DONNELLEY R R & SONS CO
Form 10-K405
March 30, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

x

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

For the fiscal year ended December 31, 2000

OR

..

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

For the transition period from _____ to _____

Commission file number 1-4694

R. R. DONNELLEY & SONS COMPANY
(Exact name of registrant as specified in its charter)

Delaware	**36-1004130**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
77 West Wacker Drive, Chicago, Illinois	**60601**
(Address of principal executive offices)	**(ZIP Code)**

Registrant s telephone number (312) 326-8000

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
Common (Par Value $1.25)	**New York, Chicago and Pacific Stock Exchanges**
Preferred Stock Purchase Rights	**New York, Chicago and Pacific Stock Exchanges**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days.

Yes ___ ü ___

No ______

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ü]

As of February 28, 2001, 119,040,062 shares of common stock were outstanding, and the aggregate market value of the shares of common stock (based on the closing price of these shares on the New York Stock Exchange Composite Transactions on February 28, 2001) held by nonaffiliates was $3,377,025,443.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement dated February 26, 2001, are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

Industry and Company Overview

R.R. Donnelley & Sons Company (NYSE:DNY) provides comprehensive, integrated communications services that efficiently and effectively produce, manage and deliver our customers content, regardless of the communications medium. While our superior print capabilities remain the foundation of the company, our recent focus on expanding our range of offerings with value-added services allows us to create additional value.

We provide solutions designed to enhance the effectiveness of our customers communications. Our services include:

- *Content creation* to provide creative design services to maximize the impact of communications and improve response rates. In addition to in-house capabilities, alliances with best-in-class providers complement our service offerings.
- *Digital asset management* to help our customers leverage their content to reach end-users through multiple marketing channels. Through our premedia services, we digitally capture content, convert it to the appropriate format and channel it to multiple communications media, including print and the Internet.
- *Production* to drive results for our customers cost-effectively through print or the Internet. Our manufacturing operations around the world offer a full range of capabilities and are networked to produce quickly large printing jobs with identical specifications. We also are able to version printed content to reach targeted audiences. Our Internet services include website production to extend our customers brands to the Internet by delivering content and commerce online through our Red Rover Digital (Red Rover) subsidiary.
- *Distribution to deliver our customers words and images efficiently and reliably through print or the Internet. R.R. Donnelley Logistics (Donnelley Logistics) delivers printed products and packages to the U.S. Postal Service (USPS), saving our customers significant time and money. Red Rover offers a full range of services to deliver value, maximize content effectiveness, enhance our clients businesses and build their customer relationships via the Internet.*

Our 136-year history as a printing industry leader positions us well for the future. The printing industry is projected to grow along with the communications industry. Print advertising is expected to remain among the most cost-effective ways for our customers to deliver their messages and generate revenue as they use words and images to inform, educate, entertain and sell to their audiences.

We are confident that print will remain integral to successful marketing given its unique capabilities, such as portability and high-quality graphics that cannot be duplicated by other communications methods. We also believe that the nature of print will evolve. The ability of print to be targeted, timely, flexible and integrated with other communications media will become more critical.

End-Market Descriptions

We operate primarily in the commercial print portion of the printing industry, with related service offerings designed to offer customers complete solutions for communicating their messages to targeted audiences. While our manufacturing plants, financial service centers and sales offices are located throughout the United States and selected international markets, the supporting technologies and knowledge base are common. Our locations have a range of production capabilities to serve our customers and end-markets. We manufacture products with the operational goal of optimizing the efficiency of the common manufacturing and distribution platform. As a result, most plants produce work for customers in two or three of our end-markets.

The following describes the end-markets we serve:

Long-run Magazines, Catalogs and Inserts R.R. Donnelley is a leader in the North American magazine, catalog and advertising insert markets. These markets are characterized by demand for large, cost-effective print runs with excellent opportunity for differentiation among competitors through services such as premedia and Donnelley Logistics. Our U.S. customers include seven of the top 10 magazine titles, eight of the top 10 consumer catalog companies and eight of the top 10 retailers. Contracts typically span from three to five years.

