

RR Donnelley & Sons Co
Form 10-Q
August 04, 2015

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, 2015

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

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 31, 2015, 208.7 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, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

(UNAUDITED)

	June 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$295.4	\$527.9
Receivables, less allowances for doubtful accounts of \$45.8 in 2015 (2014 - \$44.3)	1,976.9	2,033.8
Inventories (Note 3)	617.1	586.2
Prepaid expenses and other current assets	218.7	225.4
Total current assets	3,108.1	3,373.3
Property, plant and equipment-net (Note 4)	1,575.2	1,515.5
Goodwill (Note 5)	1,758.2	1,706.6
Other intangible assets-net (Note 5)	490.3	423.7
Deferred income taxes	167.1	234.1
Other noncurrent assets	393.5	386.1
Total assets	\$7,492.4	\$7,639.3
LIABILITIES		
Accounts payable	\$1,115.8	\$1,296.6
Accrued liabilities	722.7	867.3
Short-term and current portion of long-term debt (Note 13)	312.7	203.4
Total current liabilities	2,151.2	2,367.3
Long-term debt (Note 13)	3,434.1	3,429.1
Pension liabilities	572.3	616.1
Other postretirement benefits plan liabilities	204.8	210.8
Other noncurrent liabilities	392.4	395.6
Total liabilities	6,754.8	7,018.9
Commitments and Contingencies (Note 12)		
EQUITY (Note 8)		
RR Donnelley shareholders' equity		
Preferred stock, \$1.00 par value		
Authorized: 2.0 shares; Issued: None	—	—
Common stock, \$1.25 par value		
Authorized: 500.0 shares;		
Issued: 267.0 shares in 2015 (2014 - 259.0)	333.7	323.7
Additional paid-in-capital	3,157.3	3,041.5
Accumulated deficit	(597.4)	(559.1)

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Accumulated other comprehensive loss	(770.4)	(773.6)
Treasury stock, at cost, 58.3 shares in 2015 (2014 - 59.2 shares)	(1,403.9)	(1,438.7)
Total RR Donnelley shareholders' equity	719.3	593.8
Noncontrolling interests	18.3	26.6
Total equity	737.6	620.4
Total liabilities and equity	\$7,492.4	\$7,639.3

(See Notes to Condensed Consolidated Financial Statements)

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES ("RR DONNELLEY")

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(UNAUDITED)

	Three Months		Six Months Ended	
	Ended June 30, 2015	2014	June 30, 2015	2014
Products net sales	\$2,264.5	\$2,440.7	\$4,524.8	\$4,666.4
Services net sales	483.6	461.8	969.4	909.9
Total net sales	2,748.1	2,902.5	5,494.2	5,576.3
Products cost of sales (exclusive of depreciation and amortization)	1,761.4	1,882.8	3,541.7	3,628.7
Services cost of sales (exclusive of depreciation and amortization)	370.9	357.5	757.0	712.2
Total cost of sales	2,132.3	2,240.3	4,298.7	4,340.9
Products gross profit	503.1	557.9	983.1	1,037.7
Services gross profit	112.7	104.3	212.4	197.7
Total gross profit	615.8	662.2	1,195.5	1,235.4
Selling, general and administrative expenses (exclusive of depreciation and amortization)	313.1	339.3	644.0	655.8
Restructuring, impairment and other charges-net (Note 6)	32.2	22.8	52.0	68.0
Depreciation and amortization	112.8	121.9	226.2	237.4
Income from operations	157.7	178.2	273.3	274.2
Interest expense-net	69.2	70.8	138.2	141.8
Investment and other expense-net	11.9	2.3	40.2	6.9
Loss on debt extinguishment	—	—	—	77.1
Earnings before income taxes	76.6	105.1	94.9	48.4
Income tax expense	33.0	39.5	39.4	16.0
Net earnings	43.6	65.6	55.5	32.4
Less: Income (loss) attributable to noncontrolling interests	0.1	0.9	(10.3)	(3.3)
Net earnings attributable to RR Donnelley common shareholders	\$43.5	\$64.7	\$65.8	\$35.7
Net earnings per share attributable to RR Donnelley common shareholders (Note 9):				
Basic net earnings per share	\$0.21	\$0.32	\$0.33	\$0.18
Diluted net earnings per share	\$0.21	\$0.32	\$0.32	\$0.18
Dividends declared per common share	\$0.26	\$0.26	\$0.52	\$0.52
Weighted average number of common shares outstanding:				
Basic	203.1	200.2	201.8	196.7
Diluted	204.2	201.4	203.1	198.2

