

RR Donnelley & Sons Co
Form 10-Q
May 01, 2019

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, 2019

OR

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

Commission File Number 1-4694

R.R. DONNELLEY & SONS COMPANY

(Exact name of registrant as specified in its charter)

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

35 West Wacker Drive,

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

(312) 326-8000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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 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 29, 2019, 70.8 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, 2019

TABLE OF CONTENTS

	Page
PART I	
Item 1. <u>Condensed Consolidated Balance Sheets as of March 31, 2019 and December 31, 2018</u>	3
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2019 and 2018</u>	4
<u>Condensed Consolidated Statements of Comprehensive (Loss) Income for the three months ended March 31, 2019 and 2018</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
Item 4. <u>Controls and Procedures</u>	35
PART II	
Item 1. <u>Legal Proceedings</u>	36
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
Item 4. <u>Mine Safety Disclosures</u>	36
Item 6. <u>Exhibits</u>	37
<u>Signatures</u>	38

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, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	\$274.3	\$370.6
Receivables, less allowances for doubtful accounts of \$25.5 in 2019 (2018 - \$25.9)	1,203.6	1,298.3
Inventories (Note 3)	326.1	329.7
Prepaid expenses and other current assets	122.2	101.1
Total current assets	1,926.2	2,099.7
Property, plant and equipment-net (Note 4)	530.9	531.3
Goodwill (Note 5)	552.4	553.4
Other intangible assets-net (Note 5)	106.9	113.3
Deferred income taxes	65.9	66.9
Operating lease assets (Note 13)	214.3	—
Other noncurrent assets	270.8	276.2
Total assets	\$3,667.4	\$3,640.8
LIABILITIES		
Accounts payable	\$771.8	\$987.3
Accrued liabilities and other	326.4	347.4
Short-term operating lease liabilities (Note 13)	69.5	—
Short-term and current portion of long-term debt (Note 14)	38.1	216.2
Total current liabilities	1,205.8	1,550.9
Long-term debt (Note 14)	2,133.7	1,875.3
Pension liabilities	94.6	97.9
Other postretirement benefits plan liabilities	67.2	67.8
Long-term income tax liability	91.1	91.1
Long-term operating lease liabilities (Note 13)	146.2	—
Other noncurrent liabilities	178.8	203.2
Total liabilities	3,917.4	3,886.2
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		

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

Authorized: 165.0 shares;		
Issued: 89.0 shares in 2019 and 2018	0.9	0.9
Additional paid-in-capital	3,352.7	3,404.0
Accumulated deficit	(2,234.0)	(2,225.7)
Accumulated other comprehensive loss	(152.4)	(153.8)
Treasury stock, at cost, 18.2 shares in 2019 (2018 - 18.6 shares)	(1,231.7)	(1,285.5)
Total RRD stockholders' equity	(264.5)	(260.1)
Noncontrolling interests	14.5	14.7
Total equity	(250.0)	(245.4)
Total liabilities and equity	\$3,667.4	\$3,640.8

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,	
	2019	2018
Products net sales	\$1,230.9	\$1,286.6
Services net sales	291.0	421.2
Total net sales	1,521.9	1,707.8
Products cost of sales (exclusive of depreciation and amortization)	1,008.8	1,051.9
Services cost of sales (exclusive of depreciation and amortization)	234.8	361.2
Total cost of sales	1,243.6	1,413.1
Products gross profit	222.1	234.7
Services gross profit	56.2	60.0
Total gross profit	278.3	294.7
Selling, general and administrative expenses (exclusive of depreciation and amortization)	199.6	214.6
Restructuring and other-net (Note 6)	17.1	0.8
Depreciation and amortization	42.7	47.2
Other operating income	(4.4)	(0.1)
Income from operations	23.3	32.2
Interest expense-net	40.1	41.7
Investment and other income-net	(4.5)	(5.6)
Loss on debt extinguishment	—	0.1
Loss before income taxes	(12.3)	(4.0)
Income tax (benefit) expense	(3.8)	5.3
Net loss	(8.5)	(9.3)
Less: Income attributable to noncontrolling interests	0.3	0.3
Net loss attributable to RRD common stockholders	\$(8.8)	\$(9.6)
Net loss per share attributable to RRD common stockholders (Note 10):		
Basic net loss per share	\$(0.12)	\$(0.14)
Diluted net loss per share	\$(0.12)	\$(0.14)
Weighted average number of common shares outstanding:		
Basic	70.8	70.3
Diluted	70.8	70.3

