

RR Donnelley & Sons Co
Form 10-Q
May 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

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)

| | |
|---------------------------------|---------------------|
| Delaware | 36-1004130 |
| (State or other jurisdiction of | (I.R.S. Employer |
| incorporation or organization) | Identification No.) |

35 West Wacker Drive,

| | |
|--|------------|
| Chicago, Illinois | 60601 |
| (Address of principal executive offices) | (Zip code) |

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated filer

Accelerated filer

Non-Accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 28, 2017, 70.0 million shares of common stock were outstanding.

R.R. DONNELLEY & SONS COMPANY

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2017

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (“RRD”)

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

(UNAUDITED)

| | March 31, 2017 | December 31, 2016 |
|--|-------------------|-------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$244.3 | \$317.5 |
| Receivables, less allowances for doubtful accounts of \$37.2 in 2017 (2016 - \$35.9) | 1,268.9 | 1,354.4 |
| Inventories (Note 4) | 375.9 | 379.6 |
| Prepaid expenses and other current assets | 128.5 | 136.7 |
| Investment in LSC and Donnelley Financial (Note 2) | 120.4 | 328.7 |
| Total current assets | 2,138.0 | 2,516.9 |
| Property, plant and equipment-net (Note 5) | 637.0 | 650.3 |
| Goodwill (Note 6) | 603.1 | 602.0 |
| Other intangible assets-net (Note 6) | 164.5 | 171.9 |
| Deferred income taxes | 114.2 | 108.9 |
| Other noncurrent assets | 250.5 | 234.7 |
| Total assets | \$3,907.3 | \$4,284.7 |
| LIABILITIES | | |
| Accounts payable | \$884.8 | \$1,001.2 |
| Accrued liabilities | 515.1 | 541.7 |
| Short-term and current portion of long-term debt (Note 15) | 12.4 | 8.2 |
| Total current liabilities | 1,412.3 | 1,551.1 |
| Long-term debt (Note 15) | 2,234.9 | 2,379.2 |
| Pension liabilities | 115.6 | 119.4 |
| Other postretirement benefits plan liabilities | 131.3 | 134.1 |
| Other noncurrent liabilities | 187.3 | 193.1 |
| Total liabilities | 4,081.4 | 4,376.9 |
| Commitments and Contingencies (Note 14) | | |
| EQUITY (Note 10) | | |
| RRD stockholders' equity | | |
| Preferred stock, \$1.00 par value | | |
| Authorized: 2.0 shares; Issued: None | — | — |
| Common stock, \$0.01 par value | | |
| Authorized: 165.0 shares; | | |
| Issued: 89.0 shares in 2017 and 2016 | 0.9 | 0.9 |
| Additional paid-in-capital | 3,448.1 | 3,468.5 |

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| | | |
|---|------------|------------|
| Accumulated deficit | (2,215.2) | (2,155.4) |
| Accumulated other comprehensive loss | (78.5) | (55.7) |
| Treasury stock, at cost, 19.0 shares in 2017 (2016 - 19.1 shares) | (1,343.4) | (1,364.0) |
| Total RRD stockholders' equity | (188.1) | (105.7) |
| Noncontrolling interests | 14.0 | 13.5 |
| Total equity | (174.1) | (92.2) |
| Total liabilities and equity | \$3,907.3 | \$4,284.7 |

(See Notes to Condensed Consolidated Financial Statements)

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (“RRD”)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(UNAUDITED)

