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 (State or other jurisdiction of	36-1004130 (I.R.S. Employer
incorporation or organization)	Identification No.)
35 West Wacker Drive,	
Chicago, Illinois (Address of principal executive offices)	60601 (Zip code)

(312) 326-8000

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer		Accelerated filer
Non-Accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
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

TABLE OF CONTENTS

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)

	June 30, 2017	December 31, 2016
ASSETS		
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
LIABILITIES		
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)		
EQUITY (Note 10)		
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

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 & SONS COMPANY AND SUBSIDIARIES ("RRD")

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(UNAUDITED)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 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)

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)

4

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(UNAUDITED)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 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 & SONS COMPANY AND SUBSIDIARIES ("RRD")

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(UNAUDITED)

	Six Months Ended June 30, 2017	2016
OPERATING ACTIVITIES		
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
Changes in operating assets and liabilities - net of dispositions:		
Accounts receivable - net	69.8	14.2
Inventories	(8.0)	(3.3)
Prepaid expenses and other current assets	(6.9)	(10.8)
Accounts payable	(111.2)	(274.5)
Income taxes payable and receivable	(3.4)	(15.2)
Accrued liabilities and other	(79.6)	(84.9)
Pension and other postretirement benefits plan contributions	(9.0)	(13.2)
Net cash used in operating activities	(51.8)	(100.3)
INVESTING ACTIVITIES		
Capital expenditures	(54.2)	(101.4)
Disposition of businesses	—	13.4
Proceeds from sales of investments and other assets	126.7	3.1
Transfers from restricted cash	0.7	14.9
Other investing activities	—	(2.1)
Net cash provided by (used in) investing activities	73.2	(72.1)
FINANCING ACTIVITIES		
Net change in short-term debt	12.3	0.9
Payments of current maturities and long-term debt	(200.4)	(2.9)
Payments on Credit Agreement borrowings	(655.0)	—
Proceeds from Credit Agreement borrowings	820.0	—
Net proceeds from credit facility borrowings	—	185.0

Dividends paid	(19.6)	(108.7)
Net transfer of cash and cash equivalents to LSC and Donnelley Financial	(78.0)	—
Other financing activities	(1.6)	1.9
Net cash (used in) provided by financing activities	(122.3)	76.2
Effect of exchange rate on cash and cash equivalents	7.4	(2.8)
Net decrease in cash and cash equivalents	(93.5)	(99.0)
Cash and cash equivalents at beginning of year	317.5	389.6
Cash and cash equivalents at end of period	$224.0	$290.6
SUPPLEMENTAL NON-CASH DISCLOSURE:		
Assumption of warehousing equipment related to customer contract	$—	$8.8
Debt-for-equity exchange	130.5	—

(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 (the “Company” or “RRD”) and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in accordance with the rules and regulations of the United States Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These unaudited condensed consolidated interim financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods and should be read in conjunction with the consolidated financial statements and the related notes thereto included in the Company’s latest Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 28, 2017. Operating results for the six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2017. 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.

Spinoff Transactions

On October 1, 2016, the Company completed the separation of its financial communications and data services business (“Donnelley Financial Solutions, Inc.” or “Donnelley Financial”) and the publishing and retail-centric print services and office products business (“LSC Communications, Inc.” or “LSC”) into two separate publicly-traded companies (the "Separation"). The Company completed the tax-free distribution of 80.75% of the outstanding common stock of each Donnelley Financial and LSC to the Company’s stockholders of record on September 23, 2016 who received one share of each Donnelley Financial and LSC for every eight shares of RRD common stock owned as of the record date (the “Distribution”). The Company retained 19.25% of the outstanding common stock of each Donnelley Financial and LSC. The historical financial results of Donnelley Financial and LSC prior to the Separation, are presented as discontinued operations on the Condensed Consolidated Statements of Operations and, as such, have been excluded from both continuing operations and segment results for all periods presented. Sales from RRD to Donnelley Financial and LSC previously eliminated in consolidation have been recast and are now shown as external sales within the financial results of continuing operations. These net sales were $36.3 million and $77.9 million for the three and six months ended June 30, 2016, respectively. Unless indicated otherwise, the information in the Notes to Condensed Consolidated Financial Statements relates to the Company's continuing operations. Prior periods have been recast to reflect the Company's current segment reporting structure. See Note 2, Discontinued Operations, for more information on the Separation.

Reverse Stock Split

Immediately following the Distribution on October 1, 2016, the Company affected a one-for-three reverse stock split for RRD common stock (the “Reverse Stock Split”). The Reverse Stock Split was approved by the Company’s Board of Directors on September 14, 2016 and previously approved by the Company’s stockholders at the annual meeting on May 19, 2016. As a result of the Reverse Stock Split, the number of issued and outstanding and treasury shares of the Company’s common stock was reduced proportionally based on the Reverse Stock Split ratio of one share for every three shares of common stock held before the Reverse Stock Split. All references in these unaudited condensed consolidated interim financial statements to the number of shares of common stock and per share amounts have been retroactively adjusted to give effect to the Reverse Stock Split.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

2. Discontinued Operations

Immediately following the Distribution, the Company held approximately 6.2 million shares of Donnelley Financial Solutions common stock and approximately 6.2 million shares of LSC common stock. The Company accounts for these investments as available-for-sale equity securities. In March 2017, the Company sold the 6.2 million shares of LSC common stock it retained upon spinoff for net proceeds of $121.4 million, resulting in a realized loss of $51.6 million, which was recorded within investment and other income (expense)-net in the Condensed Consolidated Statements of Operations for the six months ended June 30, 2017. In June 2017, the Company completed a non-cash debt-for-equity exchange, in which RRD exchanged 6,143,208 of its retained shares of Donnelley Financial for the extinguishment of $111.6 million in aggregate principal amount of RRD indebtedness. See Note 15, Debt, for additional details of this debt-for-equity transaction. As of June 30, 2017, the fair value of the remaining 99,594 retained shares of Donnelley Financial common stock was $2.3 million.

The following details the financial results of discontinued operations:

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Net sales	$1,133.4	$2,180.8
Cost of sales	845.0	1,655.6
Operating expenses [(a)]	260.9	422.0
Interest and other expense (income), net [(b)]	17.6	35.5
Earnings before income taxes	9.9	67.7
Income tax expense	1.2	22.8
Net earnings from discontinued operations	$8.7	$44.9

(a) Includes spinoff transaction costs incurred of $18.4 million and $30.3 million during the three and six month period ended June 30, 2016.

(b) Includes the related interest expense of the corporate level debt which was retired in connection with the Separation totaling $17.8 million and $35.8 million for the three and six months ended June 30, 2016.

The significant non-cash items and capital expenditures of discontinued operations were as follows:

	Six Months Ended June 30, 2016
Depreciation and amortization	$ 108.5

Pension settlement charges	76.5
Impairment charges	1.4
Assumption of warehousing equipment related to customer contract	8.8
Purchase of property, plant and equipment	31.2

In connection with the Separation, the Company entered into transition services agreements with Donnelley Financial and LSC under which the companies will provide one another with certain services to help ensure an orderly transition following the Separation (the “Transition Services Agreement”). The charges for these services are intended to allow the companies, as applicable, to recover the direct and indirect costs incurred in providing such services. The Transition Services Agreement generally provides for a term of services starting at the Separation date and continuing for a period of up to twenty-four months following the Separation. During the three and six months ended June 30, 2017, the Company recognized $2.2 million and $5.0 million, respectively, as a reduction of costs within selling general and administrative expenses within the Condensed Consolidated Statements of Operations from the Transition Services Agreement.

