

RR Donnelley & Sons Co  
Form 10-Q  
August 03, 2016

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, 2016

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

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

(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 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 29, 2016, 209.5 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, 2016

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, 2016 and December 31, 2015</u>	3
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015</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>	26
Item 3: <u>Quantitative and Qualitative Disclosures About Market Risk</u>	51
Item 4: <u>Controls and Procedures</u>	51
PART II	
OTHER INFORMATION	
Item 1: <u>Legal Proceedings</u>	52
Item 1A: <u>Risk Factors</u>	52
Item 2: <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	61
Item 4: <u>Mine Safety Disclosures</u>	61
Item 6: <u>Exhibits</u>	61
<u>Signatures</u>	65



## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

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

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

(UNAUDITED)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$290.6	\$389.6
Receivables, less allowances for doubtful accounts of \$47.0 in 2016 (2015 - \$41.5)	1,968.4	2,000.4
Inventories (Note 3)	596.8	592.0
Prepaid expenses and other current assets	118.5	119.7
Total current assets	2,974.3	3,101.7
Property, plant and equipment-net (Note 4)	1,375.0	1,448.1
Goodwill (Note 5)	1,746.2	1,743.6
Other intangible assets-net (Note 5)	404.5	438.0
Deferred income taxes	192.6	178.2
Other noncurrent assets	395.6	369.7
Total assets	\$7,088.2	\$7,279.3
<b>LIABILITIES</b>		
Accounts payable	\$1,047.7	\$1,322.3
Accrued liabilities	720.0	780.4
Short-term and current portion of long-term debt (Note 13)	675.6	234.6
Total current liabilities	2,443.3	2,337.3
Long-term debt (Note 13)	2,943.8	3,188.3
Pension liabilities	555.5	514.4
Other postretirement benefits plan liabilities	168.6	168.8
Other noncurrent liabilities	357.5	373.9
Total liabilities	6,468.7	6,582.7
<b>Commitments and Contingencies (Note 12)</b>		
<b>EQUITY (Note 8)</b>		
RR Donnelley shareholders' equity		
Preferred stock, \$1.00 par value		
Authorized: 2.0 shares; Issued: None	—	—
Common stock, \$0.01 par value in 2016 (2015 - \$1.25)		
Authorized: 500.0 shares;		
Issued: 267.0 shares in 2016 and 2015	2.7	333.7

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

Additional paid-in-capital	3,469.4	3,164.3
Accumulated deficit	(704.0 )	(620.6 )
Accumulated other comprehensive loss	(791.9 )	(793.2 )
Treasury stock, at cost, 57.5 shares in 2016 (2015 - 58.2 shares)	(1,370.4)	(1,401.5)
Total RR Donnelley shareholders' equity	605.8	682.7
Noncontrolling interests	13.7	13.9
Total equity	619.5	696.6
Total liabilities and equity	\$7,088.2	\$7,279.3

(See Notes to Condensed Consolidated Financial Statements)

## R.R. DONNELLEY &amp; 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, 2016	2015	June 30, 2016	2015
Products net sales	\$2,252.5	\$2,264.5	\$4,424.7	\$4,524.8
Services net sales	477.2	483.6	956.4	969.4
Total net sales	2,729.7	2,748.1	5,381.1	5,494.2
Products cost of sales (exclusive of depreciation and amortization)	1,755.5	1,761.4	3,456.7	3,541.7
Services cost of sales (exclusive of depreciation and amortization)	369.3	370.9	750.2	757.0
Total cost of sales	2,124.8	2,132.3	4,206.9	4,298.7
Products gross profit	497.0	503.1	968.0	983.1
Services gross profit	107.9	112.7	206.2	212.4
Total gross profit	604.9	615.8	1,174.2	1,195.5
Selling, general and administrative expenses (exclusive of depreciation and amortization)	434.9	313.1	766.5	644.0
Restructuring, impairment and other charges-net (Note 6)	13.7	32.2	23.4	52.0
Depreciation and amortization	104.0	112.8	211.0	226.2
Other operating income	—	—	(12.3 )	—
Income from operations	52.3	157.7	185.6	273.3
Interest expense-net	68.8	69.2	137.0	138.2
Investment and other expense-net	1.0	11.9	1.0	40.2
(Loss) earnings before income taxes	(17.5 )	76.6	47.6	94.9
Income tax (benefit) expense	(3.2 )	33.0	21.8	39.4
Net (loss) earnings	(14.3 )	43.6	25.8	55.5
Less: Income (loss) attributable to noncontrolling interests	0.2	0.1	0.5	(10.3 )
Net (loss) earnings attributable to RR Donnelley common shareholders	\$(14.5 )	\$43.5	\$25.3	\$65.8
Net (loss) earnings per share attributable to RR Donnelley common shareholders (Note 9):				
Basic net (loss) earnings per share	\$(0.07 )	\$0.21	\$0.12	\$0.33
Diluted net (loss) earnings per share	\$(0.07 )	\$0.21	\$0.12	\$0.32
Dividends declared per common share	\$0.26	\$0.26	\$0.52	\$0.52
Weighted average number of common shares outstanding:				
Basic	209.9	203.1	209.8	201.8
Diluted	209.9	204.2	211.4	203.1

