

RR Donnelley & Sons Co
Form 10-Q
October 31, 2018

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 September 30, 2018

OR

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

Commission File Number 1-4694

R.R. DONNELLEY & SONS COMPANY

(Exact name of registrant as specified in its charter)

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

35 West Wacker Drive,

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

(312) 326-8000

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

Large Accelerated filer Accelerated filer

Non-Accelerated filer Smaller reporting company

Emerging growth company

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

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

Yes No

As of October 26, 2018, 70.4 million shares of common stock were outstanding.

R.R. DONNELLEY & SONS COMPANY

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

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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)

	September 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	\$ 247.0	\$273.4
Receivables, less allowances for doubtful accounts of \$32.8 in 2018 (2017 - \$32.4)	1,359.5	1,417.6
Inventories (Note 3)	361.8	416.8
Prepaid expenses and other current assets	176.9	109.1
Total current assets	2,145.2	2,216.9
Property, plant and equipment-net (Note 4)	545.7	615.1
Goodwill (Note 5)	554.3	588.5
Other intangible assets-net (Note 5)	120.2	143.3
Deferred income taxes	66.1	81.7
Other noncurrent assets	266.5	259.0
Total assets	\$ 3,698.0	\$3,904.5
LIABILITIES		
Accounts payable	\$ 897.6	\$1,094.7
Accrued liabilities and other	390.5	447.5
Short-term and current portion of long-term debt (Note 14)	222.0	10.8
Total current liabilities	1,510.1	1,553.0
Long-term debt (Note 14)	1,955.3	2,098.9
Pension liabilities	83.1	102.7
Other postretirement benefits plan liabilities	97.2	113.2
Long-term income tax liability	69.7	59.4
Other noncurrent liabilities	202.1	180.2
Total liabilities	3,917.5	4,107.4
Commitments and Contingencies (Note 13)		
EQUITY (Note 9)		
RRD stockholders' equity		
Preferred stock, \$1.00 par value		
Authorized: 2.0 shares; Issued: None	—	—
Common stock, \$0.01 par value		
Authorized: 165.0 shares;		
Issued: 89.0 shares in 2018 and 2017	0.9	0.9
Additional paid-in-capital	3,412.3	3,444.0

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Accumulated deficit	(2,200.8)	(2,225.7)
Accumulated other comprehensive loss	(150.5)	(103.7)
Treasury stock, at cost, 18.6 shares in 2018 (2017 - 18.9 shares)	(1,295.8)	(1,333.1)
Total RRD stockholders' equity	(233.9)	(217.6)
Noncontrolling interests	14.4	14.7
Total equity	(219.5)	(202.9)
Total liabilities and equity	\$ 3,698.0	\$3,904.5

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		Nine Months Ended	
	Ended September 30, 2018	2017	September 30, 2018	2017
Products net sales	\$1,329.8	\$1,322.0	\$3,881.6	\$3,830.9
Services net sales	319.7	412.9	1,155.2	1,182.9
Total net sales	1,649.5	1,734.9	5,036.8	5,013.8
Products cost of sales (exclusive of depreciation and amortization)	1,076.8	1,064.9	3,167.7	3,068.3
Services cost of sales (exclusive of depreciation and amortization)	257.3	346.5	968.4	993.2
Total cost of sales	1,334.1	1,411.4	4,136.1	4,061.5
Products gross profit	253.0	257.1	713.9	762.6
Services gross profit	62.4	66.4	186.8	189.7
Total gross profit	315.4	323.5	900.7	952.3
Selling, general and administrative expenses (exclusive of depreciation and amortization)	203.8	210.9	626.4	653.0
Restructuring and other-net (Note 6)	11.0	33.8	22.8	46.7
Depreciation and amortization	44.2	47.0	137.5	143.1
Other operating income	(4.5)	—	(4.6)	—
Income from operations	60.9	31.8	118.6	109.5
Interest expense-net	42.0	43.5	125.7	137.3
Investment and other income-net	(5.5)	(6.9)	(14.7)	(59.6)
Loss on debt extinguishment	—	6.5	0.1	20.1
Income (loss) before income taxes	24.4	(11.3)	7.5	11.7
Income tax benefit	(10.4)	(3.5)	(5.4)	(7.4)
Net income (loss)	34.8	(7.8)	12.9	19.1
Less: Income attributable to noncontrolling interests	0.5	0.2	1.2	0.7
Net income (loss) attributable to RRD common stockholders	\$34.3	\$(8.0)	\$11.7	\$18.4
Net income (loss) per share attributable to RRD common stockholders (Note 10):				
Basic net income (loss) per share	\$0.49	\$(0.11)	\$0.17	\$0.26
Diluted net income (loss) per share	\$0.49	\$(0.11)	\$0.17	\$0.26
Dividends declared per common share	\$0.03	\$0.14	\$0.31	\$0.42
Weighted average number of common shares outstanding:				
Basic	70.6	70.2	70.5	70.1
Diluted	70.7	70.2	70.8	70.3

