

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-06-13** | Period of Report: **1995-04-30**
SEC Accession No. **0000104348-95-000006**

(HTML Version on secdatabase.com)

FILER

WALLACE COMPUTER SERVICES INC

CIK: **104348** | IRS No.: **362515832** | State of Incorpor.: **DE** | Fiscal Year End: **0731**
Type: **10-Q** | Act: **34** | File No.: **001-06528** | Film No.: **95546685**
SIC: **2761** Manifold business forms

Mailing Address
4600 W ROOSEVELT ROAD
HILLSIDE IL 60162

Business Address
4600 W ROOSEVELT RD
HILLSIDE IL 60162
3126262000

Item 1. Financial Statements

The information furnished herein reflects all adjustments which are, in the opinion of management, necessary to a fair statement of the results of operations and financial position for the nine months ended April 30, 1995, subject to year-end audit by independent public accountants. These adjustments are of a normal, recurring nature.

Wallace Computer Services, Inc. and Subsidiary
Consolidated Income Statement (Unaudited)

<TABLE>

<CAPTION>

	For the Nine Months Ended April 30			
	1995	% Sales	1994	% Sales
<S>	<C>	<C>	<C>	<C>
Net Sales	\$514,637,000	100.0	\$439,104,000	100.0
Cost and Expenses				
Cost of goods sold (Note 1)	328,070,000	63.7	271,495,000	61.8
Selling and administrative expenses	98,607,000	19.2	89,507,000	20.4
Provision for depreciation and amortization	27,245,000	5.3	24,423,000	5.6
Total costs and expenses	\$453,922,000	88.2	\$385,425,000	87.8
Operating Income	60,715,000	11.8	53,679,000	12.2
Interest income	(2,747,000)	(0.5)	(2,557,000)	(0.6)
Interest expense	1,030,000	0.2	928,000	0.2
Income before Income Taxes	62,432,000	12.1	55,308,000	12.6
Provision for Income Taxes	22,902,000	4.4	19,911,000	4.5
Net Income before Accounting Change	\$39,530,000	7.7	\$35,397,000	8.1
Accounting Change, net of tax (Note 3)	0	0.0	663,000	0.2
Net Income after Accounting Change	\$39,530,000	7.7	\$36,060,000	8.2
Net Income per Share	\$1.76		\$1.63	
Average Common Shares Outstanding	22,457,000		22,152,000	
Dividends Declared Per Share	\$0.555		\$0.48	

</TABLE>

The accompanying notes are an integral part of this statement.

Wallace Computer Services, Inc. and Subsidiary
Consolidated Income Statement (Unaudited)

<TABLE>
<CAPTION>

	For the Three Months Ended April 30			
	1995	%	1994	%
		Sales		Sales
<S>	<C>	<C>	<C>	<C>
Net Sales	\$180,119,000	100.0	\$141,472,000	100.0
Cost and Expenses				
Cost of goods sold (Note 1)	112,755,000	62.6	85,614,000	60.5
Selling and administrative expenses	35,433,000	19.7	30,096,000	21.3
Provision for depreciation and amortization	9,421,000	5.2	8,311,000	5.9
Total costs and expenses	\$157,609,000	87.5	\$124,021,000	87.7
Operating Income	22,510,000	12.5	17,451,000	12.3
Interest income	(763,000)	(0.4)	(933,000)	(0.7)
Interest expense	336,000	0.2	297,000	0.2
Income before Income Taxes	22,937,000	12.7	18,087,000	12.8
Provision for Income Taxes	8,487,000	4.7	6,511,000	4.6
Net Income	\$14,450,000	8.0	\$11,576,000	8.2
Net Income per Share	\$0.64		\$0.52	
Average Common Shares Outstanding	22,534,000		22,260,000	
Dividends Declared Per Share	\$0.185		\$0.16	

</TABLE>

The accompanying notes are an integral part of this statement.