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net earnings	\$43.6	\$65.6	\$55.5	\$32.4
Other comprehensive income (loss), net of tax (Note 10):				
Translation adjustments	17.6	8.7	(5.0)	(0.3)
Adjustment for net periodic pension and postretirement benefits plan cost	6.0	1.4	8.2	2.3
Change in fair value of derivatives	—	0.1	—	0.1
Other comprehensive income	23.6	10.2	3.2	2.1
Comprehensive income	67.2	75.8	58.7	34.5
Less: comprehensive (loss) income attributable to noncontrolling interests	(0.1)	0.8	(10.3)	(3.5)
Comprehensive income attributable to RR Donnelley common shareholders	\$67.3	\$75.0	\$69.0	\$38.0

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(UNAUDITED)

	Six Months Ended June 30,	
	2015	2014
OPERATING ACTIVITIES		
Net earnings	\$55.5	\$32.4
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Impairment charges	0.9	9.7
Depreciation and amortization	226.2	237.4
Provision for doubtful accounts receivable	6.9	7.7
Share-based compensation	9.8	9.9
Deferred income taxes	(25.5)	(10.7)
Changes in uncertain tax positions	(1.6)	(1.5)
Loss (gain) on investments and other assets – net	10.3	(1.3)
Loss related to Venezuela currency remeasurement-net	30.3	18.6
Loss on debt extinguishment	—	77.1
Net pension and other postretirement benefits plan income	(22.0)	(23.6)
Gain on bargain purchase	—	(10.5)
Other	18.0	21.4
Changes in operating assets and liabilities - net of acquisitions:		
Accounts receivable – net	54.2	(37.7)
Inventories	0.8	2.6
Prepaid expenses and other current assets	14.0	(19.2)
Accounts payable	(168.7)	(130.9)
Income taxes payable and receivable	25.3	(12.5)
Accrued liabilities and other	(158.9)	(71.7)
Pension and other postretirement benefits plan contributions	(14.5)	(27.5)
Net cash provided by operating activities	61.0	69.7
INVESTING ACTIVITIES		
Capital expenditures	(101.1)	(106.3)
Acquisitions of businesses, net of cash acquired	(118.5)	(376.2)
Disposition of businesses	0.6	2.3
Proceeds from sales of investments and other assets	14.8	9.6
Other investing activities	(6.1)	(1.1)
Net cash used in investing activities	(210.3)	(471.7)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	—	400.0
Net change in short-term debt	7.1	3.4
Payments of current maturities and long-term debt	(270.8)	(811.0)
Net proceeds from credit facility borrowings	300.0	193.0

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Debt issuance costs	—	(7.2)
Dividends paid	(104.1)	(99.2)
Other financing activities	3.5	(0.8)
Net cash used in financing activities	(64.3)	(321.8)
Effect of exchange rate on cash and cash equivalents	(18.9)	(15.7)
Net decrease in cash and cash equivalents	(232.5)	(739.5)
Cash and cash equivalents at beginning of year	527.9	1,028.4
Cash and cash equivalents at end of period	\$295.4	\$288.9

Supplemental non-cash disclosure:

Issuances of 17.0 million shares of RR Donnelley stock for acquisitions of businesses	\$—	\$319.0
Issuance of 8.0 million shares of RR Donnelley stock for acquisition of business	\$154.2	\$—

(See Notes to Condensed Consolidated Financial Statements)

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

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 “RR Donnelley”) 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, 2014 filed with the SEC on February 25, 2015. Operating results for the six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2015. 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.

Note 2. Acquisitions and Dispositions

2015 Acquisitions

On June 8, 2015, the Company acquired Courier Corporation (“Courier”), a leader in digital printing and publishing primarily in the United States, specializing in educational, religious and trade books. The acquisition expanded the Company’s digital printing and content management capabilities. The purchase price for Courier was \$137.3 million in cash and 8.0 million shares of RR Donnelley common stock, or a total transaction value of \$291.5 million based on the Company’s closing share price on June 5, 2015, plus the assumption of Courier’s debt of \$78.2 million. Courier had \$20.9 million of cash as of the date of acquisition. Immediately following the acquisition, the Company repaid substantially all of the debt assumed. Courier’s book manufacturing operations are included in the Publishing and Retail Services segment, publishing operations are included in the Strategic Services segment and Brazilian operations are included in the International segment.

For the three months ended June 30, 2015, the Company’s Condensed Consolidated Financial Statements included net sales of \$22.2 million and an operating loss of \$17.7 million related to the Courier acquisition, including restructuring, impairment and other charges of \$19.1 million and a charge of \$3.2 million resulting from an inventory purchase accounting adjustment.

