RR Donnelley & Sons Co
Form 10-Q
May 02, 2018

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, 2018

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)

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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 27, 2018, 70.3 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, 2018

TABLE OF CONTENTS

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, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$235.2	$273.4
Receivables, less allowances for doubtful accounts of $38.4 in 2018 (2017 - $32.4)	1,345.4	1,417.6
Inventories (Note 3)	339.9	416.8
Prepaid expenses and other current assets	115.8	109.1
Total current assets	2,036.3	2,216.9
Property, plant and equipment-net (Note 4)	588.7	615.1
Goodwill (Note 5)	590.7	588.5
Other intangible assets-net (Note 5)	136.3	143.3
Deferred income taxes	73.3	81.7
Other noncurrent assets	255.3	259.0
Total assets	$3,680.6	$3,904.5
LIABILITIES		
Accounts payable	$860.8	$1,094.7
Accrued liabilities	349.2	447.5
Short-term and current portion of long-term debt (Note 14)	219.1	10.8
Total current liabilities	1,429.1	1,553.0
Long-term debt (Note 14)	1,969.4	2,098.9
Pension liabilities	93.6	102.7
Other postretirement benefits plan liabilities	108.8	113.2
Long-term income tax liability	59.4	59.4
Other noncurrent liabilities	208.6	180.2
Total liabilities	3,868.9	4,107.4
Commitments and Contingencies (Note 13)		
EQUITY (Note 9)		
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 2018 and 2017	0.9	0.9
Additional paid-in-capital	3,412.5	3,444.0
Accumulated deficit	(2,232.3)	(2,225.7)
Accumulated other comprehensive loss	(82.7)	(103.7)
Treasury stock, at cost, 18.7 shares in 2018 (2017 - 18.9 shares)	(1,301.2)	(1,333.1)
Total RRD stockholders' equity	(202.8)	(217.6)
Noncontrolling interests	14.5	14.7
Total equity	(188.3)	(202.9)
Total liabilities and equity	$ 3,680.6	$ 3,904.5

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, 2018	2017
Products net sales	$1,286.6	$1,271.5
Services net sales	421.2	387.4
Total net sales	1,707.8	1,658.9
Products cost of sales (exclusive of depreciation and amortization)	1,051.9	1,007.8
Services cost of sales (exclusive of depreciation and amortization)	361.2	324.3
Total cost of sales	1,413.1	1,332.1
Products gross profit	234.7	263.7
Services gross profit	60.0	63.1
Total gross profit	294.7	326.8
Selling, general and administrative expenses (exclusive of depreciation and amortization)	214.6	225.8
Restructuring and other-net (Note 6)	0.8	9.1
Depreciation and amortization	47.2	48.6
Other operating income	(0.1)	—
Income from operations	32.2	43.3
Interest expense-net	41.7	48.3
Investment and other (income) expense-net	(5.6)	44.6
Loss on debt extinguishment	0.1	—
Loss before income taxes	(4.0)	(49.6)
Income tax expense	5.3	0.2
Net loss	(9.3)	(49.8)
Less: Income attributable to noncontrolling interests	0.3	0.3
Net loss attributable to RRD common stockholders	$(9.6)	$(50.1)
Net loss per share attributable to RRD common stockholders (Note 10):		
Basic net loss per share	$(0.14)	$(0.71)
Diluted net loss per share	$(0.14)	$(0.71)
Dividends declared per common share	$0.14	$0.14
Weighted average number of common shares outstanding:		
Basic	70.3	70.1
Diluted	70.3	70.1

See Notes to Condensed Consolidated Financial Statements

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in millions)

(UNAUDITED)

	Three Months Ended March 31,	
	2018	2017
Net loss	$(9.3)	$(49.8)
Other comprehensive income (loss), net of tax (Note 11):		
Translation adjustments	18.9	9.0
Adjustment for net periodic pension and postretirement benefits plan cost	2.6	0.7
Adjustment for available-for-sale securities	—	(32.3)
Other comprehensive income (loss)	21.5	(22.6)
Comprehensive income (loss)	12.2	(72.4)
Less: comprehensive income attributable to noncontrolling interests	0.8	0.5
Comprehensive income (loss) attributable to RRD common stockholders	$11.4	$(72.9)