See Notes to Condensed Consolidated Financial Statements

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(in millions)

(UNAUDITED)

	Three Months Ended March 31,	
	2019	2018
Net loss	\$(8.5)	\$(9.3)
Other comprehensive income, net of tax (Note 11):		
Translation adjustments	1.2	18.9
Adjustment for net periodic pension and postretirement benefits plan cost	(0.2)	2.6
Other	0.6	—
Other comprehensive income	1.6	21.5
Comprehensive (loss) income	(6.9)	12.2
Less: comprehensive income attributable to noncontrolling interests	0.5	0.8
Comprehensive (loss) income attributable to RRD common stockholders	\$(7.4)	\$11.4

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,	
	2019	2018
OPERATING ACTIVITIES		
Net loss	\$(8.5)	\$(9.3)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	42.7	47.2
Provision for doubtful accounts receivable	3.9	8.4
Share-based compensation	3.4	1.2
Deferred income taxes	1.8	3.9
Net pension and other postretirement benefits plan income	(4.0)	(3.8)
Other	1.1	(0.7)
Changes in operating assets and liabilities:		
Accounts receivable-net	88.6	74.0
Inventories	1.4	15.4
Prepaid expenses and other current assets	(6.9)	(5.8)
Accounts payable	(213.3)	(240.9)
Income taxes payable and receivable	(30.9)	(0.8)
Accrued liabilities and other	(7.3)	(22.8)
Pension and other postretirement benefits plan contributions	(2.0)	(6.3)
Net cash used in operating activities	(130.0)	(140.3)
INVESTING ACTIVITIES		
Capital expenditures	(37.4)	(21.5)
Proceeds from sales of investments and other assets	0.3	47.7
Disposition of businesses	(0.7)	0.3
Other investing activities	(0.3)	1.2
Net cash (used in) provided by investing activities	(38.1)	27.7
FINANCING ACTIVITIES		
Proceeds from other short-term debt	—	38.9
Payments on other short-term debt	(6.5)	(3.5)
Payments of current maturities and long-term debt	(173.7)	(0.1)
Proceeds from credit facility borrowings	512.0	366.0
Payments on credit facility borrowings	(253.0)	(324.0)
Dividends paid	(2.1)	(9.8)
Payments of withholding taxes on share-based compensation	(0.9)	(0.7)
Other financing activities	(1.0)	(0.7)
Net cash provided by financing activities	74.8	66.1
Effect of exchange rate on cash, cash equivalents and restricted cash	2.5	4.4

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

Net decrease in cash, cash equivalents and restricted cash	(90.8)	(42.1)
Cash, cash equivalents and restricted cash at beginning of year	403.6	301.5
Cash, cash equivalents and restricted cash at end of period	\$312.8	\$259.4

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 (“RRD,” the “Company,” “we,” “us,” and “our”) 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 our latest Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on February 27, 2019. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2019. 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.

Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash at March 31, 2019 and December 31, 2018 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, December 31,	
	2019	2018
Cash and cash equivalents	\$ 274.3	\$ 370.6
Restricted cash - current ^(a)	38.4	32.9
Restricted cash - noncurrent ^(b)	0.1	0.1
Total cash, cash equivalents and restricted cash	\$ 312.8	\$ 403.6

(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

Cash payments for income taxes were \$26.4 million and \$9.2 million for the three months ended March 31, 2019 and 2018, respectively. Cash refunds for income taxes were \$0.7 million and \$7.1 million for the three months ended March 31, 2019 and 2018, respectively. Income taxes receivable of \$27.9 million and \$11.7 million as of March 31, 2019 and December 31, 2018, respectively, are included within Prepaid expenses and other current assets.