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 Company also entered into various commercial agreements which govern sales transactions between the companies. Under these commercial agreements, the Company recognized the following transactions with LSC and Donnelley Financial during the three and six months ended June 30, 2017:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Net sales to LSC and Donnelley Financial	$ 86.2	$ 169.1
Purchases from LSC and Donnelley Financial	31.9	69.0

Additionally, the Company had the following balances recorded within the Condensed Consolidated Balance Sheets associated with LSC and Donnelley Financial:

	June 30, 2017[b]	December 31, 2016
Accounts receivable	$ 17.5	$ 78.1
Accounts payable	12.5	62.6
Accrued liabilities [a]	—	78.0

(a) The balance as of December 31, 2016 consisted of the final cash settlement required by a provision in the Separation and Distribution agreement which was paid in April 2017.

(b) The balance as of June 30, 2017 relates only to Donnelley Financial.

The Company also recognized $75.2 million of net cash inflow from Donnelley Financial and LSC within operating activities in the Condensed Consolidated Statements of Cash Flows during the six months ended June 30, 2017.

3. Acquisitions and Dispositions

2016 Acquisition

On August 4, 2016, the Company acquired Precision Dialogue Holdings, LLC (“Precision Dialogue”), a provider of email marketing, direct mail marketing and other services with operations in the United States for a purchase price, net of cash acquired, of approximately $59.2 million. The acquisition expanded the Company’s ability to help its customers measure communications effectiveness and audience engagement. During the three and six months ended June 30, 2017, Precision Dialogue contributed $13.7 million and $27.5 million, respectively, in sales and income before income taxes of $0.6 million and $1.5 million, respectively. Precision Dialogue is included within the operating results of the Variable Print and Strategic Services segments.

2016 Dispositions

On January 11, 2016, the Company sold two entities within the business process outsourcing reporting unit for net proceeds of $13.4 million. This resulted in a net gain of $12.3 million during the six months ended June 30, 2016, which was recorded in other operating income in the Condensed Consolidated Statements of Operations. Additionally, during the three months ended September 30, 2016, the Company sold three immaterial entities in the International segment.

4. Inventories

The components of the Company’s inventories, net of excess and obsolescence reserves for raw materials and finished goods, at June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017	December 31, 2016
Raw materials and manufacturing supplies	$ 144.3	$ 133.8
Work in process	88.0	84.4
Finished goods	176.7	179.4
LIFO reserve	(16.6)	(18.0)
Total	$ 392.4	$ 379.6

9

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. Property, Plant and Equipment

The components of the Company’s property, plant and equipment at June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017	December 31, 2016
Land	$55.7	$ 56.0
Buildings	410.5	403.0
Machinery and equipment	1,844.8	1,805.4
	2,311.0	2,264.4
Less: Accumulated depreciation	(1,677.8)	(1,614.1)
Total	$633.2	$ 650.3

During the three and six months ended June 30, 2017, depreciation expense was $34.9 million and $70.6 million, respectively. During the three and six months ended June 30, 2016, depreciation expense was $38.9 million and $78.6 million, respectively.

6. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2017 were as follows:

	Variable Print	Strategic Services	International	Total
Net book value as of December 31, 2016				
Goodwill	$1,823.0	$365.2	$ 1,017.9	$3,206.1
Accumulated impairment losses	(1,550.5)	(148.7)	(904.9)	(2,604.1)
Total	272.5	216.5	113.0	602.0
Foreign exchange and other adjustments	—	—	5.1	5.1
Net book value as of June 30, 2017				

Goodwill	1,823.5	365.2	1,060.0	3,248.7
Accumulated impairment losses	(1,551.0)	(148.7)	(941.9)	(2,641.6)
Total	$272.5	$216.5	$118.1	$607.1

The components of other intangible assets at June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationships	$527.9	$ (393.6)	$134.3	$517.9	$ (370.7)	$ 147.2
Patents	2.0	(2.0)	—	2.0	(2.0)	—
Trademarks, licenses and agreements	26.2	(24.8)	1.4	26.2	(24.4)	1.8
Trade names	36.9	(15.1)	21.8	36.8	(13.9)	22.9
Total other intangible assets	$593.0	$ (435.5)	$157.5	$582.9	$ (411.0)	$ 171.9

Amortization expense for other intangible assets was $7.0 million and $14.5 million for the three and six months ended June 30, 2017, respectively. Amortization expense for other intangible assets was $8.1 million and $17.7 million for the three and six months ended June 30, 2016, respectively.

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. Restructuring, Impairment and Other Charges

Restructuring, Impairment and Other Charges Recognized in Results of Operations

For the three months ended June 30, 2017 and 2016, the Company recorded the following net restructuring, impairment and other charges:

Three Months Ended June 30, 2017	Employee Terminations	Other Restructuring Charges	Total Restructuring Charges	Impairment	Other Charges	Total
Variable Print	$ 0.6	$ 0.2	$ 0.8	$ (0.3)	$ 0.5	$ 1.0
Strategic Services	0.1	(0.1)	—	—	0.1	0.1
International	1.0	0.9	1.9	—	—	1.9
Corporate	0.7	0.1	0.8	—	—	0.8
Total	$ 2.4	$ 1.1	$ 3.5	$ (0.3)	$ 0.6	$ 3.8

Three Months Ended June 30, 2016	Employee Terminations	Other Restructuring Charges	Total Restructuring Charges	Impairment	Other Charges	Total
Variable Print	$ 0.2	$ 0.4	$ 0.6	$ 0.4	$ 0.5	$ 1.5
Strategic Services	0.2	—	0.2	—	0.1	0.3
International	2.3	0.6	2.9	0.3	—	3.2
Corporate	3.4	(0.2)	3.2	—	—	3.2
Total	$ 6.1	$ 0.8	$ 6.9	$ 0.7	$ 0.6	$ 8.2

For the six months ended June 30, 2017 and 2016, the Company recorded the following net restructuring, impairment and other charges:

Six Months Ended June 30, 2017	Employee Terminations	Other Restructuring Charges	Total Restructuring Charges	Impairment	Other Charges	Total
Variable Print	$ 1.0	$ 0.3	$ 1.3	$ (0.3)	$ 1.0	$ 2.0
Strategic Services	1.1	0.3	1.4	0.5	0.2	2.1
International	4.5	1.9	6.4	—	—	6.4
Corporate	2.2	0.2	2.4	—	—	2.4
Total	$ 8.8	$ 2.7	$ 11.5	$ 0.2	$ 1.2	$ 12.9

