

RR Donnelley & Sons Co  
Form 10-Q  
August 02, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

OR

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

Commission File Number 1-4694

R.R. DONNELLEY & SONS COMPANY

(Exact name of registrant as specified in its charter)

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

35 West Wacker Drive,

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

(312) 326-8000

(Registrant's telephone number, including area code)

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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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes      No

As of July 28, 2017, 70.0 million shares of common stock were outstanding.

R.R. DONNELLEY & SONS COMPANY

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

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## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

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

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

(UNAUDITED)

	June 30, 2017	December 31, 2016
<b>ASSETS</b>		
Cash and cash equivalents	\$224.0	\$317.5
Receivables, less allowances for doubtful accounts of \$35.7 in 2017 (2016 - \$35.9)	1,301.5	1,354.4
Inventories (Note 4)	392.4	379.6
Prepaid expenses and other current assets	142.3	136.7
Investment in LSC and Donnelley Financial (Note 2)	2.3	328.7
Total current assets	2,062.5	2,516.9
Property, plant and equipment-net (Note 5)	633.2	650.3
Goodwill (Note 6)	607.1	602.0
Other intangible assets-net (Note 6)	157.5	171.9
Deferred income taxes	119.7	108.9
Other noncurrent assets	251.8	234.7
Total assets	\$3,831.8	\$4,284.7
<b>LIABILITIES</b>		
Accounts payable	\$911.6	\$1,001.2
Accrued liabilities	409.7	541.7
Short-term and current portion of long-term debt (Note 15)	19.1	8.2
Total current liabilities	1,340.4	1,551.1
Long-term debt (Note 15)	2,233.4	2,379.2
Pension liabilities	105.9	119.4
Other postretirement benefits plan liabilities	130.3	134.1
Other noncurrent liabilities	183.3	193.1
Total liabilities	3,993.3	4,376.9
Commitments and Contingencies (Note 14)		
<b>EQUITY (Note 10)</b>		
RRD stockholders' equity		
Preferred stock, \$1.00 par value		
Authorized: 2.0 shares; Issued: None	—	—
Common stock, \$0.01 par value		
Authorized: 165.0 shares;		
Issued: 89.0 shares in 2017 and 2016	0.9	0.9
Additional paid-in-capital	3,449.0	3,468.5

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Accumulated deficit	(2,140.1)	(2,155.4)
Accumulated other comprehensive loss	(143.0 )	(55.7 )
Treasury stock, at cost, 19.0 shares in 2017 (2016 - 19.1 shares)	(1,341.9)	(1,364.0)
Total RRD stockholders' equity	(175.1 )	(105.7 )
Noncontrolling interests	13.6	13.5
Total equity	(161.5 )	(92.2 )
Total liabilities and equity	\$3,831.8	\$4,284.7

(See Notes to Condensed Consolidated Financial Statements)

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

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(UNAUDITED)

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

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

(See Notes to Condensed Consolidated Financial Statements)



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

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(UNAUDITED)

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

(See Notes to Condensed Consolidated Financial Statements)

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

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(UNAUDITED)

	Six Months Ended June 30, 2017 2016	
<b>OPERATING ACTIVITIES</b>		
Net earnings	\$26.9	\$25.8
Adjustments to reconcile net earnings to net cash used in operating activities:		
Impairment charges - net	0.3	0.6
Depreciation and amortization	96.1	211.0
Provision for doubtful accounts receivable	1.4	12.5
Share-based compensation	4.3	10.0
Deferred income taxes	(5.3 )	(20.8 )
Changes in uncertain tax positions	0.4	(1.4 )
Gain on investments and other assets - net	(2.4 )	(12.4 )
Realized gain on disposition of available-for-sale securities - net	(40.8)	—
Loss on debt extinguishments	13.6	—
Net pension and other postretirement benefits plan income	(7.3 )	(38.1 )
Loss on pension settlement	—	96.9
Other	9.3	3.3