(See Notes to Condensed Consolidated Financial Statements)

4

---



## R.R. DONNELLEY &amp; 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,	
	2016	2015	2016	2015
Net (loss) earnings	\$(14.3)	\$43.6	\$25.8	\$55.5
Other comprehensive (loss) income, net of tax (Note 10):				
Translation adjustments	(22.5)	17.6	(4.6)	(5.0)
Adjustment for net periodic pension and postretirement benefits plan cost	6.7	6.0	6.1	8.2
Other comprehensive (loss) income	(15.8)	23.6	1.5	3.2
Comprehensive (loss) income	(30.1)	67.2	27.3	58.7
Less: comprehensive income (loss) attributable to noncontrolling interests	0.2	(0.1)	0.7	(10.3)
Comprehensive (loss) income attributable to RR Donnelley common shareholders	\$(30.3)	\$67.3	\$26.6	\$69.0

(See Notes to Condensed Consolidated Financial Statements)

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

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(UNAUDITED)

	Six Months Ended June 30,	
	2016	2015
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$25.8	\$55.5
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Impairment charges	0.6	0.9
Depreciation and amortization	211.0	226.2
Provision for doubtful accounts receivable	12.5	6.9
Share-based compensation	10.0	9.8
Deferred income taxes	(20.8 )	(25.5 )
Changes in uncertain tax positions	(1.4 )	(1.6 )
(Gain) loss on investments and other assets - net	(12.4 )	10.3
Loss related to Venezuela currency remeasurement-net	—	30.3
Net pension and other postretirement benefits plan income	(38.1 )	(22.0 )
Loss on pension settlement	96.9	—
Other	3.3	18.0
Changes in operating assets and liabilities - net of acquisitions:		
Accounts receivable - net	14.2	54.2
Inventories	(3.3 )	0.8
Prepaid expenses and other current assets	(10.8 )	14.0
Accounts payable	(274.5)	(168.7)
Income taxes payable and receivable	(15.2 )	25.3
Accrued liabilities and other	(84.9 )	(158.9)
Pension and other postretirement benefits plan contributions	(13.2 )	(14.5 )
Net cash (used in) provided by operating activities	(100.3)	61.0
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(101.4)	(101.1)
Acquisitions of businesses, net of cash acquired	—	(118.5)
Disposition of businesses	13.4	0.6
Proceeds from sales of investments and other assets	3.1	14.8
Transfers from restricted cash	14.9	—
Other investing activities	(2.1 )	(6.1 )
Net cash used in investing activities	(72.1 )	(210.3)
<b>FINANCING ACTIVITIES</b>		
Net change in short-term debt	0.9	7.1
Payments of current maturities and long-term debt	(2.9 )	(270.8)
Net proceeds from credit facility borrowings	185.0	300.0

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

Dividends paid	(108.7)	(104.1)
Other financing activities	1.9	3.5
Net cash provided by (used in) financing activities	76.2	(64.3 )
Effect of exchange rate on cash and cash equivalents	(2.8 )	(18.9 )
Net decrease in cash and cash equivalents	(99.0 )	(232.5)
Cash and cash equivalents at beginning of year	389.6	527.9
Cash and cash equivalents at end of period	\$290.6	\$295.4
Supplemental non-cash disclosure:		
Assumption of warehousing equipment related to customer contract	\$8.8	\$—
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, 2015 filed with the SEC on February 25, 2016. Operating results for the six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2016. 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.