Six Months Ended Employee Other Total Other

June 30, 2016	Terminations	Restructuring Charges	Restructuring Charges	Impairment	Charges	Total
Variable Print	$ 0.4	$ 1.2	$ 1.6	$ 0.3	$ 0.9	$ 2.8
Strategic Services	0.5	—	0.5	—	0.2	0.7
International	6.5	1.1	7.6	(2.5)	—	5.1
Corporate	3.6	—	3.6	1.3	—	4.9
Total	$ 11.0	$ 2.3	$ 13.3	$ (0.9)	$ 1.1	$ 13.5

11

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 Impairment Charges

For the three and six months ended June 30, 2017, the Company recorded net restructuring charges of $2.4 million and $8.8 million, respectively, for employee termination costs. These charges primarily relate to ceasing the Company’s relationship in a joint venture within the International segment, the reorganization of selling, general and administrative functions primarily within the Corporate, International and Variable Print segments and one facility closure in the Strategic Services segment. The Company also recorded $0.3 million related to a net gain on the sale of previously impaired equipment during the three months ended June 30, 2017. For the six months ended June 30, 2017, the Company recorded net impairment charges of $0.2 million primarily related to the impairment of equipment associated with the facility closure in the Strategic Services segment, partially offset by the aforementioned net gain recorded in the second quarter of 2017. Additionally, the Company incurred lease termination and other restructuring charges of $1.1 million and $2.7 million, respectively, for the three and six months ended June 30, 2017.

For the three and six months ended June 30, 2016, the Company recorded net restructuring charges of $6.1 million and $11.0 million, respectively, for employee termination costs. These charges primarily related to two facility closures in the International segment and the reorganization of certain operations. Additionally, the Company incurred lease termination and other restructuring charges of $0.8 million and $2.3 million, respectively, for the three and six months ended June 30, 2016. The Company incurred $0.7 million of impairment charges related to buildings and machinery and equipment associated with facility closures for the three months ended June 30, 2016. For the six month period ended June 30, 2016, the Company recognized $0.9 million of net gains on the sale of previously impaired assets, partially offset by impairment charges related to buildings and machinery and equipment associated with facility closures.

Other Charges

For the three and six months ended June 30, 2017 and 2016, the Company recorded other charges of $0.6 million and $1.2 million and $0.6 million and $1.1 million, respectively, for multi-employer withdrawal pension plan obligations unrelated to facility closures. The total liabilities for the withdrawal obligations associated with the Company’s decision to withdraw from multi-employer pension plans included in accrued liabilities and other noncurrent liabilities are $4.9 million and $33.4 million, respectively, as of June 30, 2017.

The Company’s multi-employer pension plan withdrawal liabilities could be affected by the financial stability of other employers participating in the plans and any decisions by those employers to withdraw from the plans in the future. While it is not possible to quantify the potential impact of future events or circumstances, reductions in other employers’ participation in multi-employer pension plans, including certain plans from which the Company has previously withdrawn, could have a material impact on the Company’s previously estimated withdrawal liabilities, consolidated results of operations, financial position or cash flows.

Restructuring Reserve

The restructuring reserve as of December 31, 2016 and June 30, 2017, and changes during the six months ended June 30, 2017, were as follows:

	December 31, 2016	Restructuring Charges	Foreign Exchange and Other	Cash Paid	June 30, 2017
Employee terminations	$ 7.6	$ 8.8	$ (0.3)	$(7.6)	$ 8.5
Multi-employer pension withdrawal obligations	11.8	0.3	—	(0.7)	11.4
Lease terminations and other	1.6	2.4	0.9	(1.6)	3.3
Total	$ 21.0	$ 11.5	$ 0.6	$(9.9)	$ 23.2

The current portion of restructuring reserves of $9.0 million at June 30, 2017 was included in accrued liabilities, while the long-term portion of $14.2 million, primarily related to multi-employer pension plan withdrawal obligations related to facility closures and lease termination costs, was included in other noncurrent liabilities at June 30, 2017.

The Company anticipates that payments associated with the employee terminations reflected in the above table will be substantially completed by June 2018.

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

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 withdrawal obligations are scheduled to be completed by 2036. 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 2020. 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.

8. Employee Benefits

The components of the estimated net pension and other postretirement benefits plan income for the three and six months ended June 30, 2017 and 2016 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Pension expense (income)				
Service cost	$0.2	$0.2	$0.4	$0.5
Interest cost	7.9	32.3	15.7	67.4
Expected return on plan assets	(12.6)	(55.3)	(24.9)	(113.0)
Amortization, net	1.8	8.0	3.5	15.8
Settlements and curtailments	—	96.4	—	96.4
Less: expense attributable to discontinued operations	—	(64.7)	—	(53.5)
Net pension income - continuing operations	$(2.7)	$16.9	$(5.3)	$13.6
Other postretirement benefits plan expense (income)				
Service cost	$0.3	$1.0	$0.6	$2.0
Interest cost	2.8	3.1	5.6	6.1
Expected return on plan assets	(3.3)	(3.4)	(6.7)	(6.8)
Amortization, net	(0.8)	(4.0)	(1.5)	(8.0)
Net other postretirement benefit income - continuing operations	$(1.0)	$(3.3)	$(2.0)	$(6.7)

The Company expects to make cash contributions of approximately $17.0 million to its pension and other postretirement benefit plans in 2017. During the six months ended June 30, 2017, the Company contributed $9.0 million to its benefit plans.

In the fourth quarter of 2015, the Company communicated to certain former employees the option to receive a lump-sum pension payment or annuity with payments computed in accordance with statutory requirements, beginning in the second quarter of 2016. Payments to eligible participants who elected to receive a lump-sum pension payment or annuity were funded from existing pension plan assets and liabilities were remeasured as of the payout date. The discount rates and actuarial assumptions used to calculate the payouts were determined in accordance with federal regulations. The company recorded total non-cash settlement charges of $96.4 million, of which $20.4 million is included within selling, general and administrative expenses and $76.0 million is included within income from discontinued operations, net of tax in the Condensed Consolidated Statements of Operations for the three months ended June 30, 2016. These charges resulted from the recognition in earnings of a portion of the actuarial losses recorded in accumulated other comprehensive loss based on the proportion of the obligation settled.

9. Share-Based Compensation

Share-based compensation expense from continuing operations totaled $2.4 million and $3.7 million for the three months ended June 30, 2017 and 2016 respectively, and $4.3 million and $5.8 million for the six months ended June 30, 2017 and 2016, respectively.

In March 2017, the Company awarded its annual share-based compensation grants, which consisted of 569,594 restricted stock units with a grant date fair value of $16.30 per unit and 304,425 performance share units with a grant date fair value of $16.30 per unit. The restricted stock units are subject to a three year graded vesting period. The performance share units are subject to a 34

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

month cliff vesting period. Additionally, in May 2017, the Company awarded its non-employee directors 75,745 restricted stock units with a grant date fair value of $12.08 per share and vest in May 2018.

