

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

RR Donnelley & Sons Co
Form 10-Q
July 30, 2014

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, 2014

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
(State or other jurisdiction of
incorporation or organization)

36-1004130
(I.R.S. Employer
Identification No.)

111 South Wacker Drive,
Chicago, Illinois
(Address of principal executive offices)

60606
(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 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 a 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 25, 2014, 199.8 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, 2014

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>FINANCIAL INFORMATION</u>	
Item 1: <u>Condensed Consolidated Financial Statements (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013</u>	3
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2014 and 2013</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013</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>	30
Item 3: <u>Quantitative and Qualitative Disclosures About Market Risk</u>	55
Item 4: <u>Controls and Procedures</u>	56
<u>PART II</u>	
<u>OTHER INFORMATION</u>	
Item 1: <u>Legal Proceedings</u>	57
Item 2: <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
Item 4: <u>Mine Safety Disclosures</u>	57
Item 6: <u>Exhibits</u>	58
<u>Signatures</u>	61

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

(UNAUDITED)

	June 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	\$288.9	\$1,028.4
Receivables, less allowances for doubtful accounts of \$45.4 in 2014 (2013 - \$44.8)	2,083.3	1,832.3
Inventories (Note 3)	586.4	501.2
Prepaid expenses and other current assets	244.3	199.7
Total current assets	3,202.9	3,561.6
Property, plant and equipment-net (Note 4)	1,650.0	1,430.1
Goodwill (Note 5)	1,736.6	1,436.3
Other intangible assets-net (Note 5)	481.4	315.9
Deferred income taxes	86.7	118.8
Other noncurrent assets	389.3	375.5
Total assets	\$7,546.9	\$7,238.2
LIABILITIES		
Accounts payable	\$1,124.5	\$1,143.0
Accrued liabilities	817.5	814.8
Short-term and current portion of long-term debt (Note 14)	406.4	270.9
Total current liabilities	2,348.4	2,228.7
Long-term debt (Note 14)	3,428.9	3,587.0
Pension liabilities	198.8	245.2
Other postretirement benefits plan liabilities	179.0	174.1
Other noncurrent liabilities	477.0	349.5
Total liabilities	6,632.1	6,584.5
Commitments and Contingencies (Note 13)		
EQUITY (Note 9)		
RR Donnelley shareholders' equity		
Preferred stock, \$1.00 par value		
Authorized: 2.0 shares; Issued: None	—	—
Common stock, \$1.25 par value		
Authorized: 500.0 shares;		
Issued: 259.0 shares in 2014 (2013 - 243.0 shares)	323.7	303.7
Additional paid-in-capital	3,032.8	2,802.4
Accumulated deficit	(536.9)	(473.4)

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

Accumulated other comprehensive loss	(485.8)	(488.1)
Treasury stock, at cost, 59.2 shares in 2014 (2013 - 61.2 shares)	(1,439.4)	(1,512.8)
Total RR Donnelley shareholders' equity	894.4	631.8
Noncontrolling interests	20.4	21.9
Total equity	914.8	653.7
Total liabilities and equity	\$7,546.9	\$7,238.2

