

RR Donnelley & Sons Co
Form 10-Q
August 02, 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 June 30, 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)

Edgar Filing: RR Donnelley & Sons Co - Form 10-Q

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 July 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 JUNE 30, 2017

TABLE OF CONTENTS

	Page
PART I	
FINANCIAL INFORMATION	
Item 1: <u>Condensed Consolidated Financial Statements (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016</u>	3
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2: <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3: <u>Quantitative and Qualitative Disclosures About Market Risk</u>	48
Item 4: <u>Controls and Procedures</u>	48
PART II	
OTHER INFORMATION	
Item 1: <u>Legal Proceedings</u>	49
Item 2: <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	49
Item 4: <u>Mine Safety Disclosures</u>	49
Item 6: <u>Exhibits</u>	50
<u>Signatures</u>	51

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)

	June 30, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	\$224.0	\$317.5
Receivables, less allowances for doubtful accounts of \$35.7 in 2017 (2016 - \$35.9)	1,301.5	1,354.4
Inventories (Note 4)	392.4	379.6
Prepaid expenses and other current assets	142.3	136.7
Investment in LSC and Donnelley Financial (Note 2)	2.3	328.7
Total current assets	2,062.5	2,516.9
Property, plant and equipment-net (Note 5)	633.2	650.3
Goodwill (Note 6)	607.1	602.0
Other intangible assets-net (Note 6)	157.5	171.9
Deferred income taxes	119.7	108.9
Other noncurrent assets	251.8	234.7
Total assets	\$3,831.8	\$4,284.7
LIABILITIES		
Accounts payable	\$911.6	\$1,001.2
Accrued liabilities	409.7	541.7
Short-term and current portion of long-term debt (Note 15)	19.1	8.2
Total current liabilities	1,340.4	1,551.1
Long-term debt (Note 15)	2,233.4	2,379.2
Pension liabilities	105.9	119.4
Other postretirement benefits plan liabilities	130.3	134.1
Other noncurrent liabilities	183.3	193.1
Total liabilities	3,993.3	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	3,449.0	3,468.5

Edgar Filing: RR Donnelley & Sons Co - Form 10-Q

Accumulated deficit	(2,140.1)	(2,155.4)
Accumulated other comprehensive loss	(143.0)	(55.7)
Treasury stock, at cost, 19.0 shares in 2017 (2016 - 19.1 shares)	(1,341.9)	(1,364.0)
Total RRD stockholders' equity	(175.1)	(105.7)
Noncontrolling interests	13.6	13.5
Total equity	(161.5)	(92.2)
Total liabilities and equity	\$3,831.8	\$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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Products net sales	\$1,263.4	\$ 1,231.7	\$2,552.3	\$ 2,474.4
Services net sales	382.6	400.9	770.0	803.8
Total net sales	1,646.0	1,632.6	3,322.3	3,278.2
Products cost of sales (exclusive of depreciation and amortization)	1,020.7	985.2	2,045.0	1,957.1
Services cost of sales (exclusive of depreciation and amortization)	322.2	331.0	646.4	672.2
Total cost of sales	1,342.9	1,316.2	2,691.4	2,629.3
Products gross profit	242.7	246.5	507.3	517.3
Services gross profit	60.4	69.9	123.6	131.6
Total gross profit	303.1	316.4	630.9	648.9
Selling, general and administrative expenses (exclusive of depreciation and amortization)	213.2	233.6	435.9	462.9
Restructuring, impairment and other charges-net (Note 7)	3.8	8.2	12.9	13.5
Depreciation and amortization	47.5	49.9	96.1	102.5
Other operating income	—	—	—	(12.3)
Income from operations	38.6	24.7	86.0	82.3
Interest expense-net	45.5	51.4	93.8	101.8
Investment and other (income) expense -net	(93.1)	0.7	(44.4)	0.6
Loss on debt extinguishments	13.6	—	13.6	—
Earnings (loss) before income taxes	72.6	(27.4)	23.0	(20.1)
Income tax benefit	(4.1)	(4.4)	(3.9)	(1.0)
Net earnings (loss) from continuing operations	76.7	(23.0)	26.9	(19.1)
Income from discontinued operations, net of tax (Note 2)	—	8.7	—	44.9
Net earnings (loss)	76.7	(14.3)	26.9	25.8
Less: Income attributable to noncontrolling interests	0.2	0.2	0.5	0.5
Net earnings (loss) attributable to RRD common stockholders	\$76.5	\$ (14.5)	\$26.4	\$ 25.3
Basic net earnings (loss) per share attributable to RRD common stockholders (Note 11):				
Continuing operations	\$1.09	\$ (0.33)	\$0.38	\$ (0.28)
Discontinued operations	\$—	\$ 0.12	\$—	\$ 0.64
Net earnings (loss) attributable to RRD stockholders	\$1.09	\$ (0.21)	\$0.38	\$ 0.36
Diluted net earnings (loss) per share attributable to RRD common stockholders (Note 11):				
Continuing operations	\$1.09	\$ (0.33)	\$0.38	\$ (0.28)