10. Equity

The Company’s equity as of December 31, 2016 and June 30, 2017, and changes during the six months ended June 30, 2017, were as follows:

	RRD Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2016	$ (105.7)	$ 13.5	$ (92.2)
Net earnings	26.4	0.5	26.9
Other comprehensive (loss) income	(87.3)	0.3	(87.0)
Share-based compensation	4.3	—	4.3
Spinoff adjustments	8.5	—	8.5
Issuance of share-based awards, net of withholdings and other	(1.7)	—	(1.7)
Cash dividends paid	(19.6)	—	(19.6)
Distributions to noncontrolling interests	—	(0.7)	(0.7)
Balance at June 30, 2017	$ (175.1)	$ 13.6	$ (161.5)

During the six months ended June 30, 2017, the Company recorded certain spinoff related adjustments within equity primarily resulting from the final pension asset valuation as required by the Separation and Distribution Agreement.

11. 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 considered anti-dilutive and 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 of the Company’s stock price during the applicable period. In periods when the Company is in a net loss from continuing operations, share-based awards are excluded from the calculation of earnings per share as their inclusion would have an anti-dilutive effect.

During the six months ended June 30, 2017 and 2016, no shares of common stock were purchased by the Company; 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 three and six months ended June 30, 2017 and 2016 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Basic net earnings (loss) per share attributable to RRD common stockholders:				
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:				
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
Numerator				
Net earnings (loss) attributable to RRD common stockholders - continuing operations	$76.5	$(23.2)	$26.4	$(19.6)
Net earnings from discontinued operations, net of income taxes	—	8.7	—	44.9
Net earnings (loss) attributable to RRD common stockholders	$76.5	$(14.5)	$26.4	$25.3
Denominator:				
Weighted average number of common shares outstanding	70.1	70.0	70.1	69.9
Dilutive options and awards	0.1	—	0.2	—
Diluted weighted average number of common shares outstanding	70.2	70.0	70.3	69.9
Weighted average number of anti-dilutive share-based awards:				
Stock options	0.9	0.8	1.1	0.8
Performance share units	0.3	0.2	0.2	0.2
Restricted stock units	1.1	0.2	0.3	0.4
Total	2.3	1.3	1.6	1.4
Dividends declared per common share	$0.14	$0.78	$0.28	$1.56

12. Other Comprehensive (Loss) Income

The components of other comprehensive (loss) income and income tax (benefit) expense allocated to each component for the three and six months ended June 30, 2017 and 2016 were as follows:

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Before Tax Amount	Income Tax Expense	Net of Tax Amount	Before Tax Amount	Income Tax Expense	Net of Tax Amount
Translation adjustments	$20.1	$ —	$ 20.1	$29.1	$ —	$29.1
Adjustment for net periodic pension and other postretirement benefits plan cost	1.0	0.3	0.7	2.0	0.6	1.4
Adjustments for available-for-sale securities	(85.2)	—	(85.2)	(120.5)	(3.0)	(117.5)
Other comprehensive (loss) income	$(64.1)	$ 0.3	$ (64.4)	$(89.4)	$ (2.4)	$(87.0)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	Three Months Ended June 30, 2016			Six Months Ended June 30, 2016		
	Before Tax Amount	Income Tax Expense	Net of Tax Amount	Before Tax Amount	Income Tax Expense	Net of Tax Amount
Translation adjustments	$(22.5)	$ —	$ (22.5)	$(4.6)	$ —	$ (4.6)
Adjustment for net periodic pension and other postretirement benefits plan cost	10.9	4.2	6.7	16.1	10.0	6.1
Other comprehensive (loss) income	$(11.6)	$ 4.2	$ (15.8)	$11.5	$ 10.0	$ 1.5

During the six months ended June 30, 2016, translation adjustments and income tax expense on pension and other postretirement benefits plan cost were adjusted to reflect previously recorded deferred taxes at their historical exchange rates.

Accumulated other comprehensive loss by component as of December 31, 2016 and June 30, 2017, and changes during the six months ended June 30, 2017, were as follows:

	Changes in the Fair Value of Available-for-Sale Securities	Pension and Other Postretirement Benefits Plan Cost	Translation Adjustments	Total
Balance at December 31, 2016	$ 119.3	$ (159.5)	$ (15.5)	$(55.7)
Other comprehensive (loss) income before reclassifications	(48.5)	—	28.8	(19.7)
Amounts reclassified from accumulated other comprehensive loss	(69.0)	1.4	—	(67.6)
Net change in accumulated other comprehensive loss	(117.5)	1.4	28.8	(87.3)
Balance at June 30, 2017	$ 1.8	$ (158.1)	$ 13.3	$(143.0)

Accumulated other comprehensive loss by component as of December 31, 2015 and June 30, 2016, and changes during the six months ended June 30, 2016, were as follows:

	Pension and Other Postretirement	Translation Adjustments	Total

	Benefits Plan Cost		
Balance at December 31, 2015	$ (727.5)	$ (65.7)	$(793.2)
Other comprehensive loss before reclassifications	(56.7)	(3.7)	(60.4)
Amounts reclassified from accumulated other comprehensive loss	61.6	—	61.6
Amounts reclassified due to disposition of a business	1.2	(1.1)	0.1
Net change in accumulated other comprehensive loss	6.1	(4.8)	1.3
Balance at June 30, 2016	$ (721.4)	$ (70.5)	$(791.9)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Reclassifications from accumulated other comprehensive loss for the three and six months ended June 30, 2017 and 2016 were as follows:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Classification in the Condensed Consolidated Statements of Operations
Amortization of pension and other postretirement benefits plan cost:					
Net actuarial loss	$1.8	$7.9	$3.5	$15.7	Cost of sales; Selling, general and administrative expenses
Net prior service credit	(0.8)	(4.0)	(1.5)	(8.0)	Cost of sales; Selling, general and administrative expenses
Settlements	—	96.9	—	96.9	Cost of sales; Selling, general and administrative expenses
Reclassifications before tax	1.0	100.8	2.0	104.6	
Income tax expense	0.3	37.4	0.6	43.0	
Reclassification, net of tax	$0.7	$63.4	$1.4	$61.6	
Available-for-sale securities:					
Net realized gain on equity securities	(97.6)	—	(51.0)	—	Investment and other (income) expense -net
Reclassifications before tax	(97.6)	—	(51.0)	—	
Income tax benefit	—	—	18.0	—	
Reclassification, net of tax	$(97.6)	$—	$(69.0)	$—	
Total reclassifications, net of tax	$(96.9)	$63.4	$(67.6)	$61.6	

13. Segment Information

The Company’s segments and their product and service offerings are summarized below:

Variable Print

This segment includes the Company’s U.S. short-run and transactional printing operations. This segment’s primary product offerings include commercial and digital print, direct mail, labels, statement printing, forms and packaging.

Strategic Services

This segment includes the Company’s logistics services, print management offerings and digital and creative solutions.

International

This segment includes the Company’s non-U.S. printing operations in Asia, Latin America, Canada and Europe. This segment’s primary product and service offerings include packaging, books, catalogs, magazines, retail inserts, statement printing, commercial and digital print, forms, labels, logistics services, directories, digital and creative solutions, and direct mail. Additionally, this segment includes the Company’s business process outsourcing and Global Turnkey Solutions operations. Business process outsourcing provides transactional print and outsourcing services, statement printing, direct mail and print management offerings through its operations in Europe, Asia and North America. Global Turnkey Solutions provides outsourcing capabilities, including product configuration, customized kitting and order fulfillment for technology, medical device and other companies around the world through its operations in Europe, North America and Asia.