| | Three Months Ended March 31, | |
|---|------------------------------------|-----------|
| | 2017 | 2016 |
| Products net sales | \$1,288.9 | \$1,242.7 |
| Services net sales | 387.4 | 402.9 |
| Total net sales | 1,676.3 | 1,645.6 |
| Products cost of sales (exclusive of depreciation and amortization) | 1,024.3 | 971.9 |
| Services cost of sales (exclusive of depreciation and amortization) | 324.2 | 341.2 |
| Total cost of sales | 1,348.5 | 1,313.1 |
| Products gross profit | 264.6 | 270.8 |
| Services gross profit | 63.2 | 61.7 |
| Total gross profit | 327.8 | 332.5 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 222.7 | 229.3 |
| Restructuring, impairment and other charges-net (Note 7) | 9.1 | 5.3 |
| Depreciation and amortization | 48.6 | 52.6 |
| Other operating income | — | (12.3) |
| Income from operations | 47.4 | 57.6 |
| Interest expense-net | 48.3 | 50.4 |
| Investment and other expense (income) -net | 48.7 | (0.1) |
| (Loss) earnings before income taxes | (49.6) | 7.3 |
| Income tax expense | 0.2 | 3.4 |
| Net (loss) earnings from continuing operations | (49.8) | 3.9 |
| Income from discontinued operations, net of tax (Note 2) | — | 36.2 |
| Net (loss) earnings | (49.8) | 40.1 |
| Less: Income attributable to noncontrolling interests | 0.3 | 0.3 |
| Net (loss) earnings attributable to RRD common stockholders | \$(50.1) | \$39.8 |
| Basic net (loss) earnings per share attributable to RRD common stockholders (Note 11): | | |
| Continuing operations | \$(0.71) | \$0.05 |
| Discontinued operations | \$— | \$0.52 |
| Net (loss) earnings attributable to RRD stockholders | \$(0.71) | \$0.57 |
| Diluted net (loss) earnings per share attributable to RRD common stockholders (Note 11): | | |
| Continuing operations | \$(0.71) | \$0.05 |
| Discontinued operations | \$— | \$0.52 |
| Net (loss) earnings attributable to RRD | \$(0.71) | \$0.57 |
| Dividends declared per common share | \$0.14 | \$0.78 |

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| | | |
|---|------|------|
| Weighted average number of common shares outstanding: | | |
| Basic | 70.1 | 69.9 |
| Diluted | 70.1 | 70.3 |

(See Notes to Condensed Consolidated Financial Statements)

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (“RRD”)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(UNAUDITED)

| | Three Months Ended March 31, | |
|---|------------------------------------|--------|
| | 2017 | 2016 |
| Net (loss) earnings | \$(49.8) | \$40.1 |
| Other comprehensive (loss) income, net of tax (Note 12): | | |
| Translation adjustments | 9.0 | 17.9 |
| Change in fair value of available-for-sale securities | (32.3) | — |
| Adjustment for net periodic pension and postretirement benefits plan cost | 0.7 | (0.6) |
| Other comprehensive (loss) income | (22.6) | 17.3 |
| Comprehensive (loss) income | (72.4) | 57.4 |
| Less: comprehensive income attributable to noncontrolling interests | 0.5 | 0.5 |
| Comprehensive (loss) income attributable to RRD common stockholders | \$(72.9) | \$56.9 |

(See Notes to Condensed Consolidated Financial Statements)

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (“RRD”)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(UNAUDITED)