Telecommunications R.R. Donnelley is the worldwide leader in the directory market. We serve the global directory needs of telecommunications providers, including three of the four U.S. Regional Bell Operating Companies, independent telephone companies such as Sprint, independent directory publishers such as McCleod and Yellow Book, and leading international telecommunications providers such as British Telecom and Shanghai Telephone.

Directory contracts typically span five to 10 years, with our current major contracts expiring between 2004 and 2009. Deregulation and substantial investment in the global telecommunications industry provide significant growth opportunities. In addition, growth opportunities arise as we work with directory publishers to introduce innovations such as targeted printed directories, website development for small businesses, content for online directories and solutions for the technology and government markets, and as we extend our capabilities worldwide.

Book Publishing Services R.R. Donnelley, the leader in the North American book market, serves the trade, children s, religious and educational book segments. We are a key supplier for all of the top 10 U.S. book publishers and we print more than 50% of *The New York Times* adult best-seller titles. We also print one-third of all textbooks used in classrooms in the United States.

We are one of the leading converters of book publishers content to electronic format for electronic books, or e-books, providing services for all major e-book formats. We have converted approximately 1,500 titles to date, including Stephen King s novella *Riding the Bullet,* which was distributed only online.

Financial Services R.R. Donnelley Financial, a leader in the U.S. and international financial services markets, supports the communications needs of corporations and their investment banks as they access the global capital markets. We also are a leading provider of customized communications solutions for investment management, banking, insurance, managed care and pharmaceutical companies.

Our global service network, manufacturing platform and distribution system give us unique advantages in servicing the capital markets, particularly for large financial deals. For example, the four largest transactions of the 1990s used R.R. Donnelley Financial to communicate their deals. Additionally, we are a leading provider of mutual fund compliance communications. To meet our clients needs for accuracy, speed, confidentiality and convenience, we have developed technology for virtual deal management and Internet-enabled inventory management, are experts in EDGAR HTML filings and have integrated database management with content assembly, digital output and multiple-media delivery.

Our customized communications solutions provide an integrated suite of information management, content assembly and delivery solutions designed to give our clients closer and longer-lasting relationships with their customers. In markets that increasingly see demand for more precise communication with individuals, we believe customized communications solutions are and will continue to be a significant growth opportunity for the company.

International We have extended our core competencies for high quality print and related services into non-U.S. geographic markets with no pre-existing local solution. These markets tend to be emerging, with favorable demographic trends such as rising education levels and increasing disposable income. Our international operations in Poland, Mexico and South America, where we produce magazines, books and telephone directories, are reported as International. Financial Services international revenue is included in Financial Services. Directory revenues from China and England are included in Telecommunications.

Specialized Publishing Services R.R. Donnelley is a leader in providing short-run publishers, catalogers and associations with comprehensive communications solutions. We serve customers with highly targeted audiences and typical production runs from 10,000 to 200,000 copies. We offer full-service and cost-effective solutions for business-to-business and consumer magazine and catalog publishers, as well as journal, association and academic publishers.

RRD Direct R.R. Donnelley is a leader in the U.S. direct-mail market, offering expertise and a range of services to guide customers smoothly and cost-effectively through direct-marketing projects. Our full-service solutions include content creation, database management, premedia, printing, personalization, finishing and distribution. We produce highly personalized and sophisticated direct mail pieces that generate results for our customers.

Premedia In our premedia services, we leverage digital technologies to effectively create, manage and prepare customer content and distribute it via various communications media, including print and the Internet. We have developed technology that allows customers to securely access their digital content in an Internet-enabled database and repurpose it for multiple uses. These technologies include our ImageMerchant SM ASP (Application Service Provider) service for merchandisers and AdSpring SM ASP service for magazine publishers.

R.R. Donnelley Logistics R.R. Donnelley is one of the largest users of the USPS, handling approximately 25% of the ground packages and 15% of the magazines delivered by the USPS. No other business partner of the USPS approaches our volume levels in these combined categories. Distribution costs are a significant component of our customers cost structures, and our ability to deliver mail and packages more predictably and cost-effectively is a key differentiator for us.