2. Revenue Recognition

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

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. All revenue recognized in the Condensed Statements of Operations is considered to be revenue from contracts with clients.

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.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Disaggregation of Revenue

The following table presents net sales disaggregated by products and services:

	Three Months Ended March 31,	
	2019	2018
Products		
Commercial print	\$422.4	\$462.2
Statements	149.5	159.8
Direct marketing	148.5	148.1
Packaging	139.5	141.4
Labels	120.5	117.5
Digital print and fulfillment	109.6	110.8
Supply chain management	78.5	79.8
Forms	62.4	67.0
Total products net sales	\$1,230.9	\$1,286.6
Services		
Logistics	\$201.7	\$327.2
Business process outsourcing	61.8	61.2
Digital and creative solutions	27.5	32.8
Total services net sales	\$291.0	\$421.2
Total net sales	\$1,521.9	\$1,707.8

Products

Our products revenue is primarily recognized at a point in time. We generally recognize revenue for products 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, 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.

Packaging

We generate revenue by providing packaging solutions, ranging from rigid boxes to in-box print materials, for clients in consumer electronics, life sciences, cosmetics and consumer packaged goods industries.

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 Marketing

We generate revenue by providing audience segmentation, creative development, program testing, print production, postal optimization and performance analytics for large-scale personalized direct mail programs.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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 in-store marketing materials, including signage and point-of-purchase materials, as well as custom marketing kits that require multiple types of marketing collateral. Under the trade name Motif™, we also create custom 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 and 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 using our third party logistics solutions. These services are comprised of freight services, including truckload, less-than-truckload, intermodal and international freight forwarding; international mail and parcel distribution; and courier services including same day and next day delivery. As discussed in Note 16, Dispositions, we sold our Print Logistics business on July 2, 2018. Print Logistics services included the distribution of retail and newsstand printed materials.

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 for delivery across multiple marketing communications channels including print and digital advertising, direct marketing and mail, packaging, sales collateral, in-store marketing and social media.

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 liabilities from contracts with clients:

	Contract Assets		Contract Liabilities	
	Short-Term	Long-Term	Short-Term	Long-Term
Balance at December 31, 2018	\$ 2.7	\$ 16.5	\$ 0.6	
Balance at March 31, 2019	3.7	12.0	0.5	

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

Revenue recognized during the three months ended March 31, 2019 from amounts included in contract liabilities at the beginning of the period was approximately \$9.6 million. During the three months ended March 31, 2019, we reclassified \$2.7 million of contract assets to receivables as a result of the completion of the performance obligation and the right to the consideration becoming unconditional.

3. Inventories

The components of inventories, net of excess and obsolescence reserves for raw materials and finished goods, at March 31, 2019 and December 31, 2018 were as follows:

	March 31, 2019	December 31, 2018
Raw materials and manufacturing supplies	\$ 142.2	\$ 153.1
Work in process	75.0	75.1
Finished goods	127.5	120.1
LIFO reserve	(18.6)	(18.6)
Total inventories	\$ 326.1	\$ 329.7

4. Property, Plant and Equipment

The components of property, plant and equipment at March 31, 2019 and December 31, 2018 were as follows:

	March 31, 2019	December 31, 2018
Land	\$51.1	\$ 51.0
Buildings	395.1	389.5
Machinery and equipment	1,807.6	1,797.1
	2,253.8	2,237.6
Less: Accumulated depreciation	(1,722.9)	(1,706.3)
Total property, plant and equipment-net	\$530.9	\$ 531.3

During the three months ended March 31, 2019 and 2018 depreciation expense was \$28.3 million and \$33.3 million, respectively.