Page 4

Wallace Computer Services, Inc. and Subsidiary
Consolidated Balance Sheet

<TABLE>
<CAPTION>

	April 30, 1995 (Unaudited)	July 31, 1994 (Audited)
<S>	<C>	<C>
Assets		
Current Assets		
Cash and Cash Equivalents	\$4,082,000	\$17,587,000
Short-term Investments (Note 3)	33,837,000	59,411,000
Accounts Receivable	126,797,000	97,160,000
Less-Allowance for Doubtful Accounts	2,809,000	1,982,000
Net Receivables	123,988,000	95,178,000

Inventories (Note 1)	83,256,000	69,543,000
Advances and Prepaid Expenses	8,571,000	6,507,000
	-----	-----
Total Current Assets	253,734,000	248,226,000
	-----	-----
Property, Plant and Equipment, at Cost	475,615,000	432,244,000
Less-Reserves for Depreciation and Amortization	222,825,000	199,382,000
	-----	-----
Net Property, Plant and Equipment	252,790,000	232,862,000
	-----	-----
Intangible Assets Arising from Acquisitions	26,742,000	15,779,000
Cash Surrender Value of Life Insurance	26,615,000	21,530,000
Other Assets	23,136,000	20,195,000
	-----	-----
Total Assets	\$583,017,000	\$538,592,000
	=====	=====
Liabilities and Stockholders' Equity		
Current Portion of Long-Term Debt	\$3,171,000	\$6,110,000
Accounts Payable	36,434,000	24,009,000
Accrued Salaries, Wages and Profit Sharing	33,036,000	32,789,000
Accrued Income Taxes	901,000	1,886,000
	-----	-----
Total Current Liabilities	73,542,000	64,794,000
	-----	-----
Long-Term Debt	25,600,000	23,500,000
Deferred Income Taxes	22,612,000	22,183,000
Deferred Compensation and Retirement Benefits	20,916,000	17,976,000
Stockholders' Equity		
Common Stock (Note 2)		
Outstanding-22,534,380 shares at April 30, 1995 and 22,393,353 shares at July 31, 1994	22,534,000	22,393,000
Additional Capital	41,742,000	38,553,000
Retained Earnings	376,240,000	349,193,000
Unrealized Loss on Securities (Note 3)	(169,000)	0
	-----	-----
Total Stockholders' Equity	440,347,000	410,139,000
	-----	-----
Total Liabilities and Stockholders' Equity	\$583,017,000	\$538,592,000
	=====	=====

</TABLE>

The accompanying notes are an integral part of this statement.

Wallace Computer Services, Inc. and Subsidiary
Consolidated Statement of Cash Flows (Unaudited)

Page 5

<TABLE>

<CAPTION>

For the Nine Months Ended
April 30

	1995	1994
	-----	-----
	<C>	<C>
Cash Flows from Operating Activities:		
Net income from operations before cumulative effect of accounting changes	\$39,530,000	\$35,397,000
Adjustments to reconcile net income to net cash provided by operating activities:		

Depreciation and amortization	27,245,000	24,423,000
Deferred taxes	(107,000)	1,562,000
(Gain)/loss on disposal of property	15,000	58,000
Changes in assets and liabilities		
Accounts receivable	(27,161,000)	(2,482,000)
Inventories	(12,953,000)	1,502,000
Advances and prepaid expenses	(831,000)	(1,582,000)
Other assets	(11,527,000)	(7,619,000)
Accounts payable and other liabilities	10,197,000	78,000
Accrued income taxes	(985,000)	1,273,000
Deferred compensation and retirement benefits	2,940,000	2,312,000
	-----	-----
Net cash provided by operating activities	26,363,000	54,922,000
	-----	-----
Cash Flows from Investing Activities:		
Capital expenditures	(38,364,000)	(26,191,000)
Short-term investments	25,574,000	(10,920,000)
Proceeds from disposal of property	23,000	253,000
Unrealized loss on securities (Note 3)	(169,000)	0
Other capital investments including acquisitions	(17,017,000)	(2,700,000)
	-----	-----
Net cash used in investing activities	(29,953,000)	(39,558,000)
	-----	-----
Cash Flows from Financing Activities:		
Proceeds from issuance of treasury stock	3,330,000	4,330,000
Cash dividends paid	(11,896,000)	(10,291,000)
Amounts paid on long-term debt	(3,144,000)	(299,000)
Proceeds from issuance of short-term debt	4,829,000	0
Proceeds from issuance of long-term debt	2,100,000	0
Retirement of short-term and acquired debt	(6,474,000)	0
Proceeds from construction funds held by trustee	1,340,000	0
	-----	-----
Net cash used in financing activities	(9,915,000)	(6,260,000)
	-----	-----
Net changes in cash and cash equivalents	(13,505,000)	9,104,000
Cash and cash equivalents at beginning of year	17,587,000	7,107,000
	-----	-----
Cash and cash equivalents at April 30	\$4,082,000	\$16,211,000
	=====	=====
Supplemental Disclosure:		
Interest paid (net of interest capitalized)	\$ 302,000	\$ 168,000
Income taxes paid (net of refunds received)	25,204,000	18,023,000