Edgar Filing: RR Donnelley & Sons Co - Form 10-Q

Discontinued operations	\$—	\$ 0.12	\$—	\$ 0.64
Net earnings (loss) attributable to RRD	\$1.09	\$ (0.21)	\$0.38	\$ 0.36
Dividends declared per common share	\$0.14	\$ 0.78	\$0.28	\$ 1.56
Weighted average number of common shares outstanding:				
Basic	70.1	70.0	70.1	69.9
Diluted	70.2	70.0	70.3	69.9

(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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net earnings (loss)	\$76.7	\$(14.3)	\$26.9	\$25.8
Other comprehensive (loss) income, net of tax (Note 12):				
Translation adjustments	20.1	(22.5)	29.1	(4.6)
Adjustment for available-for-sale securities	(85.2)	—	(117.5)	—
Adjustment for net periodic pension and postretirement benefits plan cost	0.7	6.7	1.4	6.1
Other comprehensive (loss) income	(64.4)	(15.8)	(87.0)	1.5
Comprehensive income (loss)	12.3	(30.1)	(60.1)	27.3
Less: comprehensive income attributable to noncontrolling interests	0.3	0.2	0.8	0.7
Comprehensive income (loss) attributable to RRD common stockholders	\$12.0	\$(30.3)	\$(60.9)	\$26.6

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(UNAUDITED)

	Six Months Ended June 30,	
	2017	2016
OPERATING ACTIVITIES		
Net earnings	\$26.9	\$25.8
Adjustments to reconcile net earnings to net cash used in operating activities:		
Impairment charges - net	0.3	0.6
Depreciation and amortization	96.1	211.0
Provision for doubtful accounts receivable	1.4	12.5
Share-based compensation	4.3	10.0
Deferred income taxes	(5.3)	(20.8)
Changes in uncertain tax positions	0.4	(1.4)
Gain on investments and other assets - net	(2.4)	(12.4)
Realized gain on disposition of available-for-sale securities - net	(40.8)	—
Loss on debt extinguishments	13.6	—
Net pension and other postretirement benefits plan income	(7.3)	(38.1)
Loss on pension settlement	—	96.9
Other	9.3	3.3
Changes in operating assets and liabilities - net of dispositions:		
Accounts receivable - net	69.8	14.2
Inventories	(8.0)	(3.3)
Prepaid expenses and other current assets	(6.9)	(10.8)
Accounts payable	(111.2)	(274.5)
Income taxes payable and receivable	(3.4)	(15.2)
Accrued liabilities and other	(79.6)	(84.9)
Pension and other postretirement benefits plan contributions	(9.0)	(13.2)
Net cash used in operating activities	(51.8)	(100.3)
INVESTING ACTIVITIES		
Capital expenditures	(54.2)	(101.4)
Disposition of businesses	—	13.4
Proceeds from sales of investments and other assets	126.7	3.1
Transfers from restricted cash	0.7	14.9
Other investing activities	—	(2.1)
Net cash provided by (used in) investing activities	73.2	(72.1)
FINANCING ACTIVITIES		
Net change in short-term debt	12.3	0.9
Payments of current maturities and long-term debt	(200.4)	(2.9)
Payments on Credit Agreement borrowings	(655.0)	—
Proceeds from Credit Agreement borrowings	820.0	—
Net proceeds from credit facility borrowings	—	185.0

Edgar Filing: RR Donnelley & Sons Co - Form 10-Q

Dividends paid	(19.6)	(108.7)
Net transfer of cash and cash equivalents to LSC and Donnelley Financial	(78.0)	—
Other financing activities	(1.6)	1.9
Net cash (used in) provided by financing activities	(122.3)	76.2
Effect of exchange rate on cash and cash equivalents	7.4	(2.8)
Net decrease in cash and cash equivalents	(93.5)	(99.0)
Cash and cash equivalents at beginning of year	317.5	389.6
Cash and cash equivalents at end of period	\$224.0	\$290.6

SUPPLEMENTAL NON-CASH DISCLOSURE:

Assumption of warehousing equipment related to customer contract	\$—	\$8.8
Debt-for-equity exchange	130.5	—

(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 six months ended June 30, 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 \$36.3 million and \$77.9 million for the three and six months ended June 30, 2016, respectively. 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 affected 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 was 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 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.