During the fourth quarter of 2017, we entered into an agreement to sell a printing facility in Shenzhen, China and transfer the related land use rights. During the three months ended March 31, 2018, we received non-refundable deposits in accordance with the terms of the agreement of approximately \$32.1 million which are recorded in Other noncurrent liabilities on the Consolidated Balance Sheets. As of March 31, 2019, we continue to classify the carrying cost of the building within property, plant and equipment and record depreciation expense. The combined carrying cost of the building and land use rights is 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)

5. Goodwill and Other Intangible Assets

The carrying amount of goodwill at March 31, 2019 and December 31, 2018 were as follows:

	Business Services	Marketing Solutions	Total
Net book value as of December 31, 2018			
Goodwill	\$2,604.3	\$ 519.5	\$3,123.8
Accumulated impairment losses	(2,316.3)	(254.1)	(2,570.4)
Total	288.0	265.4	553.4
Foreign exchange	(1.0)	—	(1.0)
Net book value as of March 31, 2019			
Goodwill	2,618.4	519.5	3,137.9
Accumulated impairment losses	(2,331.4)	(254.1)	(2,585.5)
Total	\$287.0	\$ 265.4	\$552.4

The components of other intangible assets at March 31, 2019 and December 31, 2018 were as follows:

	March 31, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Client relationships	\$513.5	\$ (424.5)	\$89.0	\$520.3	\$ (425.5)	\$ 94.8
Patents	2.0	(2.0)	—	2.0	(2.0)	—
Trademarks, licenses and agreements	25.2	(24.8)	0.4	25.7	(25.2)	0.5
Trade names	34.7	(17.2)	17.5	34.6	(16.6)	18.0
Total other intangible assets	\$575.4	\$ (468.5)	\$106.9	\$582.6	\$ (469.3)	\$ 113.3

Amortization expense for other intangible assets was \$6.4 million and \$7.0 million for the three months ended March 31, 2019 and 2018, respectively.

6. Restructuring and Other

For the three months ended March 31, 2019 and 2018, we recorded the following net restructuring and other expenses:

Three Months Ended

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

March 31, 2019

Other

	Employee Termination Charges	Restructuring Charges	Multi-Employer Pension Plan Charges	Other	Total
Business Services	\$7.8	\$ 4.7	\$ 0.6	\$ 0.1	\$13.2
Marketing Solutions	0.1	—	0.1	—	0.2
Corporate	0.2	3.5	—	—	3.7
Total	\$8.1	\$ 8.2	\$ 0.7	\$ 0.1	\$17.1

Three Months Ended

March 31, 2018

Other

	Employee Termination Charges	Restructuring Charges	Multi-Employer Pension Plan Charges	Other	Total
Business Services	\$1.8	\$ 0.8	\$ 0.7	\$(4.9)	\$(1.6)
Marketing Solutions	1.1	—	0.1	0.3	1.5
Corporate	0.3	0.6	—	—	0.9
Total	\$3.2	\$ 1.4	\$ 0.8	\$(4.6)	\$0.8

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Restructuring and Other

For the three months ended March 31, 2019, we recorded net restructuring charges of \$8.1 million for employee termination costs. These charges primarily relate to the planned relocation of a printing facility in Shenzhen, China, other announced facility closures in the Business Services segment and the reorganization of selling, general and administrative functions across each segment. Other restructuring charges of \$8.2 million are primarily comprised of increased reserves for employee termination litigation, environmental matters and lease terminations. We also recorded multi-employer pension plan (“MEPP”) withdrawal obligation charges of \$0.7 million and impairment charges related to facility closures of \$0.1 million for the three months ended March 31, 2019.

For the three months ended March 31, 2018, we recorded net restructuring charges of \$3.2 million for employee termination costs. These charges primarily related to the reorganization of selling, general and administrative functions across each segment and an announced facility closure in the Business Services segment. We also incurred charges for lease termination and other restructuring of \$1.4 million and MEPP withdrawal obligations of \$0.8 million for the three months ended March 31, 2018. Additionally, we 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.