Proposed Spinoff Transactions

On August 4, 2015, the Company announced that its Board of Directors intends to create three independent public companies: (i) a financial communications services company (“Donnelley Financial Solutions”), (ii) a publishing and retail-centric print services company (“LSC Communications”), and (iii) a multichannel communications management company (“RR Donnelley & Sons Company”). Donnelley Financial Solutions is expected to consist of the current financial reporting unit of the Company’s Strategic Services segment. LSC Communications is expected to consist of the Company’s current Publishing and Retail Services segment, as well as the current office products reporting unit of the Company’s Variable Print segment, substantially all of the operations currently within the Europe reporting unit of the Company’s International segment, certain Mexican operations currently within the Latin America reporting unit of the Company’s International segment and the co-mail and related list services operations currently within the logistics reporting unit of the Company’s Strategic Services segment. RR Donnelley & Sons Company is expected to consist of the Company’s current Variable Print segment (except for the office products reporting unit that will become part of LSC Communications), the current logistics reporting unit of the Company’s Strategic Services segment (except for the operations that will become part of LSC Communications), the current sourcing and digital and creative solutions reporting units of the Company’s Strategic Services segment, and the Company’s current International segment (except for substantially all of the Europe reporting unit and certain Mexican operations that will become part of LSC Communications). The transactions are expected to take the form of a tax-free distribution to RR Donnelley shareholders of at least 80% of the shares of common stock in Donnelley Financial Solutions and LSC Communications. Immediately following the completion of the transactions, existing RR Donnelley shareholders will own shares in all three companies.

Donnelley Financial Solutions and LSC Communications each filed a Form 10 on March 31, 2016, which were subsequently amended on June 7, 2016. Additionally, the expected leadership of the three companies was announced in the Company’s Form 8-K filed on April 13, 2016. The transactions are subject to customary conditions, including obtaining rulings from the Internal Revenue Service (which the Company has received) and/or tax opinions, execution

of inter-company agreements and final approval by the Company's Board of Directors. The Company expects to complete the transactions in October 2016, but there can be no assurance that the transactions will be completed on the anticipated timeline, or at all, or that the terms of the transactions will not change.

Upon separation, the historical results of Donnelley Financial Solutions and LSC Communications will be presented as discontinued operations.

## 2. Acquisitions and Dispositions

For the three and six months ended June 30, 2016, the Company recorded \$1.4 million and \$2.0 million of acquisition-related expenses, respectively, associated with contemplated acquisitions within selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

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)

### 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, all of which was received as of June 30, 2016, resulting in a gain of \$12.3 million during the six months ended June 30, 2016. The gain was recorded in other operating income in the Condensed Consolidated Statements of Operations. The operations of these entities were included in the International segment.

### 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 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.

In addition to the acquisition of Courier, the Company completed three insignificant acquisitions in 2015, one of which included the settlement of accounts receivable in exchange for the acquisition of the business.

The tax deductible goodwill related to 2015 acquisitions was \$15.0 million.

Based on the valuations, the final purchase price allocation for the Courier acquisition, as well as the purchase price allocation for the three insignificant acquisitions was as follows:

Accounts receivable	\$36.2
---------------------	--------

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

Inventories	59.0
Prepaid expenses and other current assets	38.8
Property, plant and equipment	163.8
Other intangible assets	108.8
Other noncurrent assets	7.9
Goodwill	66.3
Accounts payable and accrued liabilities	(24.6)
Other noncurrent liabilities	(10.5)
Deferred taxes--net	(83.7)
Total purchase price-net of cash acquired	362.0
Less: debt assumed	80.2
Less: settlement of accounts receivable for acquisition of a business	8.6
Less: value of common stock issued	155.2
Net cash paid	\$118.0

## R.R. DONNELLEY &amp; 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 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	\$ 98.4	Excess earnings	Discount rate	14.0%
			Attrition rate	- 17.0%
				0.0% - 7.5%
Trade names	10.1	Relief-from-royalty method	Discount rate	12.0%
			Royalty rate (pre-tax)	0.3% - 1.0%
Technology	1.6	Relief-from-royalty method	Discount rate	11.0%
			Royalty rate (pre-tax)	15.0%
Non-compete agreement	0.3	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 the cost approach.

## 2015 Disposition

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 year ended December 31, 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.