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,	
	2018	2017
OPERATING ACTIVITIES		
Net loss	$(9.3)	$(49.8)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	47.2	48.6
Provision for doubtful accounts receivable	8.4	1.7
Share-based compensation	1.2	1.9
Deferred income taxes	3.9	(1.6)
Changes in uncertain tax positions	—	0.2
Loss on disposition of available-for-sale securities-net	—	51.6
Net pension and other postretirement benefits plan income	(3.8)	(3.6)
Other	(0.7)	4.5
Changes in operating assets and liabilities:		
Accounts receivable-net	74.0	94.2
Inventories	15.4	6.2
Prepaid expenses and other current assets	(5.8)	(3.9)
Accounts payable	(240.9)	(125.7)
Income taxes payable and receivable	(0.8)	5.2
Accrued liabilities and other	(22.8)	(29.6)
Pension and other postretirement benefits plan contributions	(6.3)	(4.9)
Net cash used in operating activities	(140.3)	(5.0)
INVESTING ACTIVITIES		
Capital expenditures	(21.5)	(26.1)
Proceeds from sales of investments and other assets	47.7	123.2
Proceeds/(payments) related to company-owned life insurance	1.2	(11.7)
Proceeds from disposal of business	0.3	—
Net cash provided by investing activities	27.7	85.4
FINANCING ACTIVITIES		
Net proceeds from other short-term debt	35.4	4.7
Payments of current maturities and long-term debt	(0.1)	—
Proceeds from credit facility borrowings	366.0	280.0
Payments on credit facility borrowings	(324.0)	(425.0)
Dividends paid	(9.8)	(9.8)
Payments of withholding taxes on share-based compensation	(0.7)	(1.9)
Other financing activities	(0.7)	(1.3)
Net cash provided by (used in) financing activities	66.1	(153.3)

Effect of exchange rate on cash, cash equivalents and restricted cash	4.4	1.5
Net decrease in cash, cash equivalents and restricted cash	(42.1)	(71.4)
Cash, cash equivalents and restricted cash at beginning of year	301.5	335.9
Cash, cash equivalents and restricted cash at end of period	$259.4	$264.5

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, 2017 filed with the SEC on February 28, 2018. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2018. 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, we completed the separation of our financial communications and data services business (“Donnelley Financial Solutions, Inc.” or “Donnelley Financial”) and our publishing and retail-centric print services and office products business (“LSC Communications, Inc.” or “LSC”) into two separate publicly-traded companies (the “Separation”). We completed the tax-free distribution of approximately 26.2 million shares, or 80.75%, of the outstanding common stock of each of Donnelley Financial and LSC, to RRD stockholders (the “Distribution”). The Distribution was made to RRD stockholders of record as of the close of business on September 23, 2016, who received one share of Donnelley Financial common stock and one share of LSC common stock for every eight shares of RRD common stock held as of the record date. Immediately following the Distribution, we held approximately 6.2 million shares of Donnelley Financial common stock and approximately 6.2 million shares of LSC common stock.

In March 2017, we sold all of the approximately 6.2 million shares of LSC common stock retained by us and used the proceeds to repay a portion of the outstanding borrowings under the Company’s then-existing credit facility. In June 2017 and August 2017, we exchanged all of the approximately 6.2 million shares of Donnelley Financial common stock for certain outstanding senior indebtedness of the Company, which obligations were subsequently cancelled and discharged upon delivery to the Company.

Revision of Net Sales and Cost of Sales

During the third quarter of 2017, the Company identified an error in the accounting for certain contracts with an inventory buy-back option in the Business Services segment. As a result, the error, which was determined by management to be immaterial to the previously issued financial statements, has been corrected herein from the amounts previously reported. There was no impact to net loss, net loss per share, or the Condensed Consolidated Statements of Comprehensive Income (Loss). The impact of the revision was to reduce previously reported net sales and cost of sales by $17.4 million, respectively, for the three months ended March 31, 2017.

The following table presents the impact of the related balance sheet revision on the March 31, 2017 Condensed Consolidated Balance Sheet:

	As Reported	Adjustments	As Revised
Receivables, less allowance for doubtful accounts	$1,268.9	$ (24.8)	$1,244.1
Inventories	375.9	6.5	382.4
Accounts payable	884.8	(18.3)	866.5

The March 31, 2017 Consolidated Statement of Cash Flows has also been revised to reflect the impact of the above balance sheet revision.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash at March 31, 2018 and December 31, 2017 reported within the Condensed Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Condensed Consolidated Statement of Cash Flows.