Restructuring and MEPP Reserves

Restructuring and MEPP reserves as of December 31, 2018 and March 31, 2019, and changes during the three months ended March 31, 2019, were as follows:

	December 31, 2018	Restructuring and Other Charges	Foreign Exchange and Other	Cash Paid	March 31, 2019
Employee terminations	\$ 4.8	\$ 8.1	\$ (1.1)	\$(2.4)	\$ 9.4
MEPP withdrawal obligations	44.2	0.7	—	(1.6)	43.3
Lease terminations and other	6.2	8.2	0.1	(3.5)	11.0
Total	\$ 55.2	\$ 17.0	\$ (1.0)	\$(7.5)	\$ 63.7

The current portion of restructuring reserves of \$22.9 million at March 31, 2019 was included in Accrued liabilities and other, while the long-term portion of \$40.8 million, primarily related to MEPP withdrawal obligations, employee terminations in litigation and lease termination costs, was included in Other noncurrent liabilities at March 31, 2019. The total liabilities for the withdrawal obligations associated with our decision to withdraw from all MEPPs included in Accrued liabilities and other and Other noncurrent liabilities are \$6.6 million and \$36.7 million, respectively, as of March 31, 2019.

We anticipate that payments associated with the employee terminations reflected in the above table will be substantially completed by March 2020, excluding employee terminations in litigation within the Business Services segment.

Payments on all of our MEPP 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 MEPP 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 our 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 our 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)

7. Retirement Plans

Components of net pension and other postretirement benefits plan (“OPEB”) income for the three months ended March 31, 2019 and 2018 were as follows:

	Three Months Ended March 31, 2019 2018	
Pension expense (income):		
Service cost	\$0.2	\$0.2
Interest cost	8.4	7.8
Expected return on plan assets	(11.6)	(12.6)
Amortization, net	1.5	2.0
Settlements	—	0.3
Net pension income	\$(1.5)	\$(2.3)
OPEB expense (income):		
Service cost	\$—	\$0.4
Interest cost	2.6	2.6
Expected return on plan assets	(3.3)	(3.5)
Amortization, net	(1.8)	(0.7)
Net OPEB income	\$(2.5)	\$(1.2)

During the three months ended March 31, 2019, we contributed \$2.0 million to our retirement plans.

8. Share-Based Compensation

Share-based compensation expense totaled \$3.4 million and \$1.2 million for the three months ended March 31, 2019 and 2018, respectively.

In March 2019, we awarded our annual share-based compensation grants, which consisted of 0.6 million restricted stock units with a grant date fair value of \$4.77 per unit and 0.6 million performance share units also with a grant date fair value of \$4.77 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, 2019, we granted 1.3 million cash-settled restricted stock units (“phantom restricted stock units”) and 0.4 million cash-settled performance stock units (“phantom performance stock units”). Our share price on the date of grant was \$5.03. The phantom restricted stock units vest and are payable in three equal installments over a period of three years after the grant date. The phantom performance stock units are subject to

a 34 month cliff vesting period. Phantom stock units are not shares of our common stock and therefore the recipients of these awards do not receive ownership interest in the Company or stockholder 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 and other 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.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

9. Equity

Our equity as of December 31, 2018 and March 31, 2019, and changes during the three months ended March 31, 2019, were as follows:

	Additional			Accumulated		Stockholders' Equity	Noncontrolling Interests	Total Equity
	Common Stock	Paid-in-Capital	Treasury Stock	Accumulated Deficit	Other Comprehensive Loss			
Balance at December 31, 2018	\$ 0.9	\$ 3,404.0	\$(1,285.5)	\$(2,225.7)	\$(153.8)	\$(260.1)	\$ 14.7	\$(245.4)
Net (loss) income				(8.8)		(8.8)	0.3	(8.5)
Other comprehensive loss					1.4	1.4	0.2	1.6
Share-based compensation		3.4				3.4		3.4
Issuance of share-based awards, net of withholdings and other		(54.7)	53.8			(0.9)		(0.9)
Cash dividends paid				(2.1)		(2.1)		(2.1)
Cumulative impact of adopting ASU 2016-02, net of tax				2.6		2.6		2.6
Distributions to noncontrolling interests							(0.7)	(0.7)
Balance at March 31, 2019	\$ 0.9	\$ 3,352.7	\$(1,231.7)	\$(2,234.0)	\$(152.4)	\$(264.5)	\$ 14.5	\$(250.0)