## Pro forma results

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



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

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	June 30 2015
Net sales	\$ 2,810.8	\$ 5,617.5
Net earnings attributable to RR Donnelley common shareholders	61.8	95.2
Net earnings per share attributable to RR Donnelley common shareholders:		
Basic	\$ 0.30	\$ 0.46
Diluted	\$ 0.29	\$ 0.45

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

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

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)

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

	Three Months Ended	Six Months Ended
	June 30	June 30
	2015	2015
Depreciation and amortization of purchased assets, pre-tax	\$ (2.0 )	\$ 0.4
Acquisition-related expenses, pre-tax	(4.7 )	18.6
Restructuring, impairment and other charges, pre-tax	21.1	24.1
Inventory fair value adjustment, pre-tax	3.2	3.2
Other pro forma adjustments, pre-tax	0.4	1.2
Income taxes	(9.5 )	(10.4 )

### 3. Inventories

The components of the Company’s inventories, net of excess and obsolescence reserves for raw materials and finished goods, at June 30, 2016 and December 31, 2015 were as follows:

	June	December
	30,	31,
	2016	2015
Raw materials and manufacturing supplies	\$245.9	\$ 247.2
Work in process	167.0	156.1
Finished goods	269.7	275.2
LIFO reserve	(85.8 )	(86.5 )
Total	\$596.8	\$ 592.0

### 4. Property, Plant and Equipment

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

The components of the Company's property, plant and equipment at June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016	December 31, 2015
Land	\$112.4	\$113.6
Buildings	1,222.6	1,224.7
Machinery and equipment	6,154.2	6,160.3
	7,489.2	7,498.6
Less: Accumulated depreciation	(6,114.2)	(6,050.5)
Total	\$1,375.0	\$1,448.1

During the three and six months ended June 30, 2016, depreciation expense was \$77.4 million and \$155.7 million, respectively. During the three and six months ended June 30, 2015, depreciation expense was \$82.5 million and \$165.4 million, respectively.

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

## 5. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill by segment for the six months ended June 30, 2016 were as follows:

	Publishing and Retail Services	Variable Print	Strategic Services	International	Total
Net book value as of December 31, 2015					
Goodwill	\$ 739.2	\$ 1,914.0	\$ 991.5	\$ 1,123.6	\$ 4,768.3
Accumulated impairment losses	(688.0 )	(1,105.2)	(219.7 )	(1,011.8 )	(3,024.7)
Total	51.2	808.8	771.8	111.8	1,743.6
Foreign exchange and other adjustments	—	0.9	0.4	1.3	2.6
Net book value as of June 30, 2016					
Goodwill	739.2	1,914.9	991.3	1,100.5	4,745.9
Accumulated impairment losses	(688.0 )	(1,105.2)	(219.1 )	(987.4 )	(2,999.7)
Total	\$ 51.2	\$ 809.7	\$ 772.2	\$ 113.1	\$ 1,746.2

The components of other intangible assets at June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016			December 31, 2015		
	Gross		Net	Gross		Net Book
	Carrying Amount	Accumulated Amortization	Book Value	Carrying Amount	Accumulated Amortization	Value
Customer relationships	\$925.9	\$ (580.5 )	\$ 345.4	\$932.1	\$ (555.3 )	\$ 376.8
Patents	2.0	(2.0 )	—	98.3	(98.3 )	—
Trademarks, licenses and agreements	27.7	(27.2 )	0.5	30.6	(29.9 )	0.7
Trade names	46.5	(20.0 )	26.5	47.5	(19.1 )	28.4
Total amortizable other intangible assets	1,002.1	(629.7 )	372.4	1,108.5	(702.6 )	405.9
Indefinite-lived trade names	32.1	—	32.1	32.1	—	32.1
Total other intangible assets	\$ 1,034.2	\$ (629.7 )	\$ 404.5	\$ 1,140.6	\$ (702.6 )	\$ 438.0

Amortization expense for other intangible assets was \$15.7 million and \$19.2 million for the three months ended June 30, 2016 and 2015, respectively, and \$34.0 million and \$38.2 million for the six months ended June 30, 2016 and

2015, respectively.