	March 31, 2018	December 31, 2017
Cash and cash equivalents	$235.2	$ 273.4
Restricted cash - current [(a)]	24.1	28.0
Restricted cash - noncurrent [(b)]	0.1	0.1
Total cash, cash equivalents and restricted cash	$259.4	$ 301.5

(a) Included within prepaid expenses and other current assets within the Condensed Consolidated Balance Sheets.
(b) Included within other noncurrent assets within the Condensed Consolidated Balance Sheets.

Income Taxes

The effective income tax rate for the three months ended March 31, 2018 was (132.5%), compared to (0.4%) in the same period in 2017, and is primarily driven by the inability to recognize a tax benefit on certain losses and limitations on the Company’s interest expense deduction as a result of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”). Non-deductible interest expense will be carried forward; however it is more likely than not that the benefit of such deferred tax asset will not be fully realized and a valuation allowance was recorded. The effective income tax rate for the three months ended March 31, 2017 reflects the impact of the $51.6 million realized loss on the sale of LSC retained shares. The sale generated a capital loss which will be carried forward; however it is more likely than not that the benefit of such deferred tax asset will not be fully realized and a valuation allowance was recorded.

Cash payments for income taxes were $9.2 million and $15.2 million for the three months ended March 31, 2018 and 2017, respectively. Cash refunds for income taxes were $7.1 million and $18.9 million for the three months ended March 31, 2018 and 2017, respectively.

On December 22, 2017, the SEC issued Staff Accounting Bulletin 118 (SAB 118) which provides guidance for companies analyzing their accounting for the income tax effects of the Tax Act. SAB 118 provides that a company may report provisional amounts based on reasonable estimates. The provisional estimates are then subject to adjustment during a measurement period up to one year and should be accounted for as a prospective change. At December 31, 2017, we were able to make reasonable provisional estimates of the one-time transition tax and impact to deferred taxes; however we continue to analyze our data and refine our estimated amounts accordingly, and continue to interpret any guidance or subsequent clarification of the tax law. As a result, we may make adjustments to the provisional amounts recorded, throughout the year, in accordance with the guidance outlined in SAB 118. During the first quarter of 2018, we made an adjustment of $2.3 million to increase the provisional amounts recorded at December 31, 2017.

Deferred U.S. income taxes and foreign taxes have historically not been provided on the excess of the investment value for financial reporting over the tax basis of investments in those foreign subsidiaries for which such excess is considered to be permanently reinvested in those operations. We continue to analyze the global working capital and cash requirements and the potential tax liabilities attributable to repatriation, but we have yet to determine whether to change the prior assertion and repatriate earnings. We will record the tax effects of any change in the prior assertion in the period the analysis is complete and reasonable estimates are made.

2. Revenue Recognition

On January 1, 2018, we adopted ASC Topic 606, “Revenue from Contracts with Customers” using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under Topic 605. All revenue recognized in the Condensed Statements of Operations is considered to be revenue from contracts with customers.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

We recorded a net increase to opening retained earnings of $12.9 million as of January 1, 2018 due to the cumulative impact of adopting Topic 606, with the impact primarily related to the timing of revenue recognition for certain inventory that has been billed but not yet shipped.

Disaggregation of Revenue

The following table presents the Company’s net sales disaggregated by products and services:

	Three Months Ended March 31,	
	2018	2017
Products		
Commercial print	$462.2	$499.2
Statements	159.8	157.7
Direct mail	148.1	132.4
Packaging	141.4	108.7
Labels	117.5	113.1
Digital print and fulfillment	110.8	112.0
Supply chain management	79.8	75.5
Forms	67.0	72.9
Total products net sales	$1,286.6	$1,271.5
Services		
Logistics	$327.2	$296.1
Business process outsourcing	61.2	53.2
Digital and creative solutions	31.3	36.3
Direct mail	1.5	1.8
Total services net sales	$421.2	$387.4
Total net sales	$1,707.8	$1,658.9

Products

Our products revenue is primarily recognized at a point in time. We generally recognize revenue for products sales upon the transfer of control of the products to the client which typically occurs upon transfer of title and risk of ownership, which is generally upon shipment to the client. For certain products sales, we are able to recognize revenue for completed inventory billed but not yet shipped at the client’s direction.