Our equity as of December 31, 2017 and March 31, 2018, and changes during three months ended March 31, 2018, were as follows:

	Additional			Accumulated		Stockholders' Equity	Noncontrolling Interests	Total Equity
	Common Stock	Paid-in-Capital	Treasury Stock	Accumulated Deficit	Other Comprehensive Loss			

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

Balance at December 31, 2017	\$ 0.9	\$ 3,444.0	\$(1,333.1)	\$(2,225.7)	\$(103.7)	\$(217.6)	\$ 14.7	\$(202.9)
Net (loss) income				(9.6)		(9.6)	0.3	(9.3)
Other comprehensive loss					21.0	21.0	0.5	21.5
Share-based compensation		1.2				1.2		1.2
Issuance of share-based awards, net of withholdings and other		(32.7)	31.9	(0.1)		(0.9)		(0.9)
Cash dividends paid				(9.8)		(9.8)		(9.8)
Cumulative impact of adopting ASU 2014-09, net of tax				12.9		12.9		12.9
Distributions to noncontrolling interests							(1.0)	(1.0)
Balance at March 31, 2018	\$ 0.9	\$ 3,412.5	\$(1,301.2)	\$(2,232.3)	\$(82.7)	\$(202.8)	\$ 14.5	\$(188.3)

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 our stock price during the applicable period. In periods when we are 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, 2019 and 2018, no shares of common stock were purchased by us; however, shares were withheld for tax liabilities upon the vesting of equity awards.

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 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, 2019 and 2018 were as follows:

	Three Months Ended March 31, 2019 2018	
Net loss per share attributable to RRD common stockholders:		
Basic	\$(0.12)	\$(0.14)
Diluted	\$(0.12)	\$(0.14)
Numerator:		
Net loss attributable to RRD common stockholders	\$(8.8)	\$(9.6)
Denominator:		
Weighted average number of common shares outstanding - Basic and Diluted	70.8	70.3
Weighted average number of anti-dilutive share-based awards:		
Stock options	0.6	1.1
Restricted stock units	0.7	0.9
Total	1.3	2.0
Dividends declared per common share	\$0.03	\$0.14

11. Other Comprehensive Income

The components of other comprehensive income and income tax (benefit) expense allocated to each component for the three months ended March 31, 2019 and 2018 were as follows:

	Three Months Ended March 31, 2019			Three Months Ended March 31, 2018		
	Before Tax Amount	Net of Income Tax	Net of Tax Amount	Before Tax Amount	Net of Income Tax	Net of Tax Amount
Translation adjustments	\$1.2	\$ —	\$ 1.2	\$18.9	\$ —	\$ 18.9
Adjustment for net periodic pension and OPEB cost	(0.3)	(0.1)	(0.2)	3.6	1.0	2.6
Other	—	(0.6)	0.6	—	—	—
Other comprehensive income	\$0.9	\$(0.7)	\$ 1.6	\$22.5	\$ 1.0	\$ 21.5

Accumulated other comprehensive (loss) income by component as of December 31, 2018 and March 31, 2019, and changes during the three months ended March 31, 2019, were as follows:

	Pension and OPEB Cost	Translation Adjustments	Other	Total
Balance at December 31, 2018	\$(155.2)	\$ 1.4	\$ —	\$(153.8)
Other comprehensive income before reclassifications	—	5.5	0.6	6.1
Amounts reclassified from accumulated other comprehensive loss	(0.2)	(4.5)	—	(4.7)
Net change in accumulated other comprehensive (loss) income	(0.2)	1.0	0.6	1.4
Balance at March 31, 2019	\$(155.4)	\$ 2.4	\$ 0.6	\$(152.4)