</TABLE>

The accompanying notes are an integral part of this statement.

Wallace Computer Services, Inc. and Subsidiary
Notes to Consolidated Financial Statements
April 30, 1995
(Unaudited)

Page 6

Note 1 - Inventories

Inventories at April 30, 1995 and July 31, 1994 were as follows:

<TABLE>

<CAPTION>

April 30, 1995	July 31, 1994
-----	-----

<S>	<C>	<C>
Raw materials	\$26,064,000	\$22,221,000
Work in process	500,000	1,614,000
Finished products	56,692,000	45,708,000
	-----	-----
	\$83,256,000	\$69,543,000
	=====	=====

</TABLE>

Certain inventories are stated on the last-in, first-out (LIFO) basis for their labor and material content, and other inventories are stated on the first-in, first-out (FIFO) basis.

Because the inventory determination under the LIFO method can only be made at the end of each fiscal year based on the inventory levels and costs at that time, interim period LIFO determinations must necessarily be based upon management's estimates of expected year-end inventory levels and costs.

Note 2 - Stock Options

As of April 30, 1995, options to purchase 431,659 shares of common stock were outstanding and 1,106,353 shares of common stock were available for future grants under the Company's Stock Option and Employee Stock Purchase Plans. At the annual meeting of stockholders held on November 9, 1994, the number of shares of common stock available for future grants under the Company's Stock Option and Employee Stock Purchase Plans was increased by 500,000.

The Company has authorized 50,000,000 shares of common stock and has issued 22,796,176. Of these shares, 986,780 have been repurchased and 724,984 have been reissued under the Employee Stock Purchase Plan and through the exercise of stock options. The number of shares held in treasury at April 30, 1995 is 261,796. At July 31, 1994, 22,796,176 shares had been issued of which 986,780 had been repurchased and 583,957 have been reissued. The number of shares held in treasury at July 31, 1994 was 402,823. The Company's authorization to repurchase additional shares expired on July 31, 1993.

Note 3 - Changes in Accounting

In the first quarter ended October 31, 1993, the Company adopted Statement of Financial Accounting Standards No. 106 (SFAS 106), "Employers' Accounting for Post-Retirement Benefits Other than Pensions", and Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes."

Effective August 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires securities that are available-for-sale be carried at fair value, with changes in net unrealized gains and losses recorded as a separate component of shareholders' equity. Previously, fixed income securities classified as available-for-sale were carried at the lower of amortized cost

Note 3 - Changes in Accounting (continued)

or fair value, determined in the aggregate. The adoption of this statement had no impact on net income, but decreased shareholders' equity by \$169,000 at April 30, 1995 (net of tax).

The amortized cost and market value of investments as of adoption on August 1, 1994, and as of April 30, 1995 were as follows:

<TABLE>

<CAPTION>

August 1, 1994 -----	Amortized Cost	Unrealized Gains	Holding Losses	Market Value
<S>	<C>	<C>	<C>	<C>
Available-for-Sale				
State, Municipal & Other Govt Debt	\$22,629,000	\$42,000	\$64,000	\$22,607,000
Corporate Debt	1,992,000	7,000	0	1,999,000
Equity	14,322,000	86,000	795,000	13,613,000
Other	68,000	0	0	68,000
Held-to-Maturity				
State, Municipal & Other Govt Debt	20,400,000	0	0	20,400,000
Total Short-term Investments	\$59,411,000	\$135,000	\$859,000	\$58,687,000
Long-term Available-for-Sale				
Equity	\$1,992,000	\$0	\$0	\$1,992,000