Our February 2000 acquisition of CTC Distribution Services L.L.C. (CTC) extended our services by adding package delivery to our established business of delivering printed material (freight services). By leveraging the USPS infrastructure to make the final delivery to households and businesses, we are able to provide more economical logistics services. Through zone skipping we are able to obtain greater postal discounts and provide more timely, reliable delivery for our customers. As we complete the integration of CTC and further develop our processes for zone skipping, we are able to bring together our scale, systems and expertise to create logistics services that are valuable to our customers.

In addition to delivering packages and printed material, we also provide returns management and expedited distribution of time-sensitive and secure material (expedited services). Together, these services help merchandisers and other businesses manage their supply chains more effectively and at a lower cost.

Red Rover Digital This subsidiary (included in the operating segment Other) can meet our customers Internet needs using a range of services including a full suite of scalable communications and e-commerce solutions. Red Rover implements solutions that deliver value, maximize content effectiveness, enhance our clients businesses and build their customer relationships. Services such as strategy, design, editorial, development and production populate sites with content, and provide the end-to-end solutions necessary for businesses to survive on the Internet today. Our partnerships and investments in this arena strengthen our online services offering, expand our solutions and help our customers leverage the power of the Internet to communicate with their audiences.

R.R. Donnelley operates in two business segments: commercial print and logistics services. Financial and other information relating to these business segments is included in Item 7 and in the Industry Segment Information footnote to the consolidated financial statements on page F-19. Geographically, our business is concentrated in the United States, where we have 41 manufacturing plants as of December 31, 2000 that generated $5.1 billion in revenue in 2000. In addition to our U.S. facilities, we operate 13 plants in Mexico, South America, Europe and China. Our international strategy is to create value for our stakeholders by extending our core competencies into new geographic markets that have a need for high-quality print and related services, with no local solution. Information relating to our international operations is included in the Geographic Area Information footnote to the consolidated financial statements on page F-21.

Commercial printing remains a competitive industry. Consolidation among our customers and in the printing industry has put pressure on prices and increased competition among printers. We expect these industry trends to continue. We will perform in this environment by leveraging our market-leading position, generating continued productivity improvements and enhancing the value we deliver to our customers by offering them products and services that improve their effectiveness and reduce their total delivered cost. While we have contracts with many of our customers as discussed below, there are many competing companies and renewal of these contracts is dependent, in part, on our ability to continue to differentiate ourself from the competition. While our manufacturing facilities are well located for the global, national or regional distribution of our products, competitors in some areas of the United States have a competitive advantage in some instances due to such factors as freight rates, wage scales and customer preference for local services. In addition to location, other important competitive factors are price and quality, as well as the range of available services.

Approximately 70% of our total sales are under contracts with customers, with the remainder on a single-order basis. For some customers, we print and provide related services for different publications under different contracts. Contracts with our larger customers normally run for a period of years (usually three to five years, but longer in the case of contracts requiring significant capital investment) or for an indefinite period subject to termination on specified notice by either party. These sales contracts generally provide for price adjustments to reflect price changes for materials, wages and utilities. No single customer has a relationship with the company that accounted for 10% or more of our sales in 2000.

The primary raw materials we use in our print businesses are paper and ink. In 2000, we spent approximately $1.9 billion on raw materials. We are a large purchaser of paper and our focus is to improve materials performance and total cost management for our customers, which we believe is a competitive advantage. We negotiate with leading suppliers to maximize our purchasing efficiencies, but we do not rely on any one supplier. We have existing paper supply contracts (at prevailing market prices) to cover substantially all of our requirements through 2001, and management believes extensions and renewals of these purchase contracts will provide adequate paper supplies in the future. Ink and ink materials are currently available in sufficient amounts, and we believe that we will have adequate supplies in the future. We also coordinate purchasing activity at the local plant and corporate levels to increase economies of scale.