| | Three Months Ended March 31, | |
|--|------------------------------------|---------|
| | 2017 | 2016 |
| OPERATING ACTIVITIES | | |
| Net (loss) earnings | \$(49.8) | \$40.1 |
| Adjustments to reconcile net (loss) earnings to net cash used in operating activities: | | |
| Impairment charges - net | 0.5 | (0.8) |
| Depreciation and amortization | 48.6 | 107.0 |
| Provision for doubtful accounts receivable | 1.7 | 4.1 |
| Share-based compensation | 1.9 | 3.5 |
| Deferred income taxes | (1.6) | 1.8 |
| Changes in uncertain tax positions | 0.2 | (1.3) |
| Gain on investments and other assets - net | (1.8) | (12.2) |
| Loss on sale of available-for-sale securities | 51.6 | — |
| Net pension and other postretirement benefits plan income | (3.6) | (18.9) |
| Other | 5.8 | 0.2 |
| Changes in operating assets and liabilities - net of dispositions: | | |
| Accounts receivable - net | 92.5 | 55.0 |
| Inventories | 5.5 | (11.0) |
| Prepaid expenses and other current assets | (3.9) | (9.0) |
| Accounts payable | (123.3) | (316.0) |
| Income taxes payable and receivable | 5.2 | 8.6 |
| Accrued liabilities and other | (43.2) | (35.9) |
| Pension and other postretirement benefits plan contributions | (4.9) | (8.0) |
| Net cash used in operating activities | (18.6) | (192.8) |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (26.1) | (48.1) |
| Disposition of businesses | — | 13.4 |
| Proceeds from sales of investments and other assets | 123.2 | 2.3 |
| Transfers (to)/from restricted cash | (1.6) | 5.0 |
| Other investing activities | — | (2.1) |
| Net cash provided by (used in) investing activities | 95.5 | (29.5) |
| FINANCING ACTIVITIES | | |
| Net change in short-term debt | 4.7 | 1.0 |
| Payments of current maturities and long-term debt | — | (1.4) |
| Payments on Credit Agreement borrowings | (425.0) | — |
| Proceeds from Credit Agreement borrowings | 280.0 | — |
| Net proceeds from credit facility borrowings | — | 145.0 |
| Dividends paid | (9.8) | (54.3) |
| Other financing activities | (1.3) | 1.7 |

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| | | |
|--|---------|---------|
| Net cash (used in) provided by financing activities | (151.4) | 92.0 |
| Effect of exchange rate on cash and cash equivalents | 1.3 | 4.4 |
| Net decrease in cash and cash equivalents | (73.2) | (125.9) |
| Cash and cash equivalents at beginning of year | 317.5 | 389.6 |
| Cash and cash equivalents at end of period | \$244.3 | \$263.7 |

SUPPLEMENTAL NON-CASH DISCLOSURE:

| | | |
|--|-----|-------|
| Assumption of warehousing equipment related to customer contract | \$— | \$8.8 |
|--|-----|-------|

(See Notes to Condensed Consolidated Financial Statements)

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (“RRD”)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(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 “RRD”) 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 and 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, 2016 filed with the SEC on February 28, 2017. Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2017. 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.

Spinoff Transactions

On October 1, 2016, the Company completed the separation of its financial communications and data services business (“Donnelley Financial Solutions, Inc.” or “Donnelley Financial”) and the publishing and retail-centric print services and office products business (“LSC Communications, Inc.” or “LSC”) into two separate publicly-traded companies (the “Separation”). The Company completed the tax-free distribution of 80.75% of the outstanding common stock of each Donnelley Financial and LSC to the Company’s stockholders of record on September 23, 2016 who received one share of each Donnelley Financial and LSC for every eight shares of RRD common stock owned as of the record date (the “Distribution”). The Company retained 19.25% of the outstanding common stock of each Donnelley Financial and LSC. The historical financial results of Donnelley Financial and LSC prior to the Separation, are presented as discontinued operations on the Condensed Consolidated Statements of Operations and, as such, have been excluded from both continuing operations and segment results for all periods presented. Sales from RRD to Donnelley Financial and LSC previously eliminated in consolidation have been recast and are now shown as external sales within the financial results of continuing operations. These net sales were \$41.6 million for three months ended March 31, 2016. Unless indicated otherwise, the information in the Notes to Condensed Consolidated Financial Statements relates to the Company's continuing operations. Prior periods have been recast to reflect the Company's current segment reporting structure. See Note 2, Discontinued Operations, for more information on the Separation.

Reverse Stock Split

Immediately following the Distribution on October 1, 2016, the Company effected a one-for-three reverse stock split for RRD common stock (the “Reverse Stock Split”). The Reverse Stock Split was approved by the Company’s Board of Directors on September 14, 2016 and previously approved by the Company’s stockholders at the annual meeting on May 19, 2016. As a result of the Reverse Stock Split, the number of issued and outstanding and treasury shares of the Company’s common stock were reduced proportionally based on the Reverse Stock Split ratio of one share for every three shares of common stock held before the Reverse Stock Split. All references in these unaudited condensed

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consolidated interim financial statements to the number of shares of common stock and per share amounts have been retroactively adjusted to give effect to the Reverse Stock Split.

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R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (“RRD”)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(in millions, except per share data, unless otherwise indicated)

2. Discontinued Operations

Immediately following the Distribution, the Company held approximately 6.2 million shares of Donnelley Financial Solutions common stock and approximately 6.2 million shares of LSC common stock. The Company accounts for these investments as available-for-sale equity securities. In March 2017, the Company sold the 6.2 million shares of LSC common stock it retained upon spinoff for net proceeds of \$121.4 million, resulting in a realized loss of \$51.6 million, which was recorded within investment and other expense (income)-net in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2017. The value of the Company’s investment in Donnelley Financial was \$120.4 million as of March 31, 2017.

The following details the financial results of discontinued operations:

| | For the three months ended March 31, 2016 |
|---|---|
| Net sales | \$ 1,047.4 |
| Cost of sales | 810.6 |
| Operating expenses ^(a) | 161.1 |
| Interest and other expense (income), net ^(b) | 17.9 |
| Earnings before income taxes | 57.8 |
| Income tax expense | 21.6 |
| Net earnings from discontinued operations | \$ 36.2 |

(a) Includes spinoff transaction costs incurred of \$11.9 million during the three month period ended March 31, 2016.

(b) Includes the related interest expense of the corporate level debt, which was retired in connection with the Separation totaling \$18.0 million for the three months ended March 31, 2016.

The significant non-cash items and capital expenditures of discontinued operations were as follows:

| | For the three months ended March 31, 2016 |
|--|---|
| Depreciation and amortization | \$ 54.4 |
| Impairment charges | 0.9 |
| Assumption of warehousing equipment related to customer contract | 8.8 |

In connection with the Separation, the Company entered into transition services agreements with Donnelley Financial and LSC, under which the companies will provide one another with certain services to help ensure an orderly transition following the Separation (the "Transition Services Agreement"). The charges for these services are intended to allow the companies, as applicable, to recover the direct and indirect costs incurred in providing such services. The Transition Services Agreement generally provides for a term of services starting at the Separation date and continuing for a period of up to twenty-four months following the Separation. During the three months ended March 31, 2017, the Company recognized \$2.8 million as a reduction of costs within selling, general and administrative expenses within the Condensed Consolidated Statements of Operations from the Transition Services Agreement.

The Company also entered into various commercial agreements which govern sales transactions between the companies. Under these commercial agreements, the Company recognized \$82.9 million of net sales to Donnelley Financial and LSC during the three months ended March 31, 2017. Additionally, the Company purchased \$37.1 million of products and services from Donnelley Financial and LSC during the three months ended March 31, 2017. The Company also recognized \$3.8 million of net cash outflow from Donnelley Financial and LSC within operating activities in the Condensed Consolidated Statements of Cash Flows during the three months ended March 31, 2017. As of March 31, 2017 and December 31, 2016, the Company had accounts receivable of \$74.5 million and \$78.1 million, respectively, recorded within Receivables in the Condensed Consolidated Balance Sheets associated with Donnelley Financial and LSC. As of March 31, 2017 and December 31, 2016, the Company had accounts payable of \$57.5 million and \$62.6 million, respectively, within Accounts payable in the Condensed Consolidated Balance Sheets associated with Donnelley Financial and LSC. Additionally, included within Accrued liabilities in the Condensed Consolidated Balance Sheets as of March 31, 2017 and December 31, 2016 was a total of \$78.0 million due to Donnelley Financial and LSC, which was paid in April 2017, as required by a provision in the Separation and Distribution Agreement.

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (“RRD”)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(in millions, except per share data, unless otherwise indicated)

3. Acquisitions and Dispositions

2016 Acquisition

On August 4, 2016, the Company acquired Precision Dialogue Holdings, LLC (“Precision Dialogue”), a provider of email marketing, direct mail marketing and other services with operations in the United States for a purchase price, net of cash acquired, of approximately \$59.2 million. The acquisition expanded the Company’s ability to help its customers measure communications effectiveness and audience engagement. Precision Dialogue contributed \$13.8 million in sales and a loss before income taxes of \$2.5 million during the three months ended March 31, 2017 and is included within the operating results of the Variable Print and Strategic Services segments.

2016 Dispositions

On January 11, 2016, the Company sold two entities within the business process outsourcing reporting unit for net proceeds of \$13.4 million. This resulted in a net gain of \$12.3 million during the three months ended March 31, 2016, which was recorded in Other operating income in the Condensed Consolidated Statements of Operations. Additionally, during the three months ended September 30, 2016, the Company sold three immaterial entities in the International segment.

4. Inventories

The components of the Company’s inventories, net of excess and obsolescence reserves for raw materials and finished goods, at March 31, 2017 and December 31, 2016 were as follows:

| | March 31, 2017 | December 31, 2016 |
|--|-------------------|----------------------|
| Raw materials and manufacturing supplies | \$ 132.0 | \$ 133.8 |
| Work in process | 80.5 | 84.4 |
| Finished goods | 181.5 | 179.4 |
| LIFO reserve | (18.1) | (18.0) |
| Total | \$ 375.9 | \$ 379.6 |

5. Property, Plant and Equipment

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The components of the Company's property, plant and equipment at March 31, 2017 and December 31, 2016 were as follows:

| | March 31, 2017 | December 31, 2016 |
|--------------------------------|-------------------|----------------------|
| Land | \$56.1 | \$ 56.0 |
| Buildings | 407.4 | \$ 403.0 |
| Machinery and equipment | 1,823.2 | \$ 1,805.4 |
| | 2,286.7 | 2,264.4 |
| Less: Accumulated depreciation | (1,649.7) | (1,614.1) |
| Total | \$637.0 | \$ 650.3 |

During the three months ended March 31, 2017 and 2016, depreciation expense was \$35.7 million and \$39.7 million, respectively.

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (“RRD”)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(in millions, except per share data, unless otherwise indicated)

6. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the three months ended March 31, 2017 were as follows:

| | Variable Print | Strategic Services | International | Total |
|--|-------------------|-----------------------|---------------|------------|
| Net book value as of December 31, 2016 | | | | |
| Goodwill | \$ 1,823.0 | \$ 365.2 | \$ 1,017.9 | \$ 3,206.1 |
| Accumulated impairment losses | (1,550.5) | (148.7) | (904.9) | (2,604.1) |
| Total | 272.5 | 216.5 | 113.0 | 602.0 |
| Foreign exchange and other adjustments | — | — | 1.1 | 1.1 |
| Net book value as of March 31, 2017 | | | | |
| Goodwill | 1,823.2 | 365.2 | 1,029.6 | 3,218.0 |
| Accumulated impairment losses | (1,550.7) | (148.7) | (915.5) | (2,614.9) |
| Total | \$ 272.5 | \$ 216.5 | \$ 114.1 | \$ 603.1 |

The components of other intangible assets at March 31, 2017 and December 31, 2016 were as follows:

| | March 31, 2017 | | | December 31, 2016 | | |
|-------------------------------------|-----------------------------|-----------------------------|----------------------|-----------------------------|-----------------------------|-------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Book Value | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| Customer relationships | \$ 520.3 | \$ (379.7) | \$ 140.6 | \$ 517.9 | \$ (370.7) | \$ 147.2 |
| Patents | 2.0 | (2.0) | — | 2.0 | (2.0) | — |
| Trademarks, licenses and agreements | 26.2 | (24.6) | 1.6 | 26.2 | (24.4) | 1.8 |
| Trade names | 36.8 | (14.5) | 22.3 | 36.8 | (13.9) | 22.9 |
| Total other intangible assets | \$ 585.3 | \$ (420.8) | \$ 164.5 | \$ 582.9 | \$ (411.0) | \$ 171.9 |

Amortization expense for other intangible assets was \$7.5 million and \$9.6 million for the three months ended March 31, 2017 and 2016, respectively.

7. Restructuring, Impairment and Other Charges

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Restructuring, Impairment and Other Charges Recognized in Results of Operations

For the three months ended March 31, 2017 and 2016, the Company recorded the following net restructuring, impairment and other charges:

| | | Other | Total | | | |
|--------------------|--------------|---------------|---------------|------------|---------|--------|
| Three Months Ended | Employee | Restructuring | Restructuring | Impairment | Other | Total |
| March 31, 2017 | Terminations | Charges | Charges | | Charges | |
| Variable Print | 0.4 | 0.1 | 0.5 | — | 0.5 | 1.0 |
| Strategic Services | 1.0 | 0.4 | 1.4 | 0.5 | 0.1 | 2.0 |
| International | 3.5 | 1.0 | 4.5 | — | — | 4.5 |
| Corporate | 1.5 | 0.1 | 1.6 | — | — | 1.6 |
| Total | \$ 6.4 | \$ 1.6 | \$ 8.0 | \$ 0.5 | \$ 0.6 | \$ 9.1 |

| | | Other | Total | | | |
|--------------------|--------------|---------------|---------------|------------|---------|--------|
| Three Months Ended | Employee | Restructuring | Restructuring | Impairment | Other | Total |
| March 31, 2016 | Terminations | Charges | Charges | | Charges | |
| Variable Print | 0.2 | 0.8 | 1.0 | (0.1) | 0.4 | 1.3 |
| Strategic Services | 0.3 | — | 0.3 | — | 0.1 | 0.4 |
| International | 4.2 | 0.5 | 4.7 | (2.8) | — | 1.9 |
| Corporate | 0.2 | 0.2 | 0.4 | 1.3 | — | 1.7 |
| Total | \$ 4.9 | \$ 1.5 | \$ 6.4 | \$ (1.6) | \$ 0.5 | \$ 5.3 |

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (“RRD”)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(in millions, except per share data, unless otherwise indicated)

Restructuring and Impairment Charges

For the three months ended March 31, 2017, the Company recorded net restructuring charges of \$6.4 million for employee termination costs. These charges primarily relate to ceasing the Company’s relationship in a joint venture within the International segment, the reorganization of selling and general and administrative functions primarily within the Corporate and Variable Print segments and one facility closure in the Strategic Services segment. The Company also recorded impairment charges of \$0.5 million related to equipment associated with a facility closure in the Strategic Services segment. Additionally, the Company incurred lease termination and other restructuring charges of \$1.6 million for the three months ended March 31, 2017.

For the first quarter of 2016, the Company recorded net restructuring charges of \$4.9 million for employee termination costs. These charges primarily related to two facility closures in the International segment and the reorganization of certain operations. Additionally, the Company incurred lease termination and other restructuring charges of \$1.5 million for the first quarter of 2016. During the first quarter of 2016, the Company also recorded \$1.6 million of net gains on the sale of previously impaired assets, partially offset by impairment charges related to buildings and machinery and equipment associated with facility closures.

Other Charges

For the three months ended March 31, 2017 and 2016, the Company recorded other charges of \$0.6 million and \$0.5 million, respectively, for multi-employer withdrawal pension plan obligations unrelated to facility closures. The total liabilities for the withdrawal obligations associated with the Company’s decision to withdraw from multi-employer pension plans included in accrued liabilities and other noncurrent liabilities are \$4.9 million and \$34.1 million, respectively, as of March 31, 2017.

The Company’s multi-employer pension plan withdrawal liabilities could be affected by the financial stability of other employers participating in the plans and any decisions by those employers to withdraw from the plans in the future. While it is not possible to quantify the potential impact of future events or circumstances, reductions in other employers’ participation in multi-employer pension plans, including certain plans from which the Company has previously withdrawn, could have a material impact on the Company’s previously estimated withdrawal liabilities, consolidated results of operations, financial position or cash flows.

Restructuring Reserve

The restructuring reserve as of December 31, 2016 and March 31, 2017, and changes during the three months ended March 31, 2017, were as follows:

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| | December 31, 2016 | Restructuring Charges | Foreign Exchange and Other | Cash Paid | March 31, 2017 |
|---|-------------------------|--------------------------|-------------------------------------|--------------|-------------------|
| Employee terminations | \$ 7.6 | \$ 6.4 | \$ 0.1 | \$(4.2) | \$ 9.9 |
| Multi-employer pension withdrawal obligations | 11.8 | 0.2 | — | (0.4) | 11.6 |
| Lease terminations and other | 1.6 | 1.4 | 1.0 | (0.5) | 3.5 |
| Total | \$ 21.0 | \$ 8.0 | \$ 1.1 | \$(5.1) | \$ 25.0 |

The current portion of restructuring reserves of \$10.0 million at March 31, 2017 was included in accrued liabilities, while the long-term portion of \$15.0 million, primarily related to multi-employer pension plan withdrawal obligations related to facility closures and lease termination costs, was included in other noncurrent liabilities at March 31, 2017.

The Company anticipates that payments associated with the employee terminations reflected in the above table will be substantially completed by March 2018.

Payments on all of the Company's multi-employer pension plan withdrawal obligations are scheduled to be completed by 2036. Changes based on uncertainties in these estimated withdrawal obligations could affect the ultimate charges related to multi-employer pension plan withdrawals.

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The restructuring liabilities classified as “lease terminations and other” consisted of lease terminations, other facility closing costs and contract termination costs. Payments on certain of the lease obligations are scheduled to continue until 2018. Market conditions and the Company’s ability to sublease these properties could affect the ultimate charges related to the lease obligations. Any potential recoveries or additional charges could affect amounts reported in the Company’s financial statements.

8. Employee Benefits

The components of the estimated net pension and other postretirement benefits plan income for the three months ended March 31, 2017 and 2016 were as follows:

| | Three Months Ended March 31, | |
|---|------------------------------------|----------|
| | 2017 | 2016 |
| Pension expense (income) | | |
| Service cost | \$0.2 | \$0.3 |
| Interest cost | 7.8 | 35.1 |
| Expected return on plan assets | (12.3) | (57.7) |
| Amortization, net | 1.7 | 7.8 |
| Less: income attributable to discontinued operations | — | 11.2 |
| Net pension income - continuing operations | \$(2.6) | \$(3.3) |
| Other postretirement benefits plan expense (income) | | |
| Service cost | \$0.3 | \$1.0 |
| Interest cost | 2.8 | 3.0 |
| Expected return on plan assets | (3.4) | (3.4) |
| Amortization, net | (0.7) | (4.0) |
| Net other postretirement benefit income - continuing operations | \$(1.0) | \$(3.4) |

The Company expects to make cash contributions of approximately \$17.0 million to its pension and other postretirement benefit plans in 2017. During the three months ended March 31, 2017, the Company contributed \$4.9 million to its benefit plans.

9. Share-Based Compensation

Share-based compensation expense from continuing operations totaled \$1.9 million and \$2.1 million for the three months ended March 31, 2017 and 2016, respectively.

In March 2017, the Company awarded its annual share-based compensation grants, which consisted of 569,594 restricted stock units with a grant date fair value of \$16.30 per unit and 304,425 performance share units with a grant date fair value of \$16.30 per unit. The restricted stock units are subject to a three year graded vesting period. The performance share units are subject to a 34 month cliff vesting period.

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10. Equity

The Company’s equity as of December 31, 2016 and March 31, 2017, and changes during the three months ended March 31, 2017, were as follows:

| | RRD | | Total Equity |
|---|-------------------------|----------------------------|-----------------|
| | Shareholders' Equity | Noncontrolling Interest | |
| Balance at December 31, 2016 | \$ (105.7) | \$ 13.5 | \$(92.2) |
| Net (loss) earnings | (50.1) | 0.3 | (49.8) |
| Other comprehensive (loss) income | (22.8) | 0.2 | (22.6) |
| Share-based compensation | 1.9 | — | 1.9 |
| Issuance of share-based awards, net of withholdings and other | (1.6) | — | (1.6) |
| Cash dividends paid | (9.8) | — | (9.8) |
| Balance at March 31, 2017 | \$ (188.1) | \$ 14.0 | \$(174.1) |

11. Earnings per Share

Basic earnings per share is calculated by dividing net earnings attributable to RRD common stockholders by the weighted average number of common shares outstanding for the period. In computing diluted earnings per share, basic earnings per share is adjusted for the assumed issuance of all potentially dilutive share-based awards, including stock options, restricted stock units and performance share units. Performance share units are considered anti-dilutive and excluded if the performance targets upon which the issuance of the shares is contingent have not been achieved and the respective performance period has not been completed as of the end of the current period. Additionally, stock options are considered anti-dilutive when the exercise price exceeds the average of the Company’s stock price during the applicable period. In periods when the Company is in a net loss from continuing operations, share-based awards are excluded from the calculation of earnings per share as their inclusion would have an anti-dilutive effect.

During the three months ended March 31, 2017 and 2016, no shares of common stock were purchased by the Company; however, shares were withheld for tax liabilities upon the vesting of equity awards.

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The reconciliation of the numerator and denominator of the basic and diluted earnings per share calculation and the anti-dilutive share-based awards for three months ended March 31, 2017 and 2016 were as follows:

| | Three Months Ended March 31, 2017 2016 | |
|--|--|--------|
| Basic net (loss) earnings per share attributable to RRD common stockholders: | | |
| Continuing operations | \$(0.71) | \$0.05 |
| Discontinued operations | — | 0.52 |
| Net (loss) earnings attributable to RRD stockholders | (0.71) | 0.57 |
| Diluted net (loss) earnings per share attributable to RRD common stockholders: | | |
| Continuing operations | (0.71) | 0.05 |
| Discontinued operations | — | 0.52 |
| Net (loss) earnings attributable to RRD stockholders | (0.71) | 0.57 |
| Numerator | | |
| Net loss attributable to RRD common stockholders - continuing operations | (50.1) | 3.6 |
| Net earnings from discontinued operations, net of income taxes | — | 36.2 |
| Net (loss) earnings attributable to RRD common stockholders | (50.1) | 39.8 |
| Denominator: | | |
| Weighted average number of common shares outstanding | 70.1 | 69.9 |
| Dilutive options and awards | — | 0.4 |
| Diluted weighted average number of common shares outstanding | 70.1 | 70.3 |
| Weighted average number of anti-dilutive share-based awards: | | |
| Stock options | 1.3 | 0.7 |
| Performance share units | 0.1 | 0.2 |
| Restricted stock units | 0.5 | — |
| Total | 1.9 | 0.9 |
| Dividends declared per common share | 0.14 | 0.78 |

12. Other Comprehensive (Loss) Income

The components of other comprehensive (loss) income and income tax (benefit) expense allocated to each component for the three months ended March 31, 2017 and 2016 were as follows:

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| | Three Months Ended March 31, 2017 | | | Three Months Ended March 31, 2016 | | |
|---|--------------------------------------|--------------------------|-------------------------|--------------------------------------|--------------------------|-------------------------|
| | Before Tax Amount | Income Tax Expense | Net of Tax Amount | Before Tax Amount | Income Tax Expense | Net of Tax Amount |
| Translation adjustments | \$9.0 | \$ — | \$ 9.0 | \$17.9 | \$ — | \$ 17.9 |
| Adjustment for net periodic pension and other postretirement benefits plan cost | 1.0 | 0.3 | 0.7 | 5.2 | 5.8 | (0.6) |
| Unrealized loss on available-for-sale securities | (35.3) | (3.0) | (32.3) | — | — | — |
| Other comprehensive (loss) income | \$(25.3) | \$(2.7) | \$(22.6 | | | |