The following is a description of our products:

Commercial Print

We generate revenue by providing various commercial printing products and offer a full range of branded materials including manuals, publications, brochures, business cards, flyers, post cards, posters and promotional items.

Statements

We generate revenue by creating critical business communications, including customer billings, financial statements, healthcare communications and insurance documents. Our capabilities include design and composition, variable imaging, email, archival and digital mail interaction, as well as our innovative RRDigital solution set.

Direct Mail

We generate revenue by providing print production, including touch mailings, and postal optimization strategies.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Packaging

We generate revenue by providing packaging print for clients in consumer electronics, life sciences, cosmetics and consumer packaged goods industries.

Labels

We generate revenue by producing custom labels for clients across multiple industries including warehouse and distribution, retail, pharmaceutical, manufacturing and consumer packaging. We offer distribution and shipping labels, healthcare and durable goods labels, promotional labels and consumer product goods packaging labels.

Digital Print and Fulfillment

We generate revenue by providing various in-store marketing materials, using our digital and offset printing capabilities, including in-store signage and point-of-purchase displays. We also create photobooks.

Supply Chain Management

We generate revenue by providing workflow design to assembly, configuration, kitting and fulfillment for clients in consumer electronics, telecommunications, life sciences, cosmetics, education and industrial industries.

Forms

We generate revenue by producing a variety of forms including invoices, order forms and business forms that support both the private and public sectors for clients in financial, government, retail, healthcare and business services industries.

Services

Our services revenue is recognized both at a point in time as well as over time. Our logistics revenue is primarily recognized over time as the performance obligation is completed. Due to the short transit period of logistics performance obligations, the timing of revenue recognition does not require significant judgment. Our business process outsourcing and digital and creative solutions revenue is recognized over time or at a point in time, depending on the nature of the service which could be either recurring or project-based.

Logistics

We generate revenue by providing specialized transportation and distribution services. These services are comprised of freight services, including truckload, less-than-truckload, intermodal and international freight forwarding; international mail and parcel distribution; print logistics services, including distribution of retail and newsstand printed materials; and courier services including same day and next day delivery.

Business Process Outsourcing

We generate revenue by providing outsourcing services including creative services, research and analytics, financial management and other services for legal providers, insurance, telecommunications, utilities, retail and financial services companies.

Digital and Creative Solutions

We generate revenue by creating and managing content designed to speak directly to customers, including print and digital advertising, direct marketing and direct mail design, packaging design, marketing and sales collateral and in-store marketing.

Variable Consideration

Certain clients may receive volume-based rebates or early payment discounts, which are accounted for as variable consideration. We estimate these amounts based on the expected amount to be earned by our clients and reduce revenue accordingly. We do not expect significant changes to estimates of variable consideration. Given the nature of our products and the history of returns, product returns are not significant.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Contract Balances

The following table provides information about contract assets and contract liabilities from contracts with clients:

	Contract Assets	Contract Liabilities	
	Short-Term	Short-Term	Long-Term
Balance at January 1, 2018	$ 4.0	$30.3	$ 1.4
Balance at March 31, 2018	5.2	23.7	1.2

Contract liabilities primarily relate to client advances received prior to completion of performance obligations. Reductions in contract liabilities are a result of the Company’s completion of performance obligations.

Revenue recognized during the three months ended March 31, 2018 from amounts included in contract liabilities at the beginning of the period was approximately $21.0 million. During the three months ended March 31, 2018, we reclassified $4.0 million of contract assets to receivables as a result of the completion of the performance obligation and the right to the consideration becoming unconditional.

Practical Expedients and Exemptions

As part of the adoption of Topic 606, we have elected practical expedients and exemptions allowable under the guidance.

We account for shipping and handling activities performed after the control of a good has been transferred to the client as a fulfillment cost. We accrue for the costs of shipping and handling activities if revenue is recognized before contractually agreed shipping and handling activities occur.

We apply Topic 606 to a portfolio of contracts (or performance obligations) with similar characteristics as we reasonably expect that the effects on the financial statements of applying this guidance to the portfolio would not differ significantly from applying this guidance to the individual contracts (or performance obligations) within that portfolio.