Corporate

Corporate consists of unallocated selling, general and administrative activities and associated expenses including, in part, executive, legal, finance, communications, certain facility costs and LIFO inventory provisions. In addition, certain costs and earnings of employee benefit plans, such as pension and other postretirement benefits plan expense (income) and share-based compensation, are included in Corporate and not allocated to the operating segments. Corporate also manages the Company’s cash pooling structures, which enable participating international locations to draw on the Company’s overseas 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

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

	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Depreciation and Amortization	Capital Expenditures
Three Months Ended June 30, 2017						
Variable Print	$739.3	$ (4.3)	$735.0	$ 31.1	$ 28.5	$ 9.7
Strategic Services	443.7	(37.7)	406.0	4.0	4.6	3.0
International	515.2	(10.2)	505.0	16.3	13.5	11.9
Total operating segments	1,698.2	(52.2)	1,646.0	51.4	46.6	24.6
Corporate	—	—	—	(12.8)	0.9	3.5
Total operations	$1,698.2	$ (52.2)	$1,646.0	$ 38.6	$ 47.5	$ 28.1

	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Depreciation and Amortization	Capital Expenditures
Three Months Ended June 30, 2016						
Variable Print	$745.6	$ (4.2)	$741.4	$ 40.1	$ 30.1	$ 17.0
Strategic Services	437.7	(37.6)	400.1	8.9	5.1	9.2
International	502.8	(11.7)	491.1	28.8	14.9	6.9
Total operating segments	1,686.1	(53.5)	1,632.6	77.8	50.1	33.1
Corporate	—	—	—	(53.1)	(0.2)	6.7
Total operations	$1,686.1	$ (53.5)	$1,632.6	$ 24.7	$ 49.9	$ 39.8

	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Assets of Operations	Depreciation and Amortization	Capital Expenditures
Six Months Ended June 30, 2017							
Variable Print	$1,520.2	$ (8.1)	$1,512.1	$ 74.9	$ 1,507.2	$ 57.7	$ 15.5
Strategic Services	910.9	(80.3)	830.6	7.8	556.4	8.8	6.2
International	998.9	(19.3)	979.6	33.2	1,442.8	27.4	22.4
Total operating segments	3,430.0	(107.7)	3,322.3	115.9	3,506.4	93.9	44.1
Corporate	—	—	—	(29.9)	325.4	2.2	10.1
Total operations	$3,430.0	$ (107.7)	$3,322.3	$ 86.0	$ 3,831.8	$ 96.1	$ 54.2

	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Assets of Operations	Depreciation and Amortization	Capital Expenditures
Six Months Ended June 30, 2016							
Variable Print	$1,529.5	$ (8.0)	$1,521.5	$ 93.9	$ 2,086.6	$ 60.0	$ 30.5
Strategic Services	857.0	(72.4)	784.6	12.0	468.6	9.7	13.1
International	993.9	(21.8)	972.1	65.8	1,315.0	31.9	17.5
Total operating segments	3,380.4	(102.2)	3,278.2	171.7	3,870.2	101.6	61.1
Corporate	—	—	—	(89.4)	327.4	0.9	9.1
Total operations	$3,380.4	$ (102.2)	$3,278.2	$ 82.3	$ 4,197.6	$ 102.5	$ 70.2

Restructuring, impairment and other charges by segment for the three and six months ended June 30, 2017 are described in Note 7, Restructuring, Impairment and Other Charges.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

14. Commitments and Contingencies

The Company is subject to laws and regulations relating to the protection of the environment. The Company provides 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. The Company has been designated as a potentially responsible party or has received claims in two active federal and state Superfund and other multiparty remediation sites. In addition to these sites, the Company may also have the obligation to remediate seven other previously and currently owned facilities. At the Superfund sites, the Comprehensive Environmental Response, Compensation and Liability Act provides that the Company’s liability could be joint and several, meaning that the Company could be required to pay an amount in excess of its proportionate share of the remediation costs.

The Company’s 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 the Company’s estimated liability. The Company established reserves, recorded in accrued liabilities and other noncurrent liabilities, that it believes are adequate to cover its 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 the Company may undertake in the future. However, in the opinion of management, compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, will not have a material effect on the Company’s consolidated results of operations, financial position or cash flows.

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

15. Debt

The Company’s debt at June 30, 2017 and December 31, 2016 consisted of the following:

	June 30, 2017	December 31, 2016
Borrowings under the Credit Agreement	$350.0	$185.0
11.25% senior notes due February 1, 2019 (a)	172.2	172.2

7.625% senior notes due June 15, 2020	238.4	350.0
7.875% senior notes due March 15, 2021	449.0	448.8
8.875% debentures due April 15, 2021	80.9	80.9
7.00% senior notes due February 15, 2022	140.0	140.0
6.50% senior notes due November 15, 2023	290.6	350.0
6.00% senior notes due April 1, 2024	298.3	400.0
6.625% debentures due April 15, 2029	157.9	199.5
8.820% debentures due April 15, 2031	69.0	69.0
Other (b)	19.1	8.5
Unamortized debt issuance costs	(12.9)	(16.5)
Total debt	2,252.5	2,387.4
Less: current portion	(19.1)	(8.2)
Long-term debt	$2,233.4	$2,379.2

(a) As of June 30, 2017 and December 31, 2016, the interest rate on the 11.25% senior notes due February 1, 2019 was 13.25%, the maximum rate on these notes, as a result of ratings downgrades.

(b) Includes miscellaneous debt obligations and capital leases.

The fair values of the senior notes and debentures, which were determined using the market approach based upon interest rates available to the Company for borrowings with similar terms and maturities, were determined to be Level 2 under the fair value hierarchy. The fair value of the Company’s debt was greater than its book value by approximately $93.1 million and $4.3 million at June 30, 2017 and December 31, 2016, respectively.

The Company’s $800.0 million senior secured revolving credit facility (the “Credit Agreement”) contains a number of restrictive covenants, including a maximum leverage ratio, as defined in and calculated pursuant to the Credit Agreement, that, in part, restrict the Company’s ability to incur additional indebtedness, create liens, engage in mergers and consolidations, make restricted payments and dispose of certain assets. The Credit Agreement generally allows annual dividend payments of up to $60.0 million in aggregate, though additional dividends may be permitted subject to certain conditions.

The weighted average interest rate on borrowings under the Credit Agreement was 3.8% during the six months ended June 30, 2017. The weighted average interest rate on the borrowing under the prior credit agreement was 2.3% during the six months ended June 30, 2016.

On June 7, 2017, the Company repurchased $41.7 million of the 6.625% debentures due April 15, 2029, $59.4 million of the 6.50% senior notes due November 15, 2023 and $101.7 million of the 6.00% senior notes due April 1, 2024 using borrowings under the Credit Agreement. The repurchases resulted in a net gain of $0.8 million which was recognized within loss on debt extinguishments in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 related to the difference between the fair value of the debt repurchased and the principal outstanding, partially offset by the premiums paid, unamortized debt issuance costs and other expenses.

