.4)
Deferred taxes - net	(196.6)

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Total purchase price net of cash acquired	1,563.6
Debt assumed and not repaid	17.6
Net cash paid	\$ 1,546.0

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At March 31, 2007, restricted cash equivalents of \$93.7 million, of which \$58.9 million is classified in other noncurrent assets, are held in a trust to cover payments, both immediate and long-term, due to certain retired and former employees of Banta Corporation. This trust was funded by Banta in October 2006 after Banta received an unsolicited proposal from a third party other than the Company to acquire Banta. This unsolicited proposal automatically triggered a requirement for Banta to fund the trust to cover such payments. The trust was originally adopted by the Board of Directors of Banta in 1991.

***2006 Acquisition***

On April 27, 2006, the Company acquired OfficeTiger Holdings, Inc. ( OfficeTiger ), a leading provider of integrated business process outsourcing services through its operations in North America, Europe, India, the Philippines and Sri Lanka. OfficeTiger's transaction processing services were closely related and complementary to the Company's existing business process outsourcing resources. The purchase price for OfficeTiger was approximately \$248.8 million, net of cash acquired of \$5.6 million and including acquisition costs of \$4.4 million. OfficeTiger is included in the Global Services segment.

The OfficeTiger acquisition was recorded by allocating the cost to the assets acquired, including intangible assets and liabilities assumed, based on their estimated fair values at the acquisition date. The excess of the cost of the acquisition over the net amounts assigned to the fair value of the assets acquired and the liabilities assumed was recorded as goodwill. The allocation below is preliminary, as the final valuation of certain tax contingencies has not been resolved. The preliminary purchase price allocation is as follows:

Accounts receivable	\$ 20.4
Other current assets	1.5
Property, plant and equipment and other long-term assets	7.2
Amortizable intangible as	