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Products net sales	\$2,440.7	\$2,135.0	\$4,666.4	\$4,264.7
Services net sales	461.8	436.6	909.9	845.4
Total net sales	2,902.5	2,571.6	5,576.3	5,110.1
Products cost of sales (exclusive of depreciation and amortization)	1,882.8	1,641.7	3,628.7	3,310.0
Services cost of sales (exclusive of depreciation and amortization)	357.5	331.7	712.2	643.6
Total cost of sales	2,240.3	1,973.4	4,340.9	3,953.6
Products gross profit	557.9	493.3	1,037.7	954.7
Services gross profit	104.3	104.9	197.7	201.8
Total gross profit	662.2	598.2	1,235.4	1,156.5
Selling, general and administrative expenses (exclusive of depreciation and amortization)	339.3	294.2	655.8	576.4
Restructuring, impairment and other charges-net (Note 6)	22.8	19.8	68.0	42.5
Depreciation and amortization	121.9	111.0	237.4	224.6
Income from operations	178.2	173.2	274.2	313.0
Interest expense-net	70.8	65.5	141.8	128.3
Investment and other expense-net	2.3	6.0	6.9	9.5
Loss on debt extinguishment	—	—	77.1	35.6
Earnings before income taxes	105.1	101.7	48.4	139.6
Income tax expense	39.5	35.2	16.0	47.8
Net earnings	65.6	66.5	32.4	91.8
Less: Income (loss) attributable to noncontrolling interests	0.9	1.1	(3.3)	(0.7)
Net earnings attributable to RR Donnelley common shareholders	\$64.7	\$65.4	\$35.7	\$92.5
Net earnings per share attributable to RR Donnelley common shareholders (Note 10):				
Basic net earnings per share	\$0.32	\$0.36	\$0.18	\$0.51
Diluted net earnings per share	\$0.32	\$0.36	\$0.18	\$0.51
Dividends declared per common share	\$0.26	\$0.26	\$0.52	\$0.52
Weighted average number of common shares outstanding:				
Basic	200.2	182.0	196.7	181.6
Diluted	201.4	183.2	198.2	183.1

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net earnings	\$65.6	\$66.5	\$32.4	\$91.8
Other comprehensive income (loss), net of tax (Note 11):				
Translation adjustments	8.7	(25.8)	(0.3)	(18.7)
Adjustment for net periodic pension and other postretirement benefits plan cost	1.4	4.8	2.3	3.9
Change in fair value of derivatives	0.1	—	0.1	0.1
Other comprehensive income (loss)	10.2	(21.0)	2.1	(14.7)
Comprehensive income	75.8	45.5	34.5	77.1
Less: comprehensive income (loss) attributable to noncontrolling interests	0.8	1.2	(3.5)	(0.6)
Comprehensive income attributable to RR Donnelley common shareholders	\$75.0	\$44.3	\$38.0	\$77.7

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(UNAUDITED)

	Six Months Ended June 30,	
	2014	2013
OPERATING ACTIVITIES		
Net earnings	\$32.4	\$91.8
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Impairment charges	9.7	7.8
Depreciation and amortization	237.4	224.6
Provision for doubtful accounts receivable	7.7	4.7
Share-based compensation	9.9	11.1
Deferred income taxes	(10.7)	(11.3)
Changes in uncertain tax positions	(1.5)	4.3
Loss (gain) on investments and other assets – net	(1.3)	3.3
Loss related to Venezuela currency remeasurement – net	18.6	3.2
Loss on debt extinguishment	77.1	35.6
Net pension and other postretirement benefits plan income	(23.6)	(9.3)
Gain on bargain purchase	(10.5)	—
Other	21.4	14.1
Changes in operating assets and liabilities - net of acquisitions:		
Accounts receivable - net	(37.7)	45.6
Inventories	2.6	12.7
Prepaid expenses and other current assets	(19.2)	(6.1)
Accounts payable	(130.9)	(236.9)
Income taxes payable and receivable	(12.5)	(9.4)
Accrued liabilities and other	(71.7)	(113.2)
Pension and other postretirement benefits plan contributions	(27.5)	(14.7)
Net cash provided by operating activities	69.7	57.9
INVESTING ACTIVITIES		
Capital expenditures	(106.3)	(84.3)
Acquisitions of businesses, net of cash acquired	(376.2)	0.3
Disposition of business	2.3	—
Proceeds from sale of investments and other assets	9.6	2.2
Other investing activities	(1.1)	3.2
Net cash used in investing activities	(471.7)	(78.6)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	400.0	447.8
Net change in short-term debt	3.4	2.4
Payments of current maturities and long-term debt	(811.0)	(386.8)
Net proceeds from credit facility borrowings	193.0	—
Debt issuance costs	(7.2)	(8.2)
Dividends paid	(99.2)	(94.0)

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

Other financing activities	(0.8)	(6.1)
Net cash used in financing activities	(321.8)	(44.9)
Effect of exchange rate on cash and cash equivalents	(15.7)	(10.7)
Net decrease in cash and cash equivalents	(739.5)	(76.3)
Cash and cash equivalents at beginning of year	1,028.4	430.7
Cash and cash equivalents at end of period	\$288.9	\$354.4

Supplemental non-cash disclosure:

Issuances of 17.0 million shares of RR Donnelley stock for acquisitions of businesses	\$319.0	\$—
---	---------	-----

(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 and Form 10-K/A for the year ended December 31, 2013 filed with the SEC on February 26, 2014 and February 27, 2014, respectively. Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2014. 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.