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 (loss) income 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 OPEB 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	—	1.2
Net change in accumulated other comprehensive (loss) income	2.6	18.4	21.0
Balance at March 31, 2018	\$(142.0)	\$ 59.3	\$(82.7)

Reclassifications from accumulated other comprehensive loss for the three months ended March 31, 2019 and 2018 were as follows:

	Three Months Ended		Classification in the Condensed Consolidated Statements of Operations
	March 31, 2019	2018	
Translation Adjustments:			
Net realized gain, before tax	\$(4.5)	\$—	Other operating income
Reclassification, net of tax	\$(4.5)	\$—	
Amortization of pension and OPEB cost:			
Net actuarial loss	\$1.5	\$2.0	Investment and other income-net
Net prior service credit	(1.8)	(0.7)	Investment and other income-net
Settlements	—	0.3	Investment and other income-net
Reclassifications before tax	(0.3)	1.6	
Income tax (benefit) expense	(0.1)	0.4	
Reclassification, net of tax	(0.2)	1.2	
Total reclassifications, net of tax	\$(4.7)	\$1.2	

12. Segment Information

Our segments and their product and service offerings are summarized below:

Business Services

Business Services provides customized solutions at scale to help clients inform, service and transact with their customers. The segment's primary product and service offerings include commercial print, logistics, statement printing, labels, packaging, supply chain management, forms and business process outsourcing. This segment also includes all of our operations in Asia, Europe, Canada and Latin America.

Marketing Solutions

Marketing Solutions leverages an integrated portfolio of data analytics, creative services and multichannel execution to deliver comprehensive, end-to-end solutions. The segment's primary product and service offerings include direct marketing, in-store marketing, digital print, kitting, fulfillment, digital and creative solutions and list services.

Corporate

Corporate consists of unallocated selling, general and administrative activities and associated expenses including, in part, executive, legal, finance, communications, certain facility costs and last-in-first-out inventory provisions. In addition, certain costs and earnings of employee benefit plans, such as pension and OPEB expense (income) and share-based compensation, are included in Corporate and not allocated to the operating segments. Corporate also manages our cash pooling structures, which enables participating international locations to draw on our international cash resources to meet local liquidity needs.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Information by Segment

We have disclosed income (loss) from operations as the primary measure of segment earnings (loss). This is the measure of profitability used by our chief operating decision-maker and is most consistent with the presentation of profitability reported within the Condensed Consolidated Financial Statements.

	Three Months Ended March 31, 2019			Income (Loss) from Operations	Depreciation and Amortization	Capital Expenditures	Assets of Operations As of March 31, 2019
	Total Sales	Intersegment Sales	Net Sales				
Business Services	\$1,255.9	\$ (19.6)	\$1,236.3	\$ 28.6	\$ 29.3	\$ 23.5	\$ 2,702.4
Marketing Solutions	291.9	(6.3)	285.6	8.5	12.1	9.2	713.9
Total operating segments	1,547.8	(25.9)	1,521.9	37.1	41.4	32.7	3,416.3
Corporate	—	—	—	(13.8)	1.3	4.7	251.1
Total operations	\$1,547.8	\$ (25.9)	\$1,521.9	\$ 23.3	\$ 42.7	\$ 37.4	\$ 3,667.4

	Three Months Ended March 31, 2018			Income (Loss) from Operations	Depreciation and Amortization	Capital Expenditures	Assets of Operations As of December 31, 2018
	Total Sales	Intersegment Sales	Net Sales				
Business Services	\$1,445.5	\$ (29.4)	\$1,416.1	\$ 39.8	\$ 34.0	\$ 16.7	\$ 2,764.5
Marketing Solutions	298.0	(6.3)	291.7	12.3	11.9	3.0	674.6
Total operating segments	1,743.5	(35.7)	1,707.8	52.1	45.9	19.7	3,439.1
Corporate	—	—	—	(19.9)	1.3	1.8	201.7
Total operations	\$1,743.5	\$ (35.7)	\$1,707.8	\$ 32.2	\$ 47.2	\$ 21.5	\$ 3,640.8

Restructuring and other expenses by segment are described in Note 6, Restructuring and Other.