See Notes to Condensed Consolidated Financial Statements

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in millions)

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	\$34.8	\$(7.8)	\$12.9	\$19.1
Other comprehensive (loss) income, net of tax (Note 11):				
Translation adjustments	(8.4)	17.7	(31.1)	46.8
Adjustment for net periodic pension and postretirement benefits plan cost	1.6	0.7	5.9	2.1
Adjustment for available-for-sale securities	—	(1.8)	—	(119.3)
Other comprehensive (loss) income	(6.8)	16.6	(25.2)	(70.4)
Comprehensive income (loss)	28.0	8.8	(12.3)	(51.3)
Less: comprehensive income attributable to noncontrolling interests	0.1	0.3	0.7	1.1
Comprehensive income (loss) attributable to RRD common stockholders	\$27.9	\$8.5	\$(13.0)	\$(52.4)

See Notes to Condensed Consolidated Financial Statements

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(UNAUDITED)

	Nine Months Ended September 30,	
	2018	2017
OPERATING ACTIVITIES		
Net income	\$12.9	\$19.1
Adjustments to reconcile net income to net cash used in operating activities:		
Impairment charges and other-net	3.4	21.8
Depreciation and amortization	137.5	143.1
Provision for doubtful accounts receivable	10.6	1.7
Share-based compensation	6.4	6.4
Deferred income taxes	7.3	(10.1)
Changes in uncertain tax positions	(0.4)	0.7
Gain on investments and other assets-net	(13.8)	(2.8)
Loss on debt extinguishments	0.1	20.1
Net pension and other postretirement benefits plan income	(15.9)	(11.0)
Realized gain on disposition of available-for-sale securities-net	—	(42.4)
Other	4.8	14.7
Changes in operating assets and liabilities:		
Accounts receivable-net	(5.7)	(26.3)
Inventories	(16.6)	(62.5)
Prepaid expenses and other current assets	(5.9)	(6.3)
Accounts payable	(150.7)	(18.9)
Income taxes payable and receivable	(26.7)	(11.4)
Accrued liabilities and other	2.3	(26.7)
Pension and other postretirement benefits plan contributions	(13.5)	(12.4)
Net cash used in operating activities	(63.9)	(3.2)
INVESTING ACTIVITIES		
Capital expenditures	(72.7)	(77.2)
Proceeds from sales of investments and other assets	49.9	127.6
Payments related to company-owned life insurance	(1.8)	(7.5)
Proceeds from disposal of business	50.5	—
Net cash provided by investing activities	25.9	42.9
FINANCING ACTIVITIES		
Proceeds from other short-term debt	56.5	23.1
Payments on other short-term debt	(12.2)	(12.9)
Payments of current maturities and long-term debt	(0.2)	(200.9)
Proceeds from credit facility borrowings	975.1	1,165.0
Payments on credit facility borrowings	(949.1)	(1,000.0)

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Dividends paid	(21.8)	(29.4)
Transfer of cash and cash equivalents to LSC and Donnelley Financial	—	(78.0)
Payments of withholding taxes on share-based compensation	(0.7)	(1.9)
Other financing activities	(0.9)	(6.0)
Net cash provided by (used in) financing activities	46.7	(141.0)
Effect of exchange rate on cash, cash equivalents and restricted cash	(14.0)	13.2
Net decrease in cash, cash equivalents and restricted cash	(5.3)	(88.1)
Cash, cash equivalents and restricted cash at beginning of year	301.5	335.9
Cash, cash equivalents and restricted cash at end of period	\$296.2	\$247.8