The following table outlines the estimated annual amortization expense related to other intangible assets as of June 30, 2016:

For the year ending December 31,	Amount
2016	\$ 64.6
2017	58.8
2018	52.9
2019	48.7
2020	45.1
2021 and thereafter	136.3
Total	\$ 406.4

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

## 6. Restructuring, Impairment and Other Charges

## Restructuring, Impairment and Other Charges Recognized in Results of Operations

For the three months ended June 30, 2016 and 2015, the Company recorded the following net restructuring, impairment and other charges:

		Other	Total			
Three Months Ended	Employee	Restructuring	Restructuring	Impairment	Other	Total
June 30, 2016	Terminations	Charges	Charges		Charges	
Publishing and Retail Services	\$ 1.5	\$ 0.6	\$ 2.1	\$ 0.1	\$ 0.8	\$3.0
Variable Print	0.1	0.6	0.7	0.4	0.5	1.6
Strategic Services	1.2	0.2	1.4	0.6	0.1	2.1
International	2.4	1.1	3.5	0.2	—	3.7
Corporate	3.5	(0.2 )	3.3	—	—	3.3
Total	\$ 8.7	\$ 2.3	\$ 11.0	\$ 1.3	\$ 1.4	\$13.7

		Other	Total			
Three Months Ended	Employee	Restructuring	Restructuring	Impairment	Other	Total
June 30, 2015	Terminations	Charges	Charges		Charges	
Publishing and Retail Services	\$ 0.4	\$ 0.4	\$ 0.8	\$ (0.1 )	\$ 17.0	\$17.7
Variable Print	1.1	2.0	3.1	0.4	0.5	4.0
Strategic Services	2.2	0.6	2.8	—	3.0	5.8
International	1.5	1.5	3.0	(0.2 )	—	2.8
Corporate	1.6	0.3	1.9	—	—	1.9
Total	\$ 6.8	\$ 4.8	\$ 11.6	\$ 0.1	\$ 20.5	\$32.2

For the six months ended June 30, 2016 and 2015, the Company recorded the following net restructuring, impairment and other charges:

		Other	Total			
Six Months Ended	Employee	Restructuring	Restructuring	Impairment	Other	Total
June 30, 2016	Terminations	Charges	Charges		Charges	
Publishing and Retail Services	\$ 2.1	\$ 1.6	\$ 3.7	\$ 1.1	\$ 1.6	\$6.4

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

Variable Print	0.3	1.5	1.8	0.1	0.9	2.8
Strategic Services	1.5	0.7	2.2	0.6	0.3	3.1
International	6.1	2.6	8.7	(2.5 )	—	6.2
Corporate	3.7	—	3.7	1.2	—	4.9
Total	\$ 13.7	\$ 6.4	\$ 20.1	\$ 0.5	\$ 2.8	\$23.4

Six Months Ended June 30, 2015	Other		Total		Other Charges	Total
	Employee Terminations	Restructuring Charges	Restructuring Charges	Impairment		
Publishing and Retail Services	\$ 3.2	\$ 1.5	\$ 4.7	\$ (0.5 )	\$ 17.8	\$22.0
Variable Print	3.1	3.3	6.4	1.7	0.9	9.0
Strategic Services	3.8	1.1	4.9	—	3.1	8.0
International	9.2	1.7	10.9	(0.4 )	—	10.5
Corporate	1.7	0.8	2.5	—	—	2.5
Total	\$ 21.0	\$ 8.4	\$ 29.4	\$ 0.8	\$ 21.8	\$52.0

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)

Restructuring and Impairment Charges

For the three and six months ended June 30, 2016, the Company recorded net restructuring charges of \$8.7 million and \$13.7 million, respectively, for employee termination costs for an aggregate of 696 employees, of whom 672 were terminated as of June 30, 2016. These charges primarily related to the announcement of one facility closure in the Publishing and Retail segment, two facility closures in the International segment and the reorganization of certain operations. Additionally, the Company incurred lease termination and other restructuring charges of \$2.3 million and \$6.4 million, respectively, for the three and six months ended June 30, 2016. For the three and six months ended June 30, 2016, the Company also recorded \$1.3 million and \$0.5 million of net impairment charges primarily related to buildings and machinery and equipment associated with facility closures as well as gains on the sale of previously impaired assets.

For the three and six months ended June 30, 2015, the Company recorded net restructuring charges of \$6.8 million and \$21.0 million, respectively, for employee termination costs for 1,201 employees, all of whom were terminated as of June 30, 2016. These charges primarily related to one facility closure in the International segment, one facility closure in the Variable Print segment and the reorganization of certain operations. Additionally, the Company incurred lease termination and other restructuring charges of \$4.8 million and \$8.4 million, respectively, for the three and six months ended June 30, 2015. For the three and six months ended June 30, 2015, the Company also recorded \$0.1 million and \$0.8 million, respectively, of net impairment charges primarily related to buildings and machinery and equipment associated with facility closures.