When the output method for measure of progress is determined appropriate, we recognize revenue in the amount for which we have the right to invoice for revenue that is recognized over time and for which we can demonstrate that the invoiced amount corresponds directly with the value to the client for the performance completed to date.

We generally expense sales commissions and other costs to obtain a contract when incurred, because the amortization period would have been one year or less. These costs are recorded within selling, general and administrative expenses.

We exclude sales taxes and other similar taxes from the measurement of the transaction price. We do not disclose the value of unsatisfied performance obligations, nor do we disclose the timing of revenue recognition for contracts with an original expected length of one year or less.

3. Inventories

The components of the Company's inventories, net of excess and obsolescence reserves for raw materials and finished goods, at March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018	December 31, 2017
Raw materials and manufacturing supplies	$ 152.9	$ 161.1
Work in process	72.0	75.0
Finished goods	132.5	198.2
LIFO reserve	(17.5)	(17.5)
Total inventories	$ 339.9	$ 416.8

11

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

4. Property, Plant and Equipment

The components of the Company’s property, plant and equipment at March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018	December 31, 2017
Land	$53.6	$ 56.1
Buildings	414.5	417.3
Machinery and equipment	1,899.5	1,885.2
	2,367.6	2,358.6
Less: Accumulated depreciation	(1,778.9)	(1,743.5)
Total property, plant and equipment-net	$588.7	$ 615.1

During the three months ended March 31, 2018 and 2017, depreciation expense was $33.3 million and $35.7 million, respectively.

During the fourth quarter of 2017, we entered into an agreement to sell a building and transfer the related land use rights to a third party for a facility in the Business Services segment. During the three months ended December 31, 2017 and March 31, 2018, we received deposits in accordance with the terms of the agreement of approximately $12.5 million and $32.1 million, respectively, which are recorded in other noncurrent liabilities on the Condensed Consolidated Balance Sheets. The terms of the agreement require the buyer to make additional deposits to us through the close date, which is expected to occur in 2020. As of March 31, 2018, we continue to classify the carrying cost of the building within property, plant and equipment and record depreciation expense. The carrying cost of the land use rights are classified in other noncurrent assets.

5. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the three months ended March 31, 2018 were as follows:

	Business Services	Marketing Solutions	Total
Net book value as of December 31, 2017			
Goodwill	$2,759.8	$ 519.5	$3,279.3
Accumulated impairment losses	(2,436.7)	(254.1)	(2,690.8)
Total	323.1	265.4	588.5
Foreign exchange	2.2	—	2.2

Net book value as of March 31, 2018			
Goodwill	2,775.2	519.5	3,294.7
Accumulated impairment losses	(2,449.9)	(254.1)	(2,704.0)
Total	$325.3	$ 265.4	$590.7

The components of other intangible assets at March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Client relationships	$539.5	$ (424.1)	$115.4	$534.1	$ (412.4)	$ 121.7
Patents	2.0	(2.0)	—	2.0	(2.0)	—
Trademarks, licenses and agreements	26.2	(25.3)	0.9	26.2	(25.2)	1.0
Trade names	36.9	(16.9)	20.0	36.8	(16.2)	20.6
Total other intangible assets	$604.6	$ (468.3)	$136.3	$599.1	$ (455.8)	$ 143.3

Amortization expense for other intangible assets was $7.0 million and $7.5 million for the three months ended March 31, 2018 and 2017, 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. Restructuring and Other

For the three months ended March 31, 2018 and 2017, the Company recorded the following net restructuring and other expenses:

Three Months Ended March 31, 2018	Employee Terminations	Other Restructuring Charges	Total Restructuring Charges	Other	Multi-Employer Pension Plan Charges	Total
Business Services	$1.8	$ 1.0	$ 2.8	$(4.9)	$ 0.5	$(1.6)
Marketing Solutions	1.1	—	1.1	0.3	0.1	1.5
Corporate	0.3	0.6	0.9	—	—	0.9
Total	$3.2	$ 1.6	$ 4.8	$(4.6)	$ 0.6	$0.8