Our overriding principles in the environmental arena are to create sustainable compliance and an injury-free workplace. Our estimated capital expenditures for environmental controls to comply with federal, state and local provisions, as well as expenditures, if any, for our share of costs to clean hazardous waste sites that have received our waste, will not have a material effect upon our earnings or our competitive position.

As of December 31, 2000, we had approximately 34,000 employees, of whom more than 9,200 had been our employees for 10 to 24 years and more than 3,200 for 25 years or longer. As of December 31, 2000, we employed approximately 28,000 people in the United States, approximately 1,000, or 3%, of whom were covered by collective bargaining agreements. In addition, we employed approximately 6,000 people in our international operations, 33% of whom were covered by collective bargaining agreements. Of the 28,000 U.S. employees, approximately 1,600 or 6% were employed within our logistics operations.

We made six acquisitions in 2000 to extend our geographic reach and expand our range of capabilities. In January, we purchased Omega Studios-Southwest, Inc., a photography studio offering digital photography and creative services. In February, we purchased CTC, a consolidator of business-to-home packages; Iridio, Inc., a Seattle-based full-service premedia company; and Evaco Inc., a Florida-based leading financial printer. In July, we purchased Circulo do Livro, a leading Brazilian book printer. In December, we purchased Interactive Dataflow Technology, a Maryland-based application service provider. All of these acquisitions have been accounted for using the purchase method of accounting. We also acquired minority interests in Noosh, Inc., an Internet communications services company, and in several additional start-up businesses. See Acquisitions and Investments footnote to the consolidated financial statements on page F-8 for details.

We made five strategic acquisitions in 1999 consistent with our strategy to speed growth in our high-value businesses. In March, we purchased Cadmus Financial, a financial printer in Charlotte, North Carolina. In April, we purchased the Communicolor division of the Standard Register Company, a provider of personalization services and printer of innovative direct-mail campaigns with two plants located in Hebron, Ohio, and Eudora, Kansas. In May, we purchased Hamburg Gráfica Editora, a Brazilian book printer. In July, we purchased Freight Systems, Inc., a California-based transportation company. In December, we purchased Penton Press, a short-run magazine printing facility in Berea, Ohio. In addition to these acquisitions, we acquired a 30% interest in MultiMedia Live, an Internet Web site design firm, and increased our ownership position in Editorial Lord Cochrane S.A. (Cochrane), the largest printer in Chile, to 99% from 78%. Cochrane also increased its ownership interest in Atlántida Cochrane (located in Argentina) from 50% to 100%.

We made two small strategic acquisitions in 1998. In October, we purchased Ediciones Eclipse S.A. de C.V., a Mexico City-based printer of retail inserts. In December, we purchased GTE s St. Petersburg, Florida, directory-printing plant. In addition, we increased our investment in two other international operations. In July, we purchased additional outstanding shares of Cochrane to increase our ownership position to 78% from 55%. In November, we purchased the interests of our partner in our Poland operation, the Polish-American Printing Company, to take 100% ownership.

In June 2000, we sold our 100% interest in R.R. Donnelley (India) Ltd. and its 25.37%-owned subsidiary, Tata Donnelley Limited, to Tata Sons Limited for approximately $12.5 million in cash.

During the fourth quarter of 1999, we divested our interest in Modus Media International (MMI), Stream International and Corporate Software & Technology Holdings, Inc. (CS&T). In October 1999, we sold our investment in MMI for a total of approximately $60 million ($47 million in cash and a $13 million promissory note). In November 1999, we sold 93% of our investment in the common stock of Stream International to a group led by Bain Capital for approximately $96 million in cash. Also, in November 1999, we sold our entire interest in CS&T to the management of CS&T for cash proceeds of approximately $41 million.

In April 1998, we sold our interest in Metromail Corporation for $297 million in cash. In July 1998, we sold our interest in Donnelley Enterprise Solutions Incorporated (DESI) for $45 million in cash.