On May 22, 2017, certain third party financial institutions (such financial institutions collectively, the “Third Party Purchasers”), launched cash tender offers for certain of the Company’s outstanding debt securities, including the Company’s 7.625% senior notes due June 15, 2020 and 7.875% senior notes due March 15, 2021. On June 7, 2017, the Third Party Purchasers purchased $111.6 million in aggregate principal amount of the 7.625% senior notes due June 15, 2020 (the “Third Party Purchase Notes”). On June 21, 2017, the Company exchanged 6,143,208 of its retained shares of Donnelley Financial for the Third Party Purchase Notes. The Company cancelled the Third Party Purchase Notes on June 21, 2017. As a result, the Company recognized a $14.4 million loss on debt extinguishment in the Condensed Consolidated Statements of Operations during the three and six months ended June 30, 2017 related to premiums paid, unamortized debt issuance costs and other expenses. In addition, the Company recognized a net realized gain of $92.4 million resulting from the disposition of the retained shares of Donnelley Financial common stock within investment and other (income) expense-net in the Condensed Consolidated Statements of Operations during the three and six months ended June 30, 2017.

Interest income was $0.6 million and $1.5 million for the three and six months ended June 30, 2017, respectively, and $1.0 million and $1.9 million for the three and six months ended June 30, 2016, respectively.

16. Income Taxes

The Company's effective income tax rate was (5.6%) and 16.1% for the three months ended June 30, 2017 and 2016, respectively and (17.0%) and 5.0% for the six months ended June 30, 2017 and 2016, respectively. The effective income tax rate for the three and six months ended June 30, 2017 reflects the impact of the disposition of the Donnelley Financial and LSC retained shares. The retained shares of Donnelley Financial were disposed in a non-taxable debt-for-equity exchange during the three and six months ended June 30, 2017. See Note 15, Debt, for additional details regarding the disposition of the Donnelley Financial retained shares. During the six months ended June 30, 2017, the sale of LSC shares generated a capital loss which will be carried forward, however it is more likely than not that the benefit of such deferred tax asset will not be realized and a valuation allowance was recorded. See Note 2, Discontinued Operations, for additional information regarding the sale of the LSC retained shares. The effective income tax rate for the three and six months ended June 30, 2016 reflects the impact of income generated in higher taxing jurisdictions and the inability to recognize a tax benefit on certain losses.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

17. Derivatives

All derivatives are recorded as other current or noncurrent assets or other current or noncurrent liabilities in the Condensed Consolidated Balance Sheets at their respective fair values. Unrealized gains and losses related to derivatives are recorded in other comprehensive income (loss), net of applicable income taxes, or in the Condensed Consolidated Statements of Operations, depending on the purpose for which the derivative is held. For derivatives designated and that qualify as cash flow hedges, the effective portion of the unrealized gain or loss related to the derivatives are generally recorded in other comprehensive income (loss) until the transaction affects earnings. For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in the Condensed Consolidated Statements of Operations. Changes in the fair value of derivatives that do not meet the criteria for designation as a hedge at inception, or fail to meet the criteria thereafter, are recognized currently in the Condensed Consolidated Statements of Operations. At the inception of a hedge transaction, the Company formally documents the hedge relationship and the risk management objective for undertaking the hedge. In addition, the Company assesses both at inception of the hedge and on an ongoing basis, whether the derivative in the hedging transaction has been highly effective in offsetting changes in fair value or cash flows of the hedged item and whether the derivative is expected to continue to be highly effective. The impact of any ineffectiveness is also recognized currently in the Condensed Consolidated Statements of Operations.

The Company is exposed to the impact of foreign currency fluctuations in certain countries in which it operates. The exposure to foreign currency movements is limited in many countries because the operating revenues and expenses of its various subsidiaries and business units are substantially in the local currency of the country in which they operate. To the extent borrowings, sales, purchases, revenues, expenses or other transactions are not in the local currency of the subsidiary or operating unit, the Company is exposed to currency risk. Periodically, the Company uses foreign exchange spot, forward and swap contracts to hedge exposures resulting from foreign exchange fluctuations. Accordingly, the gains and losses associated with the fair values of foreign currency exchange contracts are recognized currently in the Condensed Consolidated Statements of Operations and are generally offset by gains and losses on underlying payables, receivables, borrowings and net investments in foreign subsidiaries. The Company does not use derivative financial instruments for trading or speculative purposes. The aggregate notional value of the foreign currency contracts at June 30, 2017 and December 31, 2016 was $104.2 million and $172.2 million, respectively. The fair values of foreign currency contracts were determined to be Level 2 under the fair value hierarchy and are valued using market exchange rates.

On March 13, 2012, the Company entered into interest rate swap agreements to manage interest rate risk exposure, effectively changing the interest rate on $400.0 million of its fixed-rate senior notes to a floating-rate based on LIBOR plus a basis point spread. The interest rate swaps, with a notional value of $400.0 million at inception, were designated as fair value hedges against changes in the value of the Company’s $450.0 million 8.25% senior notes due March 15, 2019, which were attributable to changes in the benchmark interest rate. During 2014, the Company repurchased $211.1 million of the 8.25% senior notes due March 15, 2019, and related interest rate swaps with a notional amount of $210.0 million were terminated, resulting in payments of $4.2 million for the fair value of the interest rate swaps. During the three months ended September 30, 2016, in connection with the tender of the Company’s 8.25% senior notes due March 15, 2019, the Company terminated the remaining $190.0 million notional value of the interest rate swap agreements which resulted in cash received of $2.5 million for the fair value of the interest rate swaps.

The fair values of interest rate swaps were determined to be Level 2 under the fair value hierarchy and were developed using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on the expectation of future interest rates derived from observed market interest rate curves. In addition, credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, are incorporated in the fair values to account for potential nonperformance risk. On at least a quarterly basis, the Company evaluates the credit value adjustments of the interest rate swap agreements, which take into account the possibility of counterparty and the Company's own default.

The Company's foreign currency contracts and interest rate swaps are subject to enforceable master netting agreements that allow the Company to settle positive and negative positions with the respective counterparties. The Company settles foreign currency contracts on a net basis when possible. Foreign currency contracts that can be settled on a net basis are presented net in the Condensed Consolidated Balance Sheets. Interest rate swaps were settled on a gross basis and presented gross in the Condensed Consolidated Balance Sheets.

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 Company manages credit risk for its derivative positions on a counterparty-by-counterparty basis, considering the net portfolio exposure with each counterparty, consistent with its risk management strategy for such transactions. The Company’s agreements with each of its counterparties contain a provision where the Company could be declared in default on its derivative obligations if it either defaults or, in certain cases, is capable of being declared in default of any of its indebtedness greater than specified thresholds. These agreements also contain a provision where the Company could be declared in default subsequent to a merger or restructuring type event if the creditworthiness of the resulting entity is materially weaker.