SUPPLEMENTAL NON-CASH DISCLOSURE:

Debt-for-equity exchange	\$—	\$132.9
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See Notes to Condensed Consolidated Financial Statements

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

1. Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements include the accounts of R.R. Donnelley & Sons Company and its subsidiaries (“RRD,” the “Company,” “we,” “us,” and “our”) and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in accordance with the rules and regulations of the United States Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These unaudited condensed consolidated interim financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods and should be read in conjunction with the consolidated financial statements and the related notes thereto included in our latest Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 28, 2018. Operating results for the nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2018. 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, we completed the 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 each of Donnelley Financial and 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. Immediately following the Distribution, we held approximately 6.2 million shares of Donnelley Financial common stock and approximately 6.2 million shares of LSC common stock.

In March 2017, we sold all of the approximately 6.2 million shares of LSC common stock retained by us and used the proceeds to repay a portion of the outstanding borrowings under our then-existing credit facility. In June 2017 and August 2017, we exchanged all of the approximately 6.2 million shares of Donnelley Financial common stock for certain of our outstanding senior indebtedness, which obligations were subsequently cancelled and discharged upon delivery to us.

Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash at September 30, 2018 and December 31, 2017 reported within the Condensed Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Condensed Consolidated Statement of Cash Flows.

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	September 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 247.0	\$ 273.4
Restricted cash - current ^(a)	49.1	28.0
Restricted cash - noncurrent ^(b)	0.1	0.1
Total cash, cash equivalents and restricted cash	\$ 296.2	\$ 301.5

(a)Included within Prepaid expenses and other current assets within the Condensed Consolidated Balance Sheets

(b)Included within Other noncurrent assets within the Condensed Consolidated Balance Sheets

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Income Taxes

The effective income tax rate was a benefit of 42.6% and 31.0% for the three months ended September 30, 2018 and 2017, respectively, and a benefit of 72.0% and 63.2% for the nine months ended September 30, 2018 and 2017, respectively. The effective income tax rate for the three and nine months ended September 30, 2018 is primarily driven by an adjustment to the provisional amounts related to the Tax Act, the inability to recognize a tax benefit on certain losses, and the release of a portion of our valuation allowance due to the gain on the sale of our Print Logistics business. The effective income tax rate for the nine months ended September 30, 2017 reflects the impact of the \$94.0 million non-taxable gain on the exchange of Donnelley Financial retained shares, the \$51.6 million realized loss on the sale of LSC retained shares and the impact of the impairment of goodwill in the Marketing Solutions segment. The sale of the LSC shares generated a capital loss which is being carried forward; however, it was determined at the time of the sale that the benefit of such deferred tax asset would not be fully realized and a valuation allowance was recorded. The effective income tax rate for the three months ended September 30, 2017 reflects the impact of the impairment of goodwill in the Marketing Solutions segment and the inability to recognize a tax benefit on certain losses.

Cash payments for income taxes were \$28.4 million and \$34.1 million for the nine months ended September 30, 2018 and 2017, respectively. Cash refunds for income taxes were \$14.0 million and \$20.7 million for the nine months ended September 30, 2018 and 2017, respectively. Included within Prepaid expenses and other current assets is income taxes receivable of \$63.8 million and \$23.9 million as of September 30, 2018 and December 31, 2017, respectively.

On December 22, 2017, the SEC issued Staff Accounting Bulletin 118 (SAB 118) which provides guidance for companies analyzing their accounting for the income tax effects of the Tax Act. SAB 118 provides that a company may report provisional amounts based on reasonable estimates. The provisional estimates are then subject to adjustment during a measurement period up to one year and should be accounted for as a prospective change. At December 31, 2017, we were able to make reasonable provisional estimates of the one-time transition tax and impact to deferred taxes; however, we continue to analyze our data and refine our estimated amounts accordingly, and continue to interpret any guidance or subsequent clarification of the tax law. As a result, we may make adjustments to the provisional amounts recorded, throughout the year, in accordance with the guidance outlined in SAB 118. During the three months ended September 30, 2018, we made an adjustment of \$19.6 million to decrease the provisional amounts recorded at December 31, 2017, including a \$19.0 million decrease related to the one-time transition tax and a \$0.6 million decrease related to the change in Federal income tax rate. During the nine months ended September 30, 2018, our adjustments net to a decrease of \$17.3 million to the provisional amounts recorded at December 31, 2017.