Special Note Regarding Forward-Looking Statements. Our Annual Report to Shareholders and this Form 10-K are among certain communications that contain forward-looking statements, including statements regarding our financial position, results of operations, market position, product development and regulatory matters. When used in such communications, the words believes, anticipates, expects and similar expressions are intended to identify forward-looking statements. These forward-looking statements are based on our estimates, assumptions, projections and current expectations and are subject to a number of risks and uncertainties. Actual results in the future could differ materially from those described in the forward-looking statements as a result of many factors outside our control, including competition with other communications services providers based on pricing and other factors; fluctuations in the cost of paper, other raw materials and fuel we use; changes in postal rates and postal regulations; seasonal fluctuations in overall demand for services; changes in customer demand; changes in the advertising and printing markets; changes in the capital markets that affect demand for financial printing; the financial condition of our customers; our ability to continue to obtain improved operating efficiencies; the general condition of the U.S. economy and the economies of other countries in which we operate; changes in the rules and regulations to which we are subject, including environmental regulation; and other factors set forth in this Form 10-K and other company communications generally. We do not undertake and specifically decline any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

ITEM 2. PROPERTIES

Our corporate office is located in leased office space in a building in Chicago, Illinois. In addition, as of December 31, 2000, we lease or own 50 U.S. facilities, some of which have multiple buildings and warehouses. These facilities encompass approximately 15.7 million square feet. We have 13 plants encompassing approximately 2.0 million square feet in South America, Mexico, Europe and Asia. Of the total manufacturing and warehouse facilities, approximately 17.7 million square feet of space is owned, while the remaining 1.1 million square feet of space is leased. In addition, we have sales offices across the United States, South America, Mexico, Europe and Asia.

ITEM 3. LEGAL PROCEEDINGS

On November 25, 1996, a class action was brought against the company in federal district court in Chicago, Illinois, on behalf of all current and former African-American employees, alleging that the company racially discriminated against them in violation of the Civil Rights Act of 1871, as amended, and the U.S. Constitution *(Jones, et al. v. R.R. Donnelley & Sons Co.)*. The complaint seeks declaratory and injunctive relief, and asks for actual, compensatory, consequential and punitive damages in an amount not less than $500 million. Although plaintiffs sought nationwide class certification, most of the specific factual assertions of the complaint relate to the closing by the company of its Chicago catalog operations in 1993. Other general claims relate to other company locations.

On June 30, 1998, a class action was filed against the company in federal district court in Chicago on behalf of current and former African-American employees, alleging that the company racially discriminated against them in violation of Title VII of the Civil Rights Act of 1964 *(Adams, et al. v. R.R. Donnelley & Sons Co.).* While making many of the same general discrimination claims contained in the *Jones* complaint, the *Adams* plaintiffs are also claiming retaliation by the company for the filing of discrimination charges or otherwise complaining of race discrimination. The complaint seeks the same relief and damages as sought in the *Jones* case.

On March 7, 2001, the district court judge in the *Jones* and *Adams* cases certified three plaintiff classes in the actions: a class consisting of African-American employees discharged in connection with the shutdown of the Chicago catalog operations; a class consisting of African-American employees of the Chicago catalog operations after November 1992 who were other than permanent employees; and a class consisting of African-Americans subjected to an allegedly hostile working environment at the Chicago catalog operations, the Chicago financial or Dwight, Illinois, manufacturing operations. The judge also consolidated the *Jones* and *Adams* cases for pretrial purposes. On March 16, 2001, plaintiffs filed a motion seeking reconsideration of the court s class certification order.

On December 18, 1995, a class action was filed against the company in federal district court in Chicago alleging that older workers were discriminated against in selection for termination upon the closing of the Chicago catalog operations *(Gerlib, et al. v. R.R. Donnelley & Sons Co.)*. The suit also alleges that the company violated the Employee Retirement Income Security Act (ERISA) in determining benefits payable to retiring or terminated employees. On August 14, 1997, the court certified classes in both the age discrimination and ERISA claims limited to former employees of the Chicago catalog operations.