2. Acquisitions and Dispositions

On March 25, 2014, the Company acquired substantially all of the North American operations of Esselte Corporation (“Esselte”), a developer and manufacturer of nationally branded and private label office and stationery products. The acquisition, combined with the Company’s existing products, created a more competitive and efficient office products supplier capable of supplying enhanced offerings across the combined customer base. The purchase price for Esselte included \$78.2 million in cash, 1.0 million shares of RR Donnelley common stock and a \$2.8 million payable related to the settlement of net working capital, or a total transaction value of \$99.3 million based on the Company’s closing share price on March 24, 2014. Esselte’s operations are included in the Variable Print segment.

On March 10, 2014, the Company acquired the assets of MultiCorpora R&D Inc. and MultiCorpora International Inc. (together “MultiCorpora”) for approximately \$6.1 million. MultiCorpora is an international provider of translation technology solutions. The acquisition of MultiCorpora expanded the capabilities of the Company’s translation services offering which supports clients’ multi-lingual communications. MultiCorpora’s operations are included in the Strategic Services segment.

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

debt assumed. Consolidated Graphics' operations are primarily included in the Variable Print segment. In the second quarter of 2014, Consolidated Graphics' operations in the Czech Republic and Japan were moved from the Variable Print segment to the Europe and Asia reporting units, respectively, within the International segment to reflect corresponding changes in the management reporting structure of the organization.

On February 7, 2014, the Company sold the assets and liabilities of Office Tiger Global Real Estate Service Inc. ("GRES"), its commercial and residential real estate advisory services, for net proceeds of \$2.3 million and a loss of \$0.7 million, which was recognized in net investment and other expense in the Consolidated Statements of Operations. The operations of the GRES business were included in the International segment.

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

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

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)

For Esselte, the fair value of the identifiable net assets acquired of approximately \$109.8 million exceeded the purchase price of \$99.3 million, resulting in a bargain purchase gain of \$10.5 million for the six months ended June 30, 2014, which was recorded in net investment and other expense. A \$6.1 million reduction in this gain, primarily due to a change in estimate of certain tax attributes and working capital adjustments, was recognized as a loss during the three months ended June 30, 2014 as a result of finalizing the purchase price allocation. The gain on the bargain purchase was primarily attributable to the Company's ability to utilize certain tax operating losses.

The tax deductible goodwill related to the Consolidated Graphics, Esselte and MultiCorpora acquisitions was \$74.1 million.

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

Accounts receivable	\$241.4
Inventories	89.6
Prepaid expenses and other current assets	16.3
Property, plant and equipment	335.0
Other intangible assets	204.9
Other noncurrent assets	11.9
Goodwill	300.2
Accounts payable and accrued liabilities	(217.4)
Other noncurrent liabilities	(57.5)
Deferred taxes-net	(97.5)
Total purchase price-net of cash acquired	826.9
Less: debt assumed	118.4
Less: value of common stock issued	319.0
Less: gain on bargain purchase	10.5
Less: amount due for net working capital settlement	2.8
Net cash paid	\$376.2

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

	Fair Value	Valuation Technique	Unobservable Input	Range
Customer relationships	\$178.1	Excess earnings	Discount rate	

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

			Attrition rate	17.0%
				-
				21.0%
				5.0% -
				9.5%
Trade names	26.5	Relief-from-royalty method		19.0%
			Discount rate	0.5% -
			Royalty rate (after-tax)	1.5%
Technology	1.1	Excess earnings	Discount rate	17.0%