Three Months Ended March 31, 2017	Employee Terminations	Other Restructuring Charges	Total Restructuring Charges	Other	Multi-Employer Pension Plan Charges	Total
Business Services	$3.8	$ 1.1	$ 4.9	$ —	$ 0.5	$ 5.4
Marketing Solutions	1.1	0.4	1.5	0.5	0.1	2.1
Corporate	1.5	0.1	1.6	—	—	1.6
Total	$6.4	$ 1.6	$ 8.0	$ 0.5	$ 0.6	$ 9.1

Restructuring and Other

For the three months ended March 31, 2018, the Company recorded net restructuring charges of $3.2 million for employee termination costs. These charges primarily relate to the reorganization of selling, general and administrative functions across each segment and an announced facility closure in the Business Services segment. The Company also incurred lease termination and other restructuring charges of $1.6 million for the three months ended March 31, 2018. Additionally, the Company recorded a $4.9 million net gain on the sale of previously impaired assets in the Business Services segment. These assets were impaired in 2015.

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 related to ceasing the Company’s relationship in a joint venture within the Business Services segment, the reorganization of certain operations and one facility closure in the Marketing Solutions segment. The Company also incurred lease termination and other restructuring charges of $1.6 million for the three months ended March 31, 2017 and recorded impairment charges of $0.5 million related to equipment associated with a facility closure in the Marketing Solutions segment.

Multi-Employer Pension Plan (MEPP) Charges

For the three months ended March 31, 2018 and 2017, the Company recorded charges of $0.6 million for MEPP withdrawal obligations unrelated to facility closures. The total liabilities for the withdrawal obligations associated with the Company's decision to withdraw from all multi-employer pension plans included in accrued liabilities and other noncurrent liabilities are $5.1 million and $31.0 million, respectively, as of March 31, 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)

Restructuring Reserve

The restructuring reserve as of December 31, 2017 and March 31, 2018, and changes during the three months ended March 31, 2018, were as follows:

	December 31, 2017	Restructuring Charges	Foreign Exchange and Other	Cash Paid	March 31, 2018
Employee terminations	$ 9.6	$ 3.2	$ (0.1)	$(5.1)	$ 7.6
MEPP withdrawal obligations related to facility closures	11.0	0.2	—	(0.4)	10.8
Lease terminations and other	2.9	1.4	—	(1.4)	2.9
Total	$ 23.5	$ 4.8	$ (0.1)	$(6.9)	$ 21.3

The current portion of restructuring reserves of $9.1 million at March 31, 2018 was included in accrued liabilities, while the long-term portion of $12.2 million, primarily related to multi-employer pension plan withdrawal obligations related to facility closures, employee terminations in litigation within the Business Services segment and lease termination costs, was included in other noncurrent liabilities at March 31, 2018.

The Company anticipates that payments associated with the employee terminations reflected in the above table will be substantially completed by March 2019, excluding employee terminations in litigation within the Business Services segment.

Payments on all of the Company’s multi-employer pension plan withdrawal obligations are scheduled to be substantially completed by 2034. 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.

7. Employee Benefits

The components of the estimated net pension and other postretirement benefits plan income for the three months ended March 31, 2018 and 2017 were as follows:

	Three Months Ended March 31,	
	2018	2017
Pension expense (income):		
Service cost	$0.2	$0.2

Interest cost	7.8	7.8
Expected return on plan assets	(12.6)	(12.3)
Amortization, net	2.0	1.7
Settlements	0.3	—
Net pension income	$(2.3)	$(2.6)
Other postretirement benefits plan expense (income):		
Service cost	$0.4	$0.3
Interest cost	2.6	2.8
Expected return on plan assets	(3.5)	(3.4)
Amortization, net	(0.7)	(0.7)
Net other postretirement benefit income	$(1.2)	$(1.0)

During the three months ended March 31, 2018, the Company contributed $6.3 million to its benefit plans.

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 adopted ASU No. 2017-07 “Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”, with retrospective adoption, during the first quarter of 2018 and records benefit service costs in cost of sales and selling, general and administrative expenses. The other components, which include interest cost, expected return on plan assets, net amortization and settlements, are recorded in Investment and other (income) expense-net within the Condensed Consolidated Statements of Operations. Previously, all pension and postretirement benefits expense (income) was recorded in cost of sales and selling, general and administrative expenses. See Note 16, New Accounting Pronouncements, for further discussion and impact of adoption.

8. Share-Based Compensation

Share-based compensation expense totaled $1.2 million and $1.9 million for the three months ended March 31, 2018 and 2017, respectively.