At June 30, 2017 and December 31, 2016, the total fair value of the Company’s foreign currency contracts, which were the only derivatives not designated as hedges along with the accounts in the Condensed Consolidated Balance Sheets in which the fair value amounts were included, were as follows:

	June 30, 2017	December 31, 2016
Derivatives not designated as hedges		
Prepaid expenses and other current assets	$ 1.8	$ 1.7
Accrued liabilities	1.1	1.5

The pre-tax (gains) losses related to derivatives not designated as hedges recognized in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016 were as follows:

	Classification of (Gain) Loss Recognized in the Condensed Consolidated Statements of Operations	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Derivatives not designated as hedges					
Foreign currency contracts	Selling, general and administrative expenses	$(1.0)	$(2.6)	$0.6	$2.6

For derivatives designated as fair value hedges, the pre-tax (gains) losses related to the hedged items attributable to changes in the hedged benchmark interest rate and the offsetting (gain) loss on the related interest rate swaps for the three and six months ended June 30, 2017 and 2016 were as follows:

	Three Months	Six Months

	Classification of (Gain) Loss Recognized in the Condensed Consolidated Statements of Operations	Ended June 30, 2017	2016	Ended June 30, 2017	2016
Fair Value Hedges					
Interest rate swaps	Investment and other (income) expense-net	$—	$(0.6)	$—	$(3.2)
Hedged items	Investment and other (income) expense-net	—	0.7	—	3.5
Total ineffectiveness recognized	Investment and other (income) expense-net	$—	$0.1	$—	$0.3

The Company also recognized a net reduction to interest expense of $0.4 million and $0.8 million for the three and six months ended June 30, 2016, respectively, related to the Company's fair value hedges, which included interest accruals on the derivatives and amortization of the basis in the hedged items.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

18. Fair Value Measurements

Certain assets and liabilities are required to be recorded at fair value on a recurring basis. The following tables summarize the bases used to measure financial assets and liabilities that are carried at fair value on a recurring basis in the Condensed Consolidated Balance Sheets:

		Basis of Fair Value Measurement	
	Balance as of June 30, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets			
Foreign currency contracts	$ 1.8	$ —	$ 1.8
Available-for-sale securities	2.3	2.3	—
Total assets	$ 4.1	$ 2.3	$ 1.8
Liabilities			
Foreign currency contracts	1.1	—	1.1
Total liabilities	$ 1.1	$ —	$ 1.1

	Balance as of December 31, 2016	Basis of Fair Value Measurement Significant Other Observable Inputs (Level 2)
Assets		
Foreign currency contracts	$ 1.7	$ 1.7
Available-for-sale securities	328.7	328.7
Total assets	$ 330.4	$ 330.4

Liabilities		
Foreign currency contracts	1.5	1.5
Total liabilities	$ 1.5	$ 1.5

As of June 30, 2017, the investment in Donnelley Financial common stock was categorized as a Level 1 security and was valued based on the closing price of Donnelley Financial's common stock as of that date. As of December 31, 2016, the Company's investment in LSC and Donnelley Financial common stock were categorized as Level 2 securities as these shares were not registered and were valued based upon the closing stock price on the balance sheet date as they represented an identical equity instrument registered under the Securities Act of 1933, as amended.

19. New Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-07 "Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which changes the presentation of net periodic pension and postretirement benefit cost (net benefit cost) within the Statement of Operations. Under the current guidance, net benefit cost is reported as an employee cost within operating income. The amendment requires the bifurcation of net benefit cost, with the service cost component to be presented with other employee compensation costs in operating income while the other components will be reported separately outside of income from operations. ASU No. 2017-07 will be effective in the first quarter of 2018 and is required to be retrospectively adopted. Had this guidance been adopted as of January 1, 2017, income from operations within the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 would have been lower by $4.2 million and $8.3 million, respectively, and other non-operating income would have increased $4.2 million and $8.3 million, respectively.

In January 2017, the FASB issued ASU No. 2017-04 “Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which eliminates Step 2 from the current goodwill impairment test, including determining the implied fair value of goodwill and comparing it with the carrying amount of that goodwill. The standard requires entities to record impairment charges based on the excess of a reporting unit’s carrying amount over its fair value. ASU No. 2017-04 will be effective in the first quarter of 2020; however early adoption is permitted for interim and annual goodwill impairment tests performed after January 1, 2017. The adoption of ASU 2017-04 may impact the results of future goodwill impairment tests and therefore could impact the Company’s consolidated financial position and results of operations. The Company has elected to early adopt this guidance and will apply this guidance to all impairment analyses performed after January 1, 2017.

In March 2016, the FASB issued ASU No. 2016-09 “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” Under the new guidance, when awards vest or are settled, the excess tax benefits and tax deficiencies are recorded as income tax expense or benefit in the income statement instead of within additional paid-in capital. This guidance will be applied prospectively. Furthermore, the guidance requires excess tax benefits to be presented as an operating activity on the statement of cash flows rather than as a financing activity, which can be applied retrospectively or prospectively. Under the new guidance, an election can be made regarding whether to account for forfeitures of share-based payments by recognizing forfeitures of awards as they occur or estimate the number of awards expected to be forfeited, as is currently required. This guidance is to be applied using a modified retrospective transition method, with a cumulative adjustment to retained earnings. The Company has adopted this guidance as of January 1, 2017. The adoption had an immaterial impact on the Company’s Condensed Consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02 “Leases (Topic 842)” which requires lessees to put most leases on the balance sheet but recognize expense on the income statement in a manner similar to current accounting. For lessors, ASU 2016-02 also modifies the classification criteria and the accounting for sales-type and direct financing leases. The standard requires a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements and is effective in the first quarter of 2019. Early adoption of ASU 2016-02 is permitted; however the Company plans to adopt the standard in the first quarter of 2019. The Company is evaluating the impact of ASU 2016-02.

In May 2014, the FASB issued ASU No. 2014-09 “Revenue from Contracts with Customers (Topic 606),” which outlines a single comprehensive model for entities to use in accounting for revenue using a five-step process that supersedes virtually all existing revenue guidance. ASU 2014-09 also requires additional quantitative and qualitative disclosures. During 2016, the FASB issued ASU 2016-08 “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” ASU 2016-10 “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing,” and ASU 2016-12 “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients,” which clarify the revenue recognition implementation guidance on principal versus agent considerations, identifying performance obligations, determining whether an entity's promise to grant a license provides a customer with either a right to use or a right to access the entity's intellectual property, assessing the collectability criteria, presentation of sales and similar taxes, noncash consideration and various other items. The amendments in these ASUs affect the guidance in ASU 2014-09, and the effective date and transition requirements are the same as those for ASU 2014-09 which, as amended by ASU 2015-14 “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,” will be effective for the Company on January 1, 2018. The standard allows the option of either a full retrospective adoption, meaning the standard is applied to all periods presented, or a modified retrospective adoption, meaning the standard is applied only to the most current period.