On December 28, 2000, a purported class action was brought against the company and certain of its benefit plans in federal district court in Chicago, Illinois, on behalf of certain former employees of the Chicago catalog operations *(Jefferson, et al. v. R.R. Donnelley & Sons Co., et al.)*. The suit alleges that enhanced pension benefits were not paid to plaintiffs and that plaintiffs are being required to contribute to the costs of retiree medical coverage, both in violation of plan documents and ERISA. The complaint seeks recalculation of pension benefits due plaintiffs since their retirement dates, reimbursement of any amounts paid by plaintiffs for medical coverage, interest on the foregoing amounts, as well as a declaration as to the benefits due plaintiffs in the future.

The *Jones, Gerlib* and *Jefferson* cases relate primarily to the circumstances surrounding the closing of the Chicago catalog operations. The company believes that it acted properly in the closing of the operations, and that certain claims of the classes of former employees of the Chicago catalog operations are untimely. On December 20, 2000, in the *Jones* case the company filed a renewed motion for partial summary judgment on the basis of timeliness, which is pending. Further, with regard to all cases, the company believes it has a number of valid defenses to all of the claims made and will vigorously defend its actions. However, management is unable to make a meaningful estimate of any loss that could result from an unfavorable outcome of any of the pending cases.

In December 1999, the U.S. Environmental Protection Agency, Region 5 (U.S. EPA) issued a Notice of Violation against the company, pursuant to Section 113 of the Clean Air Act (the Act). The notice alleges that the company s facility in Willard, Ohio, violated the Act and Ohio s State Implementation Plan in installing and operating certain equipment without appropriate air permits. While the notice does not specify the remedy sought, upon final determination of a violation, the U.S. EPA may issue an administrative order requiring the installation of air pollution control equipment, assess penalties, or commence civil or criminal action against the company. The company responded to the U.S. EPA on March 10, 2000. The company does not believe that any unfavorable result of this proceeding will have a material impact on the company s financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 2000.

EXECUTIVE OFFICERS AND OTHER PRINCIPAL OFFICERS OF R.R. DONNELLEY & SONS COMPANY

Name, Age and Positions with the Company(2)	Officer Since	Business Experience During Past Five Years(2)
Michael B. Allen 41, Executive Vice President(1)	1989	Management responsibilities for Commercial Print Manufacturing Operations; Strategic Sourcing; Magazine Publishing Services; and Merchandise Media. Prior experience as President, Retail Services; President, Information Services; and President, Book Publishing Services.

(1) Executive officer of the Company.
(2) Each officer named has carried on his or her principal occupation and employment in the company for more than five years with the exception of Haven E. Cockerham, William L. Davis, Gary L. Sutula and Michael W. Winkel as noted in the table above.

PART II

ITEM 5. MARKET FOR R.R. DONNELLEY & SONS COMPANY S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock is listed and traded on the New York Stock Exchange, Chicago Stock Exchange and Pacific Exchange, Inc.

As of January 31, 2001, there were 9,458 stockholders of record. Information about the quarterly prices of the common stock, as reported on the New York Stock Exchange-Composite Transactions, and dividends paid during the two years ended December 31, 2000, is contained in the chart below:

	Dividends Paid		Common Stock Prices			
			2000		1999	
	2000	1999	High	Low	High	Low
First Quarter	$0.22	$0.21	24.31	19.00	43.81	32.13
Second Quarter	0.22	0.21	26.69	20.13	37.94	31.38
Third Quarter	0.23	0.22	26.75	22.13	36.94	27.75
Fourth Quarter	0.23	0.22	27.00	21.38	30.25	22.81
Full Year	0.90	0.86	27.00	19.00	43.81	22.81

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA
(Not Covered by Auditors Report)
(Thousands of dollars, except per-share data)

	2000	1999	1998	1997	1996
Net sales	$5,764,335	$5,415,642	$5,217,953	$5,085,811	$5,209,169
Income (loss) from continuing operations	266,900	311,515	374,647	206,525	(71,483)
Loss on disposal of discontinued operations				(60,000)	
Loss from discontinued operations		(3,201)	(80,067)	(15,894)	(86,142)
Net income (loss)*	266,900	308,314	294,580	130,631	(157,625)
Net income (loss) per diluted common share*	2.17	2.38	2.08	0.89	(1.04)
Total assets	3,914,202	3,853,464	3,798,117	4,134,166	4,443,828
Noncurrent liabilities	1,491,093	1,511,743	1,447,852	1,730,047	2,044,818
Cash dividends per common share	0.90	0.86	0.82	0.78	0.74