Deferred U.S. income taxes and foreign taxes have historically not been provided on the excess of the investment value for financial reporting over the tax basis of investments in those foreign subsidiaries for which such excess is considered to be permanently reinvested in those operations. We continue to analyze the global working capital and cash requirements and the potential tax liabilities attributable to repatriation, but we have yet to determine whether to change the prior assertion and repatriate earnings. We will record the tax effects of any change in the prior assertion in the period the analysis is complete and reasonable estimates are made.

2. Revenue Recognition

On January 1, 2018, we adopted ASC Topic 606, "Revenue from Contracts with Customers" using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under Topic 605. All revenue recognized in the Condensed Statements of Operations is considered to be revenue from contracts with clients.

We recorded a net increase to opening retained earnings of \$12.9 million as of January 1, 2018 due to the cumulative impact of adopting Topic 606, with the impact primarily related to the timing of revenue recognition for certain inventory that has been billed but not yet shipped.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Disaggregation of Revenue

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Products				
Commercial print	\$496.4	\$510.5	\$1,421.3	\$1,495.9
Packaging	179.7	150.9	474.0	377.5
Direct mail	142.7	139.5	424.1	392.0
Statements	133.5	142.1	436.4	439.8
Labels	118.8	118.3	355.5	343.5
Digital print and fulfillment	113.5	115.2	332.6	342.7
Supply chain management	81.5	76.8	242.2	226.1
Forms	63.7	68.7	195.5	213.4
Total products net sales	\$1,329.8	\$1,322.0	\$3,881.6	\$3,830.9
Services				
Logistics	\$229.1	\$314.2	\$880.3	\$904.4
Business process outsourcing	60.5	59.1	183.1	165.1
Digital and creative solutions	29.4	37.7	88.4	108.2
Direct mail	0.7	1.9	3.4	5.2
Total services net sales	\$319.7	\$412.9	\$1,155.2	\$1,182.9
Total net sales	\$1,649.5	\$1,734.9	\$5,036.8	\$5,013.8

Products

Our products revenue is primarily recognized at a point in time. We generally recognize revenue for products upon the transfer of control of the products to the client which typically occurs upon transfer of title and risk of ownership, which is generally upon shipment to the client. For certain products, we are able to recognize revenue for completed inventory billed but not yet shipped at the client’s direction.

The following is a description of our products:

Commercial Print

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We generate revenue by providing various commercial printing products and offer a full range of branded materials including manuals, publications, brochures, business cards, flyers, post cards, posters and promotional items.

Packaging

We generate revenue by providing packaging print for clients in consumer electronics, life sciences, cosmetics and consumer packaged goods industries.

Statements

We generate revenue by creating critical business communications, including customer billings, financial statements, healthcare communications and insurance documents. Our capabilities include design and composition, variable imaging, email, archival and digital mail interaction, as well as our innovative RRDigital solution set.

Direct Mail

We generate revenue by providing print production, including touch mailings, and postal optimization strategies.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Labels

We generate revenue by producing custom labels for clients across multiple industries including warehouse and distribution, retail, pharmaceutical, manufacturing and consumer packaging. We offer distribution and shipping labels, healthcare and durable goods labels, promotional labels and consumer product goods packaging labels.

Digital Print and Fulfillment

We generate revenue by providing various in-store marketing materials, using our digital and offset printing capabilities, including in-store signage and point-of-purchase displays. We also create photobooks.

Supply Chain Management

We generate revenue by providing workflow design to assembly, configuration, kitting and fulfillment for clients in consumer electronics, telecommunications, life sciences, cosmetics, education and industrial industries.