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For the three and six months ended June 30, 2015, the Company recorded \$3.3 million and \$13.8 million of acquisition-related expenses, respectively, associated with acquisitions completed or contemplated, within selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

The Courier acquisition was recorded by allocating the cost of the acquisition to the assets acquired, including other intangible assets, based on their estimated fair values at the acquisition date. The excess of the cost over the net amounts assigned to the fair value of the assets acquired was recorded as goodwill. The goodwill associated with this acquisition is primarily attributable to the synergies expected to arise as a result of the acquisition.

The tax deductible goodwill related to acquisitions, primarily Courier, was \$9.1 million.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Based on the valuations, the final purchase price allocation for 2015 acquisitions was as follows:

Accounts receivable	\$ 34.1
Inventories	59.0
Prepaid expenses and other current assets	38.7
Property, plant and equipment	162.2
Other intangible assets	106.5
Other noncurrent assets	7.9
Goodwill	58.3
Accounts payable and accrued liabilities	(21.4)
Other noncurrent liabilities	(10.5)
Deferred taxes—net	(83.6)
Total purchase price-net of cash acquired	351.2
Less: debt assumed	78.9
Less: value of common stock issued	154.2
Net cash paid	\$ 118.1

The fair values of other intangible assets, technology and goodwill associated with the acquisition of Courier were determined to be Level 3 under the fair value hierarchy. The following table presents the fair value, valuation techniques and related unobservable inputs for these Level 3 measurements:

	Fair Value	Valuation Technique	Unobservable Input	Range
Customer relationships	\$ 96.3	Excess earnings	Discount rate	13.0% - 16.0%
			Attrition rate	0.0% - 5.0%
Trade names	10.1	Relief-from-royalty method	Discount rate	12.0%
			Royalty rate (after-tax)	0.3% - 1.0%
Technology	1.6	Relief-from-royalty method	Discount rate	11.0%
			Royalty rate (after-tax)	15.0%

Non-compete agreement 0.1 Excess earnings Discount rate 17.0%

The fair values of property, plant and equipment associated with the Courier acquisition were determined to be Level 3 under the fair value hierarchy and were estimated using either the market approach, if a secondhand market existed, or cost approach.

2015 Dispositions

On April 29, 2015, the Company sold its 50.1% interest in its Venezuelan operating entity. The proceeds were de minimis, and the sale resulted in a net loss of \$14.7 million, which was recognized in net investment and other expense in the Consolidated Statement of Operations for the three and six months ended June 30, 2015. The Company's Venezuelan operations had net sales of \$16.3 million and a loss before income taxes of \$38.4 million, including the net loss as a result of the sale, for the six months ended June 30, 2015 and net sales of \$56.0 million and a loss before income taxes of \$5.1 million for the six months ended June 30, 2014. The operations of the Venezuela business were included in the International segment.

2014 Acquisitions

On March 25, 2014, the Company acquired substantially all of the North American operations of Esselte Corporation ("Esselte"), a developer and manufacturer of nationally branded and private label office and stationery products. The acquisition, combined with the Company's existing products, created a more competitive and efficient office products supplier capable of supplying enhanced offerings across the combined customer base. The purchase price for Esselte included \$82.3 million in cash and 1.0 million shares of RR Donnelley common stock, or a total transaction value of \$100.6 million based on the Company's closing share price on March 24, 2014. Esselte had \$6.4 million of cash as of the date of acquisition. Esselte's operations are included in the Variable Print segment.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

On March 10, 2014, the Company acquired the assets of MultiCorpora R&D Inc. and MultiCorpora International Inc. (together “MultiCorpora”) for approximately \$6.0 million. MultiCorpora is an international provider of translation technology solutions. The acquisition of MultiCorpora expanded the capabilities of the Company’s translation services offering which supports clients’ multi-lingual communications. MultiCorpora’s operations are included in the Strategic Services segment.

On January 31, 2014, the Company acquired Consolidated Graphics, Inc. (“Consolidated Graphics”), a provider of digital and commercial printing, fulfillment services, print management and proprietary Internet-based technology solutions, with operations in North America, Europe and Asia. The acquisition enhanced the Company’s ability to provide integrated communications solutions for its customers. The purchase price for Consolidated Graphics was \$359.9 million in cash and 16.0 million shares of RR Donnelley common stock, or a total transaction value of \$660.6 million based on the Company’s closing share price on January 30, 2014, plus the assumption of Consolidated Graphics’ debt of \$118.4 million. Consolidated Graphics had \$62.0 million of cash as of the date of acquisition. Immediately following the acquisition, the Company repaid substantially all of the debt assumed. Consolidated Graphics’ operations are included in the Variable Print segment, with the exception of operations in the Czech Republic and Japan which are included in the International segment.