Based upon preliminary results of management's evaluation, the most impactful aspects of the guidance relate to the timing of recognition for the revenue from customized products over time versus at a point in time, as well as inventory billed but not yet shipped. The Company has amounts of customized products in the Variable Print and International segments which are currently recognized when the products are completed and shipped to the customer. Currently, the Company defers revenue for inventory billed but not yet shipped which under the new revenue standard, the Company may be able to recognize revenue for certain inventory billed but not yet shipped. The actual revenue recognition treatment required under this new standard will be dependent on contract specific terms. The Company is still in the process of evaluating and designing the necessary changes to its business processes, systems and controls to support recognition and disclosure under the new standard. The Company will adopt the standard in the first quarter of 2018 and currently anticipates applying the modified retrospective approach.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Company Overview

R.R. Donnelley & Sons Company ("RRD," the "Company," "we," "us," and "our"), a Delaware corporation, helps organizatio communicate more effectively by working to create, manage, produce, distribute and process content on behalf of our customers. We assist customers in developing and executing multichannel communication strategies that engage audiences, reduce costs, drive revenues and increase compliance. Our innovative content management offering, production platform, logistics services, supply chain management, outsourcing capabilities and customized consultative expertise assists our customers in the delivery of integrated messages across multiple media to highly targeted audiences at optimal times for customers in virtually every private and public sector. We have strategically located operations that provide local service and responsiveness while leveraging the economic, geographic and technological advantages of a global organization.

Spinoff Transactions

On October 1, 2016, we completed the previously announced separation of our financial communications and data services business ("Donnelley Financial Solutions, Inc." or "Donnelley Financial") and our publishing and retail-centric print services and office products business ("LSC Communications, Inc." or "LSC") into two separate publicly-traded companies (the "Separation"). We completed the tax free distribution of approximately 26.2 million shares, or 80.75%, of the outstanding common stock of Donnelley Financial and 26.2 million shares, or 80.75%, of the outstanding common stock of LSC, to RRD stockholders (the "Distribution"). The Distribution was made to RRD stockholders of record as of the close of business on September 23, 2016, who received one share of Donnelley Financial common stock and one share of LSC common stock for every eight shares of RRD common stock held as of the record date. As a result of the Distribution, Donnelley Financial and LSC are now independent public companies trading under the symbols "DFIN" and "LKSD", respectively, on the New York Stock Exchange. Immediately following the Distribution, we held 6.2 million shares of Donnelley Financial common stock and 6.2 million shares of LSC common stock. As of June, 30 2017, we no longer held any shares of LSC common stock but continued to hold 99,594 shares of Donnelley Financial common stock.

The financial results of Donnelley Financial and LSC for periods prior to the Distribution have been reflected within the disclosures of this Management's Discussion and Analysis of Financial Condition and Results of Operations as discontinued operations. Additionally, sales from RRD to Donnelley Financial and LSC previously eliminated in consolidation have been recast and are now shown as external sales of RRD within the financial results of continuing operations. See Note 1, Basis of Presentation, and Note 2, Discontinued Operations, to these Condensed Consolidated Financial Statements for additional information.

Reverse Stock Split

Immediately following the Distribution on October 1, 2016, we affected a one-for-three reverse stock split for RRD common stock (the "Reverse Stock Split"). The Reverse Stock Split was approved by our Board of Directors on September 14, 2016 and previously approved by our stockholders at the annual meeting on May 19, 2016. As a result of the Reverse Stock Split, the number of issued and outstanding and treasury shares of our common stock was reduced proportionally based on the Reverse Stock Split ratio of one share for every three shares of common stock held before the Reverse Stock Split. Refer to Note 1, Basis of Presentation, to the Condensed Consolidated Financial Statements for additional information regarding the Reverse Stock Split. All references in these unaudited condensed consolidated interim financial statements to the number of shares of common stock and per share amounts have been retroactively adjusted to give effect to the Reverse Stock Split.

Segment Descriptions

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

Variable Print

This segment includes our U.S. short-run and transactional printing operations. This segment's primary product offerings include commercial and digital print, direct mail, labels, statement printing, forms and packaging.

Strategic Services

This segment includes our logistics services, print management offerings and digital and creative solutions.

International

This segment includes our non-U.S. printing operations in Asia, Latin America, Canada and Europe. This segment's primary product and service offerings include packaging, books, catalogs, magazines, retail inserts, statement printing, commercial and digital print, forms, labels, logistics services, directories, digital and creative solutions, and direct mail. Additionally, this segment includes our business process outsourcing business and Global Turnkey Solutions operations. Business process outsourcing provides transactional print and outsourcing services, statement printing, direct mail and print management offerings through its operations in Europe, Asia and North America. Global Turnkey Solutions provides outsourcing capabilities, including product configuration, customized kitting and order fulfillment for technology, medical device and other companies around the world through its operations in Europe, North America and Asia.

Corporate

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

Products and Services

We separately report our net sales, related costs of sales and gross profit for our product and service offerings. Our product offerings primarily consist of commercial and digital print, statement printing, direct mail, packaging, labels, forms, magazines, catalogs, retail inserts, books, directories, manuals and other related products procured through our print management offering. Our service offerings primarily consist of logistics, certain business outsourcing services and digital and creative solutions.

Business Acquisitions and Dispositions

On August 4, 2016, the Company acquired Precision Dialogue, a provider of email marketing, direct mail marketing and other services with operations in the United States.

On January 11, 2016, the Company sold two entities within the business process outsourcing reporting unit.

For further information on the above acquisitions and dispositions, see Note 3, Acquisitions and Dispositions, to the Condensed Consolidated Financial Statements.

Executive Overview

Second Quarter Overview

Net sales increased by $13.4 million, or 0.8%, for the second quarter of 2017 compared to the same period in the prior year. There was a $14.4 million, or 0.9%, decrease due to changes in foreign exchange rates. After including the impact of changes in foreign exchange rates, the increase in net sales was due to increased volume in the International and Strategic Services segments driven by the Asia and sourcing reporting units, partially offset by lower volume in the Variable Print segment, lower postage pass-through sales and price pressures across the segments.

The Company continues to strategically assess opportunities to reduce its cost structure and enhance productivity throughout the business. During the six months ended June 30, 2017, the Company realized cost savings from previous restructuring activities including the reorganization of administrative and support functions across all segments, as well as facility consolidations.

Net cash used in operating activities for the six months ended June 30, 2017 was $51.8 million as compared to $100.3 million for the six months ended June 30, 2016. The decrease in net cash used in operating activities was driven by the timing of supplier and customer payments and lower interest, spinoff-related transaction and tax payments, partially offset by lower cash earnings.

Financial Performance: Three Months Ended June 30, 2017

The changes in the Company's income from operations, operating margin, net earnings (loss) attributable to RRD common stockholders and net earnings (loss) attributable to RRD common stockholders per diluted share for the three months ended June 30, 2017, from the three months ended June 30, 2016, were due to the following:

	Income from Operations	Operating Margin	Net Earnings (Loss) From Continuing Operations Attributable to RRD Common Stockholders	Net Earnings (Loss) Attributable to RRD Stockholders Per Diluted Share
	(in millions, except margin and per share data)			
For the Three Months Ended June 30, 2016	$24.7	1.5 %	$ (23.2)	$ (0.33)
2017 restructuring, impairment and other charges - net	(3.8)	(0.2 %)	(4.9)	(0.07)
2016 restructuring, impairment and other charges - net	8.2	0.5 %	11.1	0.16
Spinoff-related transaction expenses	(1.2)	(0.1 %)	(0.8)	(0.01)
Pension settlement charges	20.4	1.2 %	12.0	0.17
Acquisition-related expenses	1.4	0.1 %	1.0	0.01