In March 2018, the Company awarded its annual share-based compensation grants, which consisted of 683,076 restricted stock units with a grant date fair value of $6.10 per unit and 683,076 performance share units also with a grant date fair value of $6.10 per unit. The restricted stock units are subject to a three year graded vesting period and the performance share units are subject to a 34 month cliff vesting period. Dividends are not paid on restricted stock units.

In addition, during the three months ended March 31, 2018, the Company granted 798,105 cash-settled stock units (“phantom stock units”). The Company’s share price on the date of grant was $7.31. The phantom stock units vest and are payable in three equal installments over a period of three years after the grant date. Phantom stock units are not shares of the Company’s common stock and therefore the recipients of these awards do not receive ownership interest in the Company or shareholder voting rights. Phantom stock unit awards are subject to forfeiture upon termination of employment prior to vesting, subject in some cases to early vesting upon specified events, including death or permanent disability of the grantee, termination of the grantee’s employment under certain circumstances or a change in control of the Company. All phantom stock unit awards are classified as liability awards due to their expected settlement in cash, and are included in accrued liabilities in the Condensed Consolidated Balance Sheets. Compensation expense for these awards is measured based upon the fair value of the awards at the end of each reporting period. Dividends are not paid on phantom stock units.

9. Equity

The Company’s equity as of December 31, 2017 and March 31, 2018, and changes during the three months ended March 31, 2018, were as follows:

	RRD Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2017	$ (217.6)	$ 14.7	$(202.9)
Cumulative impact of adopting Topic 606, net of tax	12.9	—	12.9

Net (loss) income	(9.6)	0.3	(9.3)
Other comprehensive income	21.0	0.5	21.5
Share-based compensation	1.2	—	1.2
Issuance of share-based awards, net of withholdings and other	(0.9)	—	(0.9)
Cash dividends paid	(9.8)	—	(9.8)
Distributions to noncontrolling interests	—	(1.0)	(1.0)
Balance at March 31, 2018	$ (202.8)	$ 14.5	$(188.3)

15

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

10. 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 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 market value of the Company’s stock price during the applicable period. In periods when the Company is in a net loss, 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, 2018 and 2017, no shares of common stock were purchased by the Company; however shares were withheld for tax liabilities upon the vesting of equity awards.

The reconciliation of the numerator and denominator of the basic and diluted earnings per share calculation and the anti-dilutive share-based awards for the three months ended March 31, 2018 and 2017 were as follows:

	Three Months Ended March 31,	
	2018	2017
Net loss per share attributable to RRD common stockholders:		
Basic	$(0.14)	$(0.71)
Diluted	$(0.14)	$(0.71)
Numerator:		
Net loss attributable to RRD common stockholders	$(9.6)	$(50.1)
Denominator:		
Weighted average number of common shares outstanding - Basic and Diluted	70.3	70.1
Weighted average number of anti-dilutive share-based awards:		
Stock options	1.1	1.3
Restricted stock units	0.9	0.5
Total	2.0	1.8
Dividends declared per common share	$0.14	$0.14

11. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) and income tax expense (benefit) allocated to each component for the three months ended March 31, 2018 and 2017 were as follows:

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Before Tax Amount	Income Tax	Net of Tax Amount	Before Tax Amount	Income Tax	Net of Tax Amount
Translation adjustments	$18.9	$ —	$ 18.9	$9.0	$ —	$ 9.0
Adjustment for net periodic pension and other postretirement benefits plan cost	3.6	1.0	2.6	1.0	0.3	0.7
Adjustments for available-for-sale securities	—	—	—	(35.3)	(3.0)	(32.3)
Other comprehensive income (loss)	$22.5	$ 1.0	$ 21.5	$(25.3)	$ (2.7)	$ (22.6)

16

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Accumulated other comprehensive income (loss) by component as of December 31, 2017 and March 31, 2018, and changes during the three months ended March 31, 2018, were as follows:

	Pension and Other Postretirement Benefits Plan Cost	Translation Adjustments	Total
Balance at December 31, 2017	$ (144.6)	$ 40.9	$(103.7)
Other comprehensive income before reclassifications	1.4	18.4	19.8
Amounts reclassified from accumulated other comprehensive loss	1.2		