For the three and six months ended June 30, 2014, the Company recorded \$0.5 million and \$8.2 million of acquisition-related expenses, respectively, associated with acquisitions completed or contemplated within selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

The Esselte, MultiCorpora and Consolidated Graphics acquisitions were recorded by allocating the cost of the acquisitions to the assets acquired, including other intangible assets, based on their estimated fair values at the acquisition date. The excess of the cost of the MultiCorpora and Consolidated Graphics acquisitions over the net amounts assigned to the fair value of the assets acquired was recorded as goodwill. The goodwill associated with these acquisitions is primarily attributable to the synergies expected to arise as a result of the acquisitions.

For Esselte, the fair value of the identifiable net assets acquired of approximately \$110.1 million exceeded the purchase price of \$100.6 million, resulting in a bargain purchase gain of \$9.5 million for the year ended December 31, 2014, which was recorded in net investment and other expense. The gain on the bargain purchase was primarily attributable to the Company’s ability to utilize certain tax operating losses.

The tax deductible goodwill related to the Consolidated Graphics, Esselte and MultiCorpora acquisitions was \$73.4 million.

Based on the valuations, the final purchase price allocations for all 2014 acquisitions were as follows:

Accounts receivable	\$242.0
Inventories	89.6
Prepaid expenses and other current assets	17.5
Property, plant and equipment	337.0

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Other intangible assets	205.0
Other noncurrent assets	11.9
Goodwill	300.1
Accounts payable and accrued liabilities	(221.0)
Other noncurrent liabilities	(57.5)
Deferred taxes--net	(96.6)
Total purchase price-net of cash acquired	828.0
Less: debt assumed	118.4
Less: value of common stock issued	319.0
Less: gain on bargain purchase	9.5
Net cash paid	\$381.1

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

The fair values of other intangible assets, technology and goodwill associated with the acquisitions of Esselte, MultiCorpora and Consolidated Graphics were determined to be Level 3 under the fair value hierarchy. The following table presents the fair value, valuation techniques and related unobservable inputs for these Level 3 measurements:

	Fair Value	Valuation Technique	Unobservable Input	Range
Customer relationships	\$ 178.2	Excess earnings	Discount rate	17.0%
			Attrition rate	- 21.0%
				5.0% - 9.5%
Trade names	26.5	Relief-from-royalty method	Discount rate	19.0%
			Royalty rate (after-tax)	0.5% - 1.5%
Technology	1.1	Excess earnings	Discount rate	17.0%

The fair values of property, plant and equipment associated with the Consolidated Graphics, Esselte, and MultiCorpora acquisitions were determined to be Level 3 under the fair value hierarchy. Property, plant and equipment values were estimated using either the market approach, if a secondhand market existed, or cost approach.

2014 Dispositions

On August 15, 2014, the Company sold the assets and liabilities of Journalism Online, LLC (“Journalism Online”), a provider of online subscription management services, for net proceeds of \$10.5 million, all of which was received as of June 30, 2015, resulting in a gain of \$11.2 million during the year ended December 31, 2014. As a result of a final sale price adjustment in accordance with the agreement, a \$0.2 million loss was recognized during the three months ended June 30, 2015, resulting in a total net gain of \$11.0 million. The gain and loss were included in net investment and other expense in the Consolidated Statement of Operations. The operations of the Journalism Online business were included in the Strategic Services segment.

On August 11, 2014, the Company’s subsidiary, RR Donnelley Argentina S.A. (“RRDA”), filed for bankruptcy liquidation in bankruptcy court in Argentina. The bankruptcy petition was approved by the court shortly thereafter and a bankruptcy trustee was appointed. As a result of the bankruptcy liquidation, the Company recorded a loss of \$16.4 million in net investment and other expense for the year ended December 31, 2014. Effective as of the court’s approval, the operating results of RRDA are no longer included in the Company’s consolidated results of operations. RRDA had net sales of \$19.2 million and a loss before income taxes of \$2.4 million for the six months ended June 30, 2014. The operations of RRDA were included in the International segment.

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On February 7, 2014, the Company sold the assets and liabilities of Office Tiger Global Real Estate Service Inc. (“GRES”), its commercial and residential real estate advisory services business, for net proceeds of \$1.8 million and a loss of \$0.8 million, which was recognized in net investment and other expense in the Consolidated Statements of Operations for the year ended December 31, 2014. The operations of the GRES business were included in the International segment.