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

2013 Disposition

During the fourth quarter of 2013, the Company sold the assets and liabilities of R.R. Donnelley SAS (“MRM France”), its direct mail business located in Cosne sur Loire, France, for a loss of \$17.9 million, which was recognized in net investment and other expense in the Consolidated Statements of Operations. The loss included cash incentive payments due to the purchaser of \$18.8 million, of which \$12.0 million was paid as of June 30, 2014 with the remaining balance to be paid by January 2015. The operations of the MRM France business were included in the International segment.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

For the three and six months ended June 30, 2013, the Company recorded \$0.1 million and \$1.1 million of acquisition-related expenses, respectively, associated with acquisitions contemplated within selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

Pro forma results

The following unaudited pro forma financial information for the three and six months ended June 30, 2014 and 2013 presents the combined results of operations of the Company and the 2014 acquisitions described above, as if the acquisitions had occurred at January 1, 2013.

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 periods 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net sales	\$2,902.5	\$2,887.8	\$5,729.1	\$5,746.4
Net earnings attributable to RR Donnelley common shareholders	76.5	57.9	58.8	66.6
Net earnings per share attributable to RR Donnelley common shareholders:				
Basic	\$0.38	\$0.29	\$0.29	\$0.34
Diluted	\$0.38	\$0.29	\$0.29	\$0.33

The unaudited pro forma financial information includes amortization of purchased intangibles of \$20.4 million and \$40.9 million for the three and six months ended June 30, 2014, respectively and \$21.3 million and \$42.8 million for the three and six months ended June 30, 2013, respectively. The unaudited pro forma financial information includes restructuring, impairment and other charges from operations of \$17.8 million and \$47.9 million for the three and six months ended June 30, 2014, respectively and \$25.8 million and \$64.8 million for the three and six months ended June 30, 2013, respectively.

Additionally, the pro forma adjustments affecting net earnings attributable to RR Donnelley common shareholders for the three and six months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2013	
Depreciation and amortization of purchased assets, pre-tax	\$1.8	\$(2.6)	\$1.6	\$(4.5)
Acquisition-related expenses, pre-tax	0.3	0.1	18.9	(16.5)
Restructuring, impairment and other charges, pre-tax	5.0	(5.0)	22.1	(21.2)
Inventory fair value adjustments, pre-tax	2.2	—	14.3	(14.3)
Other pro forma adjustments, pre-tax	6.1	(8.5)	(4.5)	1.4
Income taxes	(3.5)	(0.5)	(13.7)	17.9

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)

3. Inventories

The components of the Company’s inventories, net of excess and obsolescence reserves for raw materials and finished goods, at June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014	December 31, 2013
Raw materials and manufacturing supplies	\$270.7	\$ 212.6
Work in process	183.2	145.2
Finished goods	224.8	235.4
LIFO reserve	(92.3)	(92.0)
Total	\$586.4	\$ 501.2

4. Property, Plant and Equipment

The components of the Company’s property, plant and equipment at June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014	December 31, 2013
Land	\$119.3	\$94.3
Buildings	1,238.7	1,160.6
Machinery and equipment	6,255.0	6,024.0
	7,613.0	7,278.9
Accumulated depreciation	(5,963.0)	(5,848.8)
Total	\$1,650.0	\$1,430.1

During the three and six months ended June 30, 2014, depreciation expense was \$91.4 million and \$179.3 million, respectively. During the three and six months ended June 30, 2013 depreciation expense was \$86.4 million and \$174.9 million, respectively.

Assets Held for Sale

Primarily as a result of restructuring actions, certain facilities and equipment are considered held for sale. The net book value of assets held for sale was \$20.9 million and \$18.5 million at June 30, 2014 and December 31, 2013, respectively. These assets were included in other current assets in the Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013 at the lower of their historical net book value or their estimated fair value, less estimated costs to sell.

5. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill by segment for the six months ended June 30, 2014 were as follows:

	Publishing and Retail Services	Variable Print	Strategic Services	International	Total
Net book value as of December 31, 2013					
Goodwill	\$ 688.0	\$ 1,638.6	\$ 1,005.4	\$ 1,275.9	\$ 4,607.9
Accumulated impairment losses	(669.9)	(1,105.2)	(243.5)	(1,153.0)	(3,171.6)
Total	18.1	533.4	761.9	122.9	1,436.3
Acquisitions	—	276.2	3.5	20.5	300.2
Foreign exchange and other adjustments	—	0.6	0.2	(0.7)	0.1
Net book value at June 30, 2014					
Goodwill	688.0	1,915.4	1,009.8	1,309.0	4,922.2
Accumulated impairment losses	(669.9)	(1,105.2)	(244.2)	(1,166.3)	(3,185.6)
Total	\$ 18.1	\$ 810.2	\$ 765.6	\$ 142.7	\$ 1,736.6

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

The components of other intangible assets at June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014			December 31, 2013		
	Gross		Net	Gross		Net
	Carrying	Accumulated	Book	Carrying	Accumulated	Book
	Amount	Amortization	Value	Amount	Amortization	Value
Customer relationships	\$909.2	\$ (486.7)	\$422.5	\$728.8	\$ (448.5)	\$280.3
Patents	98.3	(98.3)	—	98.3	(98.3)	—
Trademarks, licenses and agreements	31.6	(29.2)	2.4	31.4	(28.2)	3.2
Trade names	44.0	(14.4)	29.6	27.1	(12.8)	14.3
Total amortizable other intangible assets	1,083.1	(628.6)	454.5	885.6	(587.8)	297.8
Indefinite-lived trade names	26.9	—	26.9	18.1	—	18.1
Total other intangible assets	\$1,110.0	\$ (628.6)	\$481.4	\$903.7	\$ (587.8)	\$315.9

The Company recorded additions to other intangible assets of \$204.9 million for acquisitions during the six months ended June 30, 2014, the components of which were as follows:

	June 30, 2014	
	Weighted	Average
	Amortization	Amount Period
Customer relationships	\$178.1	9.7
Trade names (amortizable)	17.8	10.0
Trade names (indefinite-lived)	8.7	n/a
Non-compete agreements	0.3	3.0
Total additions	\$204.9	

Amortization expense for other intangible assets was \$20.5 million and \$16.1 million for the three months ended June 30, 2014 and 2013, respectively, and \$38.8 million and \$32.4 million for the six months ended June 30, 2014 and 2013, respectively.

The following table outlines the estimated annual amortization expense related to other intangible assets as of June 30, 2014:

For the year ending December 31, Amount	
2014	\$ 79.0
2015	78.2
2016	59.5
2017	53.1
2018	47.9
2019 and thereafter	175.6
Total	\$ 493.3

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)

6. Restructuring, Impairment and Other Charges

Restructuring, Impairment and Other Charges Recognized in Results of Operations

For the three months ended June 30, 2014 and 2013, the Company recorded the following net restructuring, impairment and other charges:

Three Months Ended June 30, 2014	Employee Terminations	Other Restructuring Charges	Total Restructuring Charges	Impairment	Other Charges	Total
Publishing and Retail Services	\$ 0.2	\$ 1.7	\$ 1.9	\$ 1.4	\$ —	\$3.3
Variable Print	3.0	2.5	5.5	0.7	—	6.2
Strategic Services	1.4	1.0	2.4	—	3.8	6.2
International	2.9	0.1	3.0	1.0	—	4.0
Corporate	1.6	1.5	3.1	—	—	3.1
Total	\$ 9.1	\$ 6.8	\$ 15.9	\$ 3.1	\$ 3.8	\$22.8

Three Months Ended June 30, 2013	Employee Terminations	Other Restructuring Charges	Total Restructuring Charges	Impairment	Other Charges	Total
Publishing and Retail Services	\$ —	\$ 1.2	\$ 1.2	\$ 1.3	\$ —	\$2.5
Variable Print	0.4	6.2	6.6	0.1	—	6.7
Strategic Services	1.6	0.6	2.2	1.4	—	3.6
International	3.9	0.8	4.7	0.9	—	5.6
Corporate	1.4	—	1.4	—	—	1.4
Total	\$ 7.3	\$ 8.8	\$ 16.1	\$ 3.7	\$ —	\$19.8