Forms

We generate revenue by producing a variety of forms including invoices, order forms and business forms that support both the private and public sectors for clients in financial, government, retail, healthcare and business services industries.

Services

Our services revenue is recognized both at a point in time as well as over time. Our logistics revenue is primarily recognized over time as the performance obligation is completed. Due to the short transit period of logistics performance obligations, the timing of revenue recognition does not require significant judgment. Our business process outsourcing and digital and creative solutions revenue is recognized over time or at a point in time, depending on the nature of the service which could be either recurring or project-based.

Logistics

We generate revenue by providing specialized transportation and distribution services. These services are comprised of freight services, including truckload, less-than-truckload, intermodal and international freight forwarding; international mail and parcel distribution; and courier services including same day and next day delivery. As discussed in Note 16, Disposition, we sold our Print Logistics business on July 2, 2018. Print Logistics services included the distribution of retail and newsstand printed materials.

Business Process Outsourcing

We generate revenue by providing outsourcing services including creative services, research and analytics, financial management and other services for legal providers, insurance, telecommunications, utilities, retail and financial services companies.

Digital and Creative Solutions

We generate revenue by creating and managing content designed to speak directly to customers, including print and digital advertising, direct marketing and direct mail design, packaging design, marketing and sales collateral and in-store marketing.

Variable Consideration

Certain clients may receive volume-based rebates or early payment discounts, which are accounted for as variable consideration. We estimate these amounts based on the expected amount to be earned by our clients and reduce revenue accordingly. We do not expect significant changes to estimates of variable consideration. Given the nature of our products and the history of returns, product returns are not significant.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Contract Balances

The following table provides information about contract assets and liabilities from contracts with clients:

	Contract Assets		Contract Liabilities	
	Short-Term	Long-Term	Short-Term	Long-Term
Balance at January 1, 2018	\$ 4.0	\$30.3	\$ 1.4	
Balance at September 30, 2018	3.9	26.2	0.8	

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

Revenue recognized during the nine months ended September 30, 2018 from amounts included in contract liabilities at the beginning of the period was approximately \$22.8 million. During the nine months ended September 30, 2018, we reclassified \$4.0 million of contract assets to receivables as a result of the completion of the performance obligation and the right to the consideration becoming unconditional.

Practical Expedients and Exemptions

As part of the adoption of Topic 606, we have elected practical expedients and exemptions allowable under the guidance.

We account for shipping and handling activities performed after the control of a good has been transferred to the client as a fulfillment cost. We accrue for the costs of shipping and handling activities if revenue is recognized before contractually agreed shipping and handling activities occur.

We apply Topic 606 to a portfolio of contracts (or performance obligations) with similar characteristics as we reasonably expect that the effects on the financial statements of applying this guidance to the portfolio would not differ significantly from applying this guidance to the individual contracts (or performance obligations) within that portfolio.

When the output method for measure of progress is determined appropriate, we recognize revenue in the amount for which we have the right to invoice for revenue that is recognized over time and for which we can demonstrate that the invoiced amount corresponds directly with the value to the client for the performance completed to date.

We generally expense sales commissions and other costs to obtain a contract when incurred, because the amortization period would have been one year or less. These costs are recorded within Selling, general and administrative expenses.

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We exclude sales taxes and other similar taxes from the measurement of the transaction price. We do not disclose the value of unsatisfied performance obligations, nor do we disclose the timing of revenue recognition for contracts with an original expected length of one year or less.

3. Inventories

The components of inventories, net of excess and obsolescence reserves for raw materials and finished goods, at September 30, 2018 and December 31, 2017 were as follows:

	September 30, 2018	December 31, 2017
Raw materials and manufacturing supplies	\$ 156.0	\$ 161.1
Work in process	102.0	75.0
Finished goods	120.4	198.2
LIFO reserve	(16.6)	(17.5)
Total inventories	\$ 361.8	\$ 416.8

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

4. Property, Plant and Equipment

The components of property, plant and equipment at September 30, 2018 and December 31, 2017 were as follows:

	September 30, 2018	December 31, 2017
Land	\$ 53.0	\$ 56.1
Buildings	399.1	417.3
Machinery and equipment		