Pro forma results

The following unaudited pro forma financial information for the three and six months ended June 30, 2015 and 2014 presents the combined results of operations of the Company and the acquisitions described above, as if the acquisitions had occurred as of January 1 of the year prior to acquisition.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

The unaudited pro forma financial information is not intended to represent or be indicative of the Company’s consolidated results of operations or financial condition that would have been reported had these acquisitions been completed as of the beginning of the period presented and should not be taken as indicative of the Company’s future consolidated results of operations or financial condition. Pro forma adjustments are tax-effected at the applicable statutory tax rates.

	Three Months Ended		Six Months Ended	
	June 30 2015	2014	June 30 2015	2014
Net sales	\$2,800.0	\$2,970.2	\$5,606.7	\$5,857.3
Net earnings attributable to RR Donnelley common shareholders	62.1	76.3	95.5	36.5
Net earnings per share attributable to RR Donnelley common shareholders:				
Basic	\$0.30	\$0.37	\$0.46	\$0.18
Diluted	\$0.30	\$0.36	\$0.45	\$0.17

The following table outlines unaudited pro forma financial information for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended		Six Months Ended	
	June 30 2015	2014	June 30 2015	2014
Amortization of purchased intangibles	\$ 21.2	\$ 22.8	\$ 42.6	\$ 45.7
Restructuring, impairment and other charges	11.1	17.8	28.3	69.3

Additionally, the pro forma adjustments affecting net earnings attributable to RR Donnelley common shareholders for the three and six months ended June 30, 2015 and 2014 were as follows:

	Three Months Ended		Six Months Ended	
	June 30 2015	2014	June 30 2015	2014
Depreciation and amortization of purchased assets, pre-tax	\$ (2.0)	\$ 1.1	\$ 0.4	\$ 2.7

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Acquisition-related expenses, pre-tax	(4.7)	0.3	18.6	14.9
Restructuring, impairment and other charges, pre-tax	21.1	5.0	24.1	2.6
Inventory fair value adjustment, pre-tax	3.2	1.1	3.2	3.6
Other pro forma adjustments, pre-tax	0.4	5.7	1.2	(4.5)
Income taxes	(9.3)	(2.7)	(10.2)	0.1

3. Inventories

The components of the Company's inventories, net of excess and obsolescence reserves for raw materials and finished goods, at June 30, 2015 and December 31, 2014 were as follows:

	June 30, 2015	December 31, 2014
Raw materials and manufacturing supplies	\$269.5	\$ 261.7
Work in process	165.7	157.5
Finished goods	275.7	260.6
LIFO reserve	(93.8)	(93.6)
Total	\$617.1	\$ 586.2

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

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 June 30, 2015 and December 31, 2014 were as follows:

	June 30, 2015	December 31, 2014
Land	\$116.6	\$112.1
Buildings	1,241.2	1,214.8
Machinery and equipment	6,198.7	6,142.8
	7,556.5	7,469.7
Less: Accumulated depreciation	(5,981.3)	(5,954.2)
Total	\$1,575.2	\$1,515.5

During the three and six months ended June 30, 2015, depreciation expense was \$82.5 million and \$165.4 million, respectively. During the three and six months ended June 30, 2014 depreciation expense was \$91.4 million and \$179.3 million, respectively.

Assets Held for Sale

Primarily as a result of restructuring actions, certain facilities and equipment are considered held for sale. The net book value of assets held for sale was \$6.2 million and \$7.2 million at June 30, 2015 and December 31, 2014, respectively. These assets were included in other current assets in the Condensed Consolidated Balance Sheets at June 30, 2015 and December 31, 2014 at the lower of their historical net book value or their estimated fair value, less estimated costs to sell.

5. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill by segment for the six months ended June 30, 2015 were as follows:

Variable	Strategic
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	Publishing and Retail Services	Print	Services	International	Total
Net book value as of December 31, 2014					
Goodwill	\$ 688.0	\$ 1,914.1	\$ 987.5	\$ 1,213.9	\$ 4,803.5
Accumulated impairment losses	(688.0)	(1,105.2)	(222.4)	(1,081.3)	(3,096.9)
Total	—	808.9	765.1	132.6	1,706.6
Acquisitions	52.6	—	1.8	3.9	58.3
Foreign exchange and other adjustments	—	(1.0)	(0.2)	(5.5)	(6.7)
Net book value as of June 30, 2015					