For the six months ended June 30, 2014 and 2013, the Company recorded the following net restructuring, impairment and other charges:

Six Months Ended June 30, 2014	Employee Terminations	Other Restructuring Charges	Total Restructuring Charges	Impairment	Other Charges	Total
Publishing and Retail Services	\$ 0.4	\$ 3.8	\$ 4.2	\$ 3.6	\$ 16.3	\$24.1
Variable Print	14.1	3.4	17.5	5.2	4.1	26.8
Strategic Services	2.4	1.5	3.9	—	3.9	7.8
International	4.0	0.6	4.6	1.0	—	5.6
Corporate	2.1	1.6	3.7	—	—	3.7
Total	\$ 23.0	\$ 10.9	\$ 33.9	\$ 9.8	\$ 24.3	\$68.0

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

Six Months Ended June 30, 2013	Employee Terminations	Other Restructuring Charges	Total Restructuring Charges	Impairment	Other Charges	Total
Publishing and Retail Services	\$ 3.5	\$ 7.8	\$ 11.3	\$ 4.5	\$ —	\$15.8
Variable Print	1.8	7.2	9.0	0.4	—	9.4
Strategic Services	1.6	1.3	2.9	1.8	—	4.7
International	5.6	1.3	6.9	0.7	—	7.6
Corporate	3.6	1.0	4.6	0.4	—	5.0
Total	\$ 16.1	\$ 18.6	\$ 34.7	\$ 7.8	\$ —	\$42.5

Restructuring and Impairment Charges

For the three and six months ended June 30, 2014, the Company recorded net restructuring charges of \$9.1 million and \$23.0 million, respectively, for employee termination costs for 408 employees, of whom 353 were terminated as of June 30, 2014. These charges primarily related to the integration of Consolidated Graphics, including the closure of six Consolidated Graphics facilities as well as one additional facility closure within the Variable Print segment, one facility closure in the Publishing and Retail Services segment and the reorganization of certain operations. Additionally, the Company incurred lease termination and other restructuring

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)

charges of \$6.8 million and \$10.9 million, respectively, for the three and six months ended June 30, 2014, including charges related to multi-employer pension plan withdrawal obligations as a result of facility closures. For the three and six months ended June 30, 2014, the Company also recorded \$3.1 million and \$9.8 million, respectively, of impairment charges primarily related to buildings, machinery and equipment and trade names associated with facility closings. The fair values of the buildings and machinery and equipment were determined to be Level 3 under the fair value hierarchy and were estimated based on discussions with real estate brokers, review of comparable properties, if available, discussions with machinery and equipment brokers, dealer quotes and internal expertise related to the current marketplace conditions.

For the three and six months ended June 30, 2013, the Company recorded net restructuring charges of \$7.3 million and \$16.1 million, respectively, for employee termination costs for 579 employees, substantially all of whom were terminated as of June 30, 2014. These charges primarily related to the closing of one manufacturing facility within each of the Publishing and Retail Services and Variable Print segments and the reorganization of certain operations. Additionally, the Company incurred lease termination and other restructuring charges of \$8.8 million and \$18.6 million, respectively, for the three and six months ended June 30, 2013, including charges related to multi-employer pension plan withdrawal obligations. For the three and six months ended June 30, 2013, the Company also recorded \$3.7 million and \$7.8 million, respectively, of impairment charges primarily related to buildings and machinery and equipment associated with facility closings.

Other Charges

For the three and six months ended June 30, 2014, the Company recorded other charges of \$3.8 million and \$24.3 million, respectively, as a result of its decision to withdraw from certain multi-employer pension plans serving facilities that are currently operating. These charges for multi-employer pension plan withdrawal obligations, unrelated to facility closures, represent the Company’s best estimate of the expected settlement of these withdrawal liabilities. The total liabilities for the withdrawal obligations associated with the Company’s decision to withdraw from certain multi-employer pension plans included in accrued liabilities and other noncurrent liabilities are \$4.7 million and \$90.6 million, respectively, as of June 30, 2014.