</TABLE>

<TABLE>

<CAPTION>

April 30, 1995 -----	Amortized Cost	Unrealized Gains	Holding Losses	Market Value
<S>	<C>	<C>	<C>	<C>
Available-for-Sale				
State, Municipal & Other Govt Debt	\$21,135,000	\$131,000	\$34,000	\$21,232,000
Equity	12,984,000	94,000	473,000	12,605,000
Held-to-Maturity				
State, Municipal & Other Govt Debt	0	0	0	0
Total Short-term Investments	\$34,119,000	\$225,000	\$507,000	\$33,837,000
Long-term Available-for-Sale				
Equity	\$1,992,000	\$0	\$0	\$1,992,000

</TABLE>

Short-term investments were carried at amortized cost at July 31, 1994. Maturities for all debt securities classified as short-term are less than one year. The long-term investment is included in the 'Other Assets' section of the balance sheet.

For the nine months ended April 30, 1995, proceeds on the sale of available-for-sale securities were \$5,555,000, with gross realized losses of \$20,000. The amortized cost of these securities was based on specific

identification. No securities during the period were classified as trading

Wallace Computer Services, Inc.
FORM 10-Q
For Quarterly Period Ended April 30, 1995

Page 8

Note 3 - Changes in Accounting (continued)

securities. The net unrealized loss on available-for-sale securities has decreased by \$265,000 (net of tax) from August 1, 1994 to April 30, 1995.

There have been no sales of held-to-maturity securities other than at their maturity date.

Item 2. Management's Discussion and Analysis of Financial
Condition and Results of Operations

Results of Operations

There have been no material changes in financial condition since our preceding fiscal year which ended July 31, 1994.

For the three month period ended April 30, 1995, net sales increased 27.3% to \$180,119,000. Net income for the third quarter increased 24.8% to \$14,450,000 or 64 cents per share, from \$11,576,000 or 52 cents per share in fiscal 1994. Pretax income for the quarter was up by \$4,850,000 or 26.8%.

For the nine month period ended April 30, 1995, net sales increased 17.2% to \$514,637,000. Net income before accounting changes for the three quarters increased 11.7% to \$39,530,000 or \$1.76 per share, from \$35,397,000 or \$1.60 per share in fiscal 1994. Pretax income excluding accounting changes for the three quarters was up by \$7,124,000 or 12.9%.

Cost of goods sold represented 62.6% of sales versus 60.5% in the third quarter of fiscal 1994. The third quarter of fiscal 1995 includes a LIFO charge of \$2,984,000 or 8.4 cents per share as a result of higher paper costs. Cost of goods sold for the three quarters was 63.7% in fiscal 1995 versus 61.8% in fiscal 1994. Total LIFO charges for the three quarters were \$6,633,000 or 18.7 cents per share. The LIFO charge for the first three quarters of fiscal 1994 was \$297,000.

Selling and administrative expenses were 19.7% of sales versus 21.3% in the third quarter last year. For the three quarters of fiscal 1995, expenses are 19.2% of sales versus 20.4% in fiscal 1994.

The provision for depreciation and amortization is up 11.6% in the first three quarters from fiscal 1994. This increase is the result of the company's continued reinvestment in capital resources and system development.

Interest income for the first nine months increased by \$190,000 or 7.4% from the same period one year ago. The increase in interest income is due

to generally higher interest rates. The decrease in interest income in the third quarter of \$170,000 is due to the decrease in cash and investments from last fiscal year, which is attributable to continued capital investments and acquisition activity. Interest expense, which is shown net of capitalized interest, increased \$102,000 or 11.0% between years. Increased interest expense is attributable to higher interest

Wallace Computer Services, Inc.
FORM 10-Q
For Quarterly Period Ended April 30, 1995

Page 9

Item 2. Management's Discussion and Analysis of Financial
Condition and Results of Operations (continued)

Results of Operations (continued)

rates on our variable rate Industrial Revenue Bonds.