Other Charges

For the three and six months ended June 30, 2016, the Company recorded other charges of \$1.4 million and \$2.8 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 \$11.0 million and \$79.6 million, respectively, as of June 30, 2016.

For the three and six months ended June 30, 2015, the Company recorded other charges of \$20.5 million and \$21.8 million, respectively, including integration charges of \$19.1 million for payments made to certain Courier employees upon the termination of Courier’s executive severance plan, immediately prior to the acquisition.

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.

As a result of the acquisition of Courier, the Company participates in two multi-employer pension plans, in one of which the Company's contributions account for approximately 85% of the total plan contributions. Both plans are estimated to be underfunded and have a Pension Protection Act zone status of critical ("red"). Red status identifies plans that are less than 65% funded.

#### Restructuring Reserve

The restructuring reserve as of December 31, 2015 and June 30, 2016, and changes during the six months ended June 30, 2016, were as follows:

	December 31, 2015	Restructuring Charges	Foreign Exchange and Other	Cash Paid	June 30, 2016
Employee terminations	\$ 20.2	\$ 13.7	\$ 0.2	\$(23.4)	\$10.7
Multi-employer pension withdrawal obligations	32.9	1.0	—	(2.4 )	31.5
Lease terminations and other	10.6	5.4	(0.1 )	(7.5 )	8.4
Total	\$ 63.7	\$ 20.1	\$ 0.1	\$(33.3)	\$50.6

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

The current portion of restructuring reserves of \$17.0 million at June 30, 2016 was included in accrued liabilities, while the long-term portion of \$33.6 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, 2016.

The Company anticipates that payments associated with the employee terminations reflected in the above table will be substantially completed by June 2017.

Payments on all of the Company’s multi-employer pension plan withdrawal obligations are scheduled to be 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 and other facility closing costs. Payments on certain of the lease obligations are scheduled to continue until 2026. 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 expense (income) for the three and six months ended June 30, 2016 and 2015 were as follows:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Pension expense (income)				
Service cost	\$0.3	\$0.5	\$0.6	\$1.1
Interest cost	36.8	44.6	73.7	89.4
Expected return on plan assets	(60.9)	(61.7)	(121.4)	(123.3)
Amortization, net	7.9	10.2	15.7	20.4
Settlement	96.9	—	96.9	—
Net pension expense (income)	\$81.0	\$(6.4 )	\$65.5	\$(12.4 )
Other postretirement benefits plan expense (income)				
Service cost	\$1.0	\$1.2	\$2.0	\$2.4
Interest cost	3.1	4.0	6.1	8.0
Expected return on plan assets	(3.4 )	(3.2 )	(6.8 )	(6.5 )
Amortization, net	(4.0 )	(6.8 )	(8.0 )	(13.5 )

Net other postretirement benefits plan income	\$ (3.3 )	\$ (4.8 )	\$ (6.7 )	\$ (9.6 )
---	-----------	-----------	-----------	-----------

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 constituted a complete settlement of the Company's pension liabilities with respect to these participants. The Company's pension 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. As of the remeasurement date, the reduction in the reported pension obligation for these participants was \$354.8 million, compared to payout amounts of approximately \$328.4 million. The Company recorded non-cash settlement charges of \$96.9 million in selling, general and administrative expenses in the three months ended June 30, 2016 in connection with the settlement payments. 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.

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)

During the fourth quarter of 2015, the Company changed the method used to estimate the interest cost components of net pension and other postretirement benefits plan expense for its defined benefit pension and other postretirement benefit plans. Historically, the interest cost components were estimated using a single weighted-average discount rate derived from the yield curve used to measure the projected benefit obligation at the beginning of the period. Beginning in the first quarter of 2016, the Company has elected to use a full yield curve approach in the estimation of these interest components of net pension and other postretirement benefits plan expense by applying the specific spot rates along the yield curve used in the determination of the projected benefit obligation to the relevant projected cash flows. The Company made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates and to provide a more precise measurement of interest costs. This change does not affect the measurement and calculation of the Company’s total benefit obligations. The Company has accounted for this change prospectively as a change in estimate.

8. Equity

The Company’s equity as of December 31, 2015 and June 30, 2016, and changes during the six months ended June 30, 2016, were as follows:

	RR Donnelley Shareholders' Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2015	\$ 682.7	\$ 13.9	