It is reasonably possible that the Company will withdraw from the remaining multi-employer pension plan in which it participates in the near term, with a potential liability estimated to range from \$5 million to \$8 million in the aggregate.

The Company’s 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.

Restructuring Reserve

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

The restructuring reserve as of December 31, 2013 and June 30, 2014, and changes during the six months ended June 30, 2014, were as follows:

	December 31, 2013	Restructuring Charges	Foreign Exchange and Other	Cash Paid	June 30, 2014
Employee terminations	\$ 19.7	\$ 23.0	\$ 1.8	\$(17.3)	\$27.2
Multi-employer pension withdrawal obligations	36.8	2.2	—	(2.4)	36.6
Lease terminations and other	21.1	8.7	1.4	(11.8)	19.4
Total	\$ 77.6	\$ 33.9	\$ 3.2	\$(31.5)	\$83.2

The current portion of restructuring reserves of \$36.4 million at June 30, 2014 was included in accrued liabilities, while the long-term portion of \$46.8 million, primarily related to multi-employer pension plan complete or partial withdrawal obligations related to facility closures and lease termination costs, was included in other noncurrent liabilities at June 30, 2014.

The Company anticipates that payments associated with the employee terminations reflected in the above table will be substantially completed by June 2015.

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)

Payments on all of the Company’s multi-employer pension plan complete or partial withdrawal obligations are scheduled to be substantially completed by 2034. Changes based on uncertainties in these estimated withdrawal obligations could affect the ultimate charges related to multi-employer pension plan withdrawals.

The restructuring liabilities classified as “lease terminations and other” consisted of lease terminations, other facility closing costs and contract termination costs. Payments on certain of the lease obligations are scheduled to continue until 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 income for the three and six months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2013	
Pension (income) expense				
Service cost	\$0.6	\$0.8	\$1.1	\$1.6
Interest cost	48.9	44.5	96.6	89.1
Expected return on plan assets	(66.1)	(60.6)	(129.2)	(121.2)
Amortization, net	8.5	12.6	16.3	25.2
Net pension income	\$(8.1)	\$(2.7)	\$(15.2)	\$(5.3)
Other postretirement benefits plan (income) expense				
Service cost	\$1.2	\$1.9	\$2.3	\$3.7
Interest cost	4.2	4.0	8.4	8.1
Expected return on plan assets	(3.1)	(2.9)	(6.2)	(5.9)
Amortization, net	(6.5)	(5.0)	(12.9)	(9.9)
Net other postretirement benefits plan income	\$(4.2)	\$(2.0)	\$(8.4)	\$(4.0)

As the majority of the Company’s pension plans have been frozen as of December 31, 2012, the Company continues to transition to a risk management approach for its U.S. pension plan assets. The overall investment objective of this approach is to further reduce the risk of significant decreases in the plan’s funded status by allocating a larger portion of the plan’s assets to investments expected to hedge the impact of interest rate risks on the plan’s obligation. Over time, the target asset allocation percentage for the pension plan is expected to decrease for equity and other securities and increase for fixed income investments. The assumed long-term rate of return for plan assets, which is determined

annually, is likely to decrease as the asset allocation shifts over time.

8. Share-Based Compensation

The Company recognizes compensation expense based on estimated grant date fair values for all share-based awards issued to employees and directors, including stock options, restricted stock units and performance share units. The total compensation expense related to all share-based compensation plans was \$6.1 million and \$9.9 million for the three and six months ended June 30, 2014, respectively. The total compensation expense related to all share-based compensation plans was \$7.1 million and \$11.1 million for the three and six months ended June 30, 2013, respectively.

Stock Options

There were no options granted during the six months ended June 30, 2014 and 2013.

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)

Stock option awards as of December 31, 2013 and June 30, 2014, and changes during the six months ended June 30, 2014, were as follows:

		Weighted		
		Average		
		Weighted	Remaining	
	Shares	Average	Contractual	Aggregate
	Under			
	Option	Exercise	Term	Intrinsic
	(thousands)	Price	(years)	Value
Outstanding at December 31, 2013	4,139			