13. Commitments and Contingencies

We are subject to laws and regulations relating to the protection of the environment. We provide for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. Such accruals are adjusted as new information develops or circumstances change and are generally not discounted. We have been designated as a potentially responsible party or have received claims in two active federal and state Superfund and other multiparty remediation sites. In addition to these sites, we may also have the obligation to remediate six other previously and currently owned facilities. At the Superfund sites, the Comprehensive Environmental Response, Compensation and Liability Act provides that our liability could be joint and several, meaning that we could be required to pay an amount in excess of our proportionate share of the remediation costs.

Our understanding of the financial strength of other potentially responsible parties at the multiparty sites and of other liable parties at the previously owned facilities has been considered, where appropriate, in the determination of our estimated liability. We believe that our recorded reserves, recorded in Accrued liabilities and other and Other noncurrent liabilities, are adequate to cover our share of the potential costs of remediation at each of the multiparty sites and the previously and currently owned facilities. It is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly remediation and other compliance efforts that we may undertake in the future. However, in our opinion, compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, will not have a material effect on our consolidated results of operations, financial position or cash flows.

From time to time, our clients and others file voluntary petitions for reorganization under United States bankruptcy laws. In such cases, certain pre-petition payments received by us from these parties could be considered preference items and subject to return. In addition, we may be party to certain litigation arising in the ordinary course of business. We believe that the final resolution of these preference items and litigation will not have a material effect on our consolidated results of operations, financial position or cash flows.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

In April 2019, we received a subpoena from the SEC related to previous business dealings with the Brazilian Ministry of Education. We are cooperating with the SEC as they conduct their investigation.

Leases

We determine if an arrangement is a lease at inception. Operating leases are recorded in Operating lease assets, Short-term operating lease liabilities and Long-term operating lease liabilities on the Condensed Consolidated Balance Sheets. Operating lease assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, we use our incremental borrowing rate based on the information available at the lease commencement date. Operating lease assets also include any lease payments made and are reduced by any lease incentives received. Our lease terms may include options to extend or not terminate the lease when we are reasonably certain that we will exercise any such options. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense is recognized on a straight-line basis over the expected lease term.

Our most significant leases are real estate leases for plants, warehouses, storage facilities, offices and other facilities. For real estate leases, we elected the practical expedient permitted under Topic 842 to combine lease and non-lease components. As a result, non-lease components, such as common area maintenance charges, are accounted for as a single lease element. Our remaining operating leases are primarily comprised of leases of machinery and technology equipment. Finance leases are not material.

Certain of our operating lease agreements include variable payments that are passed-through by the landlord, such as insurance, taxes and common area maintenance, payments based on the usage of the asset and rental payments adjusted periodically for inflation. Pass-through charges, payments due to change in usage of the asset and payments due to changes in inflation are included within variable rent expense.

Our lease agreements do not contain material residual value guarantees, restrictions or covenants.

The components of lease expense for the three months ended March 31, 2019 were as follows:

	Three Months Ended
	March 31, 2019
Operating lease cost	\$ 24.6
Variable lease cost	9.3

Short-term lease cost	0.4
Sublease income	(0.3)
Total lease cost	\$ 34.0

Supplemental cash flow information related to leases for the three months ended March 31, 2019 was as follows:

	Three Months Ended
	March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 22.0
Right-of-use assets obtained in exchange for lease obligations	
Operating leases	\$ 14.1

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

As of March 31, 2019, the future lease payments under operating leases were as follows:

Year Ended December 31	Operating Leases
2019 (excluding the three months ended March 31, 2019)	\$ 60.2
2020	62.2
2021	45.1
2022	30.2
2023	22.5
2024 and thereafter	31.9
Total lease payments	252.1
Less: Amount representing interest	36.4
Present value of lease obligation	\$ 215.7