Operating income for the quarter was up \$5,059,000 or 29.0%. For the first nine months, operating income was up \$7,036,000 or 13.1%. For fiscal 1995 this represents 11.8% to sales versus 12.2% for fiscal 1994.

Effective February 1, 1995, the Company increased its effective tax rate from 36.5% to 37.0%, principally due to interest on tax-exempt investments being lower than expected.

Liquidity and Capital Resources

Working capital decreased by \$3,240,000 from July 31, 1994, with a current ratio of 3.5 at April 30, 1995. Long-term debt includes \$23,500,000 of industrial revenue bonds at rates ranging from 4.75% to 4.85%, as well as \$2,100,000 related to acquisitions made in the current fiscal year. Long-term debt currently represents 5.5% of total capitalization.

Capital expenditures for the first nine months totaled \$38,364,000. For the full fiscal year, we project expenditures of \$50.0 million, which will be financed through internally generated funds and by the Industrial Revenue Bond for our Lebanon facility.

Stockholders' equity increased by 7.4% to \$440.3 million at April 30, 1995.

The current portion of long-term debt includes debt assumed in connection with the acquisition of MGI Companies and Evergreen Realty in 1991. A final payment on current debt of \$2,959,000 was made in December 1994. An additional payment of \$2,980,000 has been made in May 1995 to retire the last of the assumed debt.

Cash balances remain adequate to fund current operations. We do not anticipate a need to borrow funds in the near future.

Current inventory levels are in-line with the inventory levels necessary to satisfy customer demand. We anticipate having adequate sources of supply of raw materials to meet the future requirements of our business.

On November 9, 1994, the Board of Directors voted to increase the annualized dividend rate to \$.74 per share, a 15.6% increase from fiscal 1994.

Wallace Computer Services, Inc.
FORM 10-Q
For Quarterly Period Ended April 30, 1995

Page 10

Item 2. Management's Discussion and Analysis of Financial
Condition and Results of Operations (continued)

Other

On November 29, 1994, we completed the acquisition of the assets of Lampro Graphics, Inc. This acquisition was a cash transaction and will be accounted for using the purchase method. The acquisition is not expected to materially impact the Company's results for fiscal 1995.

On April 19, 1995, we completed the acquisition of the assets of Retterbush and Sauer Label Corporation. The acquisition was a cash transaction and will be accounted for using the purchase method. The acquisition is not expected to materially impact the Company's results for fiscal 1995.

Part II Other Information

Items 1 through 6. None

Page 11

Wallace Computer Services, Inc.
FORM 10-Q
For Quarterly Period Ended April 30, 1995

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WALLACE COMPUTER SERVICES, INC.

June 7, 1995

/s/ ROBERT CRONIN

Date

Robert Cronin
President and Chief Executive Officer

June 7, 1995

/s/ MICHAEL J. HALLORAN

Date

Michael J. Halloran
Chief Financial Officer

<TABLE> <S> <C>

<ARTICLE> 5

<MULTIPLIER> 1000

<S>	<C>
<PERIOD-TYPE>	9-MOS
<FISCAL-YEAR-END>	JUL-31-1995
<PERIOD-START>	AUG-01-1994
<PERIOD-END>	APR-30-1995
<CASH>	4,082
<SECURITIES>	33,837
<RECEIVABLES>	126,797
<ALLOWANCES>	(2,809)
<INVENTORY>	83,256
<CURRENT-ASSETS>	253,734
<PP&E>	475,615
<DEPRECIATION>	(222,825)
<TOTAL-ASSETS>	583,017
<CURRENT-LIABILITIES>	73,542
<BONDS>	25,600
<COMMON>	22,534
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<OTHER-SE>	417,813
<TOTAL-LIABILITY-AND-EQUITY>	583,017
<SALES>	514,637
<TOTAL-REVENUES>	514,637
<CGS>	328,070
<TOTAL-COSTS>	453,922
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	1,161
<INTEREST-EXPENSE>	1,030
<INCOME-PRETAX>	62,432
<INCOME-TAX>	22,902
<INCOME-CONTINUING>	39,530
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	39,530
<EPS-PRIMARY>	1.76
<EPS-DILUTED>	1.76

</TABLE>