* Net income (loss) includes the following one-time items: 2000 gain related to the sale of shares received from the demutualization of the company s basic life insurance carrier of $13 million ($8 million after-tax, or $0.06 per diluted share); 1999 gains on the sale of businesses and investments of $43 million ($27 million after-tax, or $0.20 per diluted share); 1998 gains on the sale of the company s remaining interests in two former subsidiaries of $169 million ($101 million after-tax, or $0.71 per diluted share); 1997 restructuring and impairment charges of $71 million ($42 million after-tax, or $0.29 per diluted share); 1996 restructuring and impairment charges of $442 million ($374 million after taxes and minority interest, or $2.45 per diluted share), and gains on partial divestitures of subsidiaries of $80 million ($48 million after-tax, or $0.31 per diluted share).

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Review

In the financial review that follows, we discuss our results of operations, financial condition and certain other information. This discussion should be read in conjunction with our consolidated financial statements and related notes that begin on page F-1.

In November 1999, we disposed of our entire interest in Corporate Software and Technology Inc. (CS&T). The operating results of this business are shown as a discontinued operation. During November 1999, we also sold 93% of our investment in the common stock of Stream International Inc. (Stream). Stream is consolidated in our financial results prior to the date of disposition. For comparision purposes, summary results of operations for Stream are included in the table below:

Stream Summary Income Statement

	2000	1999*	1998
IN MILLIONS			
Net sales**	$	$212	$214
Value-added revenue (VAR)**		212	214

	2000	1999*	1998
IN MILLIONS			
Gross profit		64	56
Selling and administrative expenses		57	56
Earnings (loss) from operations		7	(2)

* Results are through disposition in November 1999.

** Included in Other for End-Market discussion.

One-Time Items The following nonrecurring items also affect comparability between years:

In 2000, income from continuing operations included a one-time non-operating gain related to the sale of shares received from the demutualization of our basic life insurance carrier ($13 million pretax and $8 million after-tax; $0.06 per diluted share).

In 1999, income from continuing operations included:

- a gain on the sale of 93% of our interest in Stream ($40 million pretax and $75 million after-tax due to tax benefits from associated tax loss carrybacks; $0.59 per diluted share);
- a gain on the sale of our interest in Modus Media International (MMI) ($3 million both pretax and after-tax; $0.01 per diluted share); and
- a provision for income taxes related to corporate-owned life insurance (COLI) ($51 million; $(0.40) per diluted share) (see Income Taxes and Subsequent Events footnotes to the consolidated financial statements on pages F-14 and F-21, respectively, for more details on COLI).

In 1998, income from continuing operations included:

- a gain on the sale of our remaining interest in Metromail Corporation (Metromail) ($146 million pretax and $87 million after-tax; $0.61 per diluted share); and
- a gain on the sale of our remaining interest in Donnelley Enterprise Solutions Incorporated (DESI) ($23 million pretax and $14 million after-tax; $0.10 per diluted share).

The following table summarizes the impact of these one-time items:

	Full Year Results			Per Diluted Share		
	2000	1999	1998	2000	1999	1998
		In Thousands				
Income from continuing operations before one-time items	$258,992	$285,171	$273,305	$2.11	$ 2.20	$ 1.93
Gain from demutualization	7,908			0.06		
Gain on sale of businesses and investments		77,532	101,342		0.60	0.71
COLI tax provision		(51,188)			(0.40)	
Income from continuing operations	$266,900	$311,515	$374,647	$2.17	$ 2.40	$ 2.64
Loss from discontinued operations		(3,201)	(80,067)		(0.02)	(0.56)
Net income	$266,900	$308,314	$294,580	$2.17	$ 2.38	$ 2.08