RR Donnelley & Sons Co
Form 10-K
February 26, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-4694

R. R. DONNELLEY & SONS COMPANY

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	36-1004130 (I.R.S. Employer Identification No.)
111 South Wacker Drive, Chicago, Illinois (Address of principal executive offices)	60606 (ZIP Code)

Registrant’s telephone number, including area code—(312) 326-8000

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
Common Stock (Par Value $1.25)	NASDAQ

Indicated by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.   Yes þ   No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.   Yes ¨   No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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 þ   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 (§229.405 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 þ   No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   þ

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).   Yes ¨   No þ

The aggregate market value of the shares of common stock (based on the closing price of these shares on the NASDAQ Stock Exchange—Composite Transactions) on June 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter, held by nonaffiliates was $2,523,169,267.

As of February 21, 2014, 197,791,436 shares of common stock were outstanding.

Documents Incorporated By Reference

Portions of the registrant's proxy statement related to its annual meeting of stockholders scheduled to be held on May 22, 2014 are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

Company Overview

R.R. Donnelley & Sons Company ("RR Donnelley," the "Company," "we," "us," and "our"), a Delaware corporation, helps organizations communicate more effectively by working to create, manage, produce, distribute and process content on behalf of our customers. The Company assists customers in developing and executing multichannel communication strategies that engage audiences, reduce costs, drive revenues and increase compliance. R.R. Donnelley's innovative technologies enhance digital and print communications to deliver integrated messages across multiple media to highly targeted audiences at optimal times for clients in virtually every private and public sector. Strategically located operations provide local service and responsiveness while leveraging the economic, geographic and technological advantages of a global organization.

Business Acquisitions and Dispositions

On January 31, 2014, the Company acquired Consolidated Graphics, Inc. ("Consolidated Graphics"), a provider of digital and commercial printing, fulfillment services, print management and proprietary Internet-based technology solutions, with operations in North America, Europe and Asia. The purchase price for Consolidated Graphics was $359.9 million in cash and 16.0 million shares of RR Donnelley common stock, or a total transaction value of $660.6 million based on the Company's closing share price on January 30, 2014, plus the assumption of Consolidated Graphics' net debt. Immediately following the acquisition, the Company repaid the debt assumed. Consolidated Graphics' operations will be included in the Variable Print segment.

On January 6, 2014, the Company announced that it had entered into a definitive agreement to acquire substantially all of the North American operations of Esselte Corporation ("Esselte"). The purchase price includes a combination of cash and up to 1.0 million shares of RR Donnelley common stock for a total transaction value of approximately $96.5 million. Esselte is a developer and manufacturer of nationally branded and private label office