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 income (expense)-net in the Condensed Consolidated Statements of Operations for the six months ended June 30, 2017. In June 2017, the Company completed a non-cash debt-for-equity exchange, in which RRD exchanged 6,143,208 of its retained shares of Donnelley Financial for the extinguishment of \$111.6 million in aggregate principal amount of RRD indebtedness. See Note 15, Debt, for additional details of this debt-for-equity transaction. As of June 30, 2017, the fair value of the remaining 99,594 retained shares of Donnelley Financial common stock was \$2.3 million.

The following details the financial results of discontinued operations:

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Net sales	\$1,133.4	\$2,180.8
Cost of sales	845.0	1,655.6
Operating expenses ^(a)	260.9	422.0
Interest and other expense (income), net ^(b)	17.6	35.5
Earnings before income taxes	9.9	67.7
Income tax expense	1.2	22.8
Net earnings from discontinued operations	\$8.7	\$44.9

(a) Includes spinoff transaction costs incurred of \$18.4 million and \$30.3 million during the three and six month period ended June 30, 2016.

(b) Includes the related interest expense of the corporate level debt which was retired in connection with the Separation totaling \$17.8 million and \$35.8 million for the three and six months ended June 30, 2016.

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

	Six Months Ended June 30, 2016
Depreciation and amortization	\$ 108.5

Edgar Filing: RR Donnelley & Sons Co - Form 10-Q

Pension settlement charges	76.5
Impairment charges	1.4
Assumption of warehousing equipment related to customer contract	8.8
Purchase of property, plant and equipment	31.2

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 and six months ended June 30, 2017, the Company recognized \$2.2 million and \$5.0 million, respectively, as a reduction of costs within selling general and administrative expenses within the Condensed Consolidated Statements of Operations from the Transition Services 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)

The Company also entered into various commercial agreements which govern sales transactions between the companies. Under these commercial agreements, the Company recognized the following transactions with LSC and Donnelley Financial during the three and six months ended June 30, 2017:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Net sales to LSC and Donnelley Financial	\$ 86.2	\$ 169.1
Purchases from LSC and Donnelley Financial	31.9	69.0

Additionally, the Company had the following balances recorded within the Condensed Consolidated Balance Sheets associated with LSC and Donnelley Financial:

	June 30, 2017 ^(b)	December 31, 2016
Accounts receivable	\$ 17.5	\$ 78.1
Accounts payable	12.5	62.6
Accrued liabilities ^(a)	—	78.0

(a) The balance as of December 31, 2016 consisted of the final cash settlement required by a provision in the Separation and Distribution agreement which was paid in April 2017.

(b) The balance as of June 30, 2017 relates only to Donnelley Financial.

The Company also recognized \$75.2 million of net cash inflow from Donnelley Financial and LSC within operating activities in the Condensed Consolidated Statements of Cash Flows during the six months ended June 30, 2017.

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. During the three and six months ended June 30, 2017, Precision Dialogue contributed \$13.7 million and \$27.5 million, respectively, in sales and income before income taxes of \$0.6 million and \$1.5 million, respectively. Precision Dialogue 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 six months ended June 30, 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 June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017	December 31, 2016
Raw materials and manufacturing supplies	\$ 144.3	\$ 133.8
Work in process	88.0	84.4
Finished goods	176.7	179.4
LIFO reserve	(16.6)	(18.0)
Total	\$ 392.4	\$ 379.6

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

5. Property, Plant and Equipment

The components of the Company’s property, plant and equipment at June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017	December 31, 2016
Land	\$55.7	\$ 56.0
Buildings	410.5	403.0
Machinery and equipment	1,844.8	1,805.4
	2,311.0	2,264.4
Less: Accumulated depreciation	(1,677.8)	(1,614.1)
Total	\$633.2	\$ 650.3

During the three and six months ended June 30, 2017, depreciation expense was \$34.9 million and \$70.6 million, respectively. During the three and six months ended June 30, 2016, depreciation expense was \$38.9 million and \$78.6 million, respectively.

6. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 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	—	—	5.1	5.1
Net book value as of June 30, 2017				

Edgar Filing: RR Donnelley & Sons Co - Form 10-Q

Goodwill	1,823.5	365.2	1,060.0	3,248.7
Accumulated impairment losses	(1,551.0)	(148.7)	(941.9)	(2,641.6)
Total	\$272.5	\$ 216.5	\$ 118.1	\$607.1

The components of other intangible assets at June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017			December 31, 2016		
	Gross		Net	Gross		Net
	Carrying Amount	Accumulated Amortization	Book Value	Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationships	\$527.9	\$ (393.6)	\$ 134.3	\$517.9	\$ (370.7)	\$ 147.2
Patents	2.0	(2.0)	—	2.0	(2.0)	—
Trademarks, licenses and agreements	26.2	(24.8)	1.4	26.2	(24.4)	1.8
Trade names	36.9	(15.1)	21.8	36.8	(13.9)	22.9
Total other intangible assets	\$593.0	\$ (435.5)	\$ 157.5	\$582.9	\$ (411.0)	\$ 171.9

Amortization expense for other intangible assets was \$7.0 million and \$14.5 million for the three and six months ended June 30, 2017, respectively. Amortization expense for other intangible assets was \$8.1 million and \$17.7 million for the three and six months ended June 30, 2016, 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)

7. Restructuring, Impairment and Other Charges

Restructuring, Impairment and Other Charges Recognized in Results of Operations

For the three months ended June 30, 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
June 30, 2017	Terminations	Charges	Charges		Charges	
Variable Print	\$ 0.6	\$ 0.2	\$ 0.8	\$ (0.3)	\$ 0.5	\$ 1.0
Strategic Services	0.1	(0.1)	—	—	0.1	0.1
International	1.0	0.9	1.9	—	—	1.9
Corporate	0.7	0.1	0.8	—	—	0.8
Total	\$ 2.4	\$ 1.1	\$ 3.5	\$ (0.3)	\$ 0.6	\$ 3.8

		Other	Total			
Three Months Ended	Employee	Restructuring	Restructuring	Impairment	Other	Total
June 30, 2016	Terminations	Charges	Charges		Charges	
Variable Print	\$ 0.2	\$ 0.4	\$ 0.6	\$ 0.4	\$ 0.5	\$ 1.5
Strategic Services	0.2	—	0.2	—	0.1	0.3
International	2.3	0.6	2.9	0.3	—	3.2
Corporate	3.4	(0.2)	3.2	—	—	3.2
Total	\$ 6.1	\$ 0.8	\$ 6.9	\$ 0.7	\$ 0.6	\$ 8.2

For the six months ended June 30, 2017 and 2016, the Company recorded the following net restructuring, impairment and other charges:

		Other	Total			
Six Months Ended	Employee	Restructuring	Restructuring	Impairment	Other	Total
June 30, 2017	Terminations	Charges	Charges		Charges	
Variable Print	\$ 1.0	\$ 0.3	\$ 1.3	\$ (0.3)	\$ 1.0	\$ 2.0
Strategic Services	1.1	0.3	1.4	0.5	0.2	2.1
International	4.5	1.9	6.4	—	—	6.4
Corporate	2.2	0.2	2.4	—	—	2.4
Total	\$ 8.8	\$ 2.7	\$ 11.5	\$ 0.2	\$ 1.2	\$ 12.9

Six Months Ended	Employee	Other	Total	Other
------------------	----------	-------	-------	-------

Edgar Filing: RR Donnelley & Sons Co - Form 10-Q

June 30, 2016	Terminations	Restructuring Charges	Restructuring Charges	Impairment	Charges	Total
Variable Print	\$ 0.4	\$ 1.2	\$ 1.6	\$ 0.3	\$ 0.9	\$2.8
Strategic Services	0.5	—	0.5	—	0.2	0.7
International	6.5	1.1	7.6	(2.5)	—	5.1
Corporate	3.6	—	3.6	1.3	—	4.9
Total	\$ 11.0	\$ 2.3	\$ 13.3	\$ (0.9)	\$ 1.1	\$13.5

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 and six months ended June 30, 2017, the Company recorded net restructuring charges of \$2.4 million and \$8.8 million, respectively, 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, general and administrative functions primarily within the Corporate, International and Variable Print segments and one facility closure in the Strategic Services segment. The Company also recorded \$0.3 million related to a net gain on the sale of previously impaired equipment during the three months ended June 30, 2017. For the six months ended June 30, 2017, the Company recorded net impairment charges of \$0.2 million primarily related to the impairment of equipment associated with the facility closure in the Strategic Services segment, partially offset by the aforementioned net gain recorded in the second quarter of 2017. Additionally, the Company incurred lease termination and other restructuring charges of \$1.1 million and \$2.7 million, respectively, for the three and six months ended June 30, 2017.

For the three and six months ended June 30, 2016, the Company recorded net restructuring charges of \$6.1 million and \$11.0 million, respectively, 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 \$0.8 million and \$2.3 million, respectively, for the three and six months ended June 30, 2016. The Company incurred \$0.7 million of impairment charges related to buildings and machinery and equipment associated with facility closures for the three months ended June 30, 2016. For the six month period ended June 30, 2016, the Company recognized \$0.9 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 and six months ended June 30, 2017 and 2016, the Company recorded other charges of \$0.6 million and \$1.2 million and \$0.6 million and \$1.1 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 \$33.4 million, respectively, as of June 30, 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 June 30, 2017, and changes during the six months ended June 30, 2017, were as follows:

	December 31, 2016	Restructuring Charges	Foreign Exchange and Other	Cash Paid	June 30, 2017
Employee terminations	\$ 7.6	\$ 8.8	\$ (0.3)	\$(7.6)	\$ 8.5
Multi-employer pension withdrawal obligations	11.8	0.3	—	(0.7)	11.4
Lease terminations and other	1.6	2.4	0.9	(1.6)	3.3
Total	\$ 21.0	\$ 11.5	\$ 0.6	\$(9.9)	\$ 23.2

The current portion of restructuring reserves of \$9.0 million at June 30, 2017 was included in accrued liabilities, while the long-term portion of \$14.2 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 June 30, 2017.

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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.

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 2020. 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 and six months ended June 30, 2017 and 2016 were as follows:

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
Pension expense (income)				
Service cost	\$0.2	\$0.2	\$0.4	\$0.5
Interest cost	7.9	32.3	15.7	67.4
Expected return on plan assets	(12.6)	(55.3)	(24.9)	(113.0)
Amortization, net	1.8	8.0	3.5	15.8
Settlements and curtailments	—	96.4	—	96.4
Less: expense attributable to discontinued operations	—	(64.7)	—	(53.5)
Net pension income - continuing operations	\$(2.7)	\$16.9	\$(5.3)	\$13.6
Other postretirement benefits plan expense (income)				
Service cost	\$0.3	\$1.0	\$0.6	\$2.0
Interest cost	2.8	3.1	5.6	6.1
Expected return on plan assets	(3.3)	(3.4)	(6.7)	(6.8)
Amortization, net	(0.8)	(4.0)	(1.5)	(8.0)
Net other postretirement benefit income - continuing operations	\$(1.0)	\$(3.3)	\$(2.0)	\$(6.7)

The Company expects to make cash contributions of approximately \$17.0 million to its pension and other postretirement benefit plans in 2017. During the six months ended June 30, 2017, the Company contributed \$9.0 million to its benefit plans.

In the fourth quarter of 2015, the Company communicated to certain former employees the option to receive a lump-sum pension payment or annuity with payments computed in accordance with statutory requirements, beginning in the second quarter of 2016. Payments to eligible participants who elected to receive a lump-sum pension payment or annuity were funded from existing pension plan assets and liabilities were remeasured as of the payout date. The discount rates and actuarial assumptions used to calculate the payouts were determined in accordance with federal regulations. The company recorded total non-cash settlement charges of \$96.4 million, of which \$20.4 million is included within selling, general and administrative expenses and \$76.0 million is included within income from discontinued operations, net of tax in the Condensed Consolidated Statements of Operations for the three months ended June 30, 2016. These charges resulted from the recognition in earnings of a portion of the actuarial losses recorded in accumulated other comprehensive loss based on the proportion of the obligation settled.

9. Share-Based Compensation

Share-based compensation expense from continuing operations totaled \$2.4 million and \$3.7 million for the three months ended June 30, 2017 and 2016 respectively, and \$4.3 million and \$5.8 million for the six months ended June 30, 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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

month cliff vesting period. Additionally, in May 2017, the Company awarded its non-employee directors 75,745 restricted stock units with a grant date fair value of \$12.08 per share and vest in May 2018.

10. Equity

The Company’s equity as of December 31, 2016 and June 30, 2017, and changes during the six months ended June 30, 2017, were as follows:

	RRD		Total Equity
	Stockholders' Equity	Noncontrolling Interest	
Balance at December 31, 2016	\$ (105.7)	\$ 13.5	\$ (92.2)
Net earnings	26.4	0.5	26.9
Other comprehensive (loss) income	(87.3)	0.3	(87.0)
Share-based compensation	4.3	—	4.3
Spinoff adjustments	8.5	—	8.5
Issuance of share-based awards, net of withholdings and other	(1.7)	—	(1.7)
Cash dividends paid	(19.6)	—	(19.6)
Distributions to noncontrolling interests	—	(0.7)	(0.7)
Balance at June 30, 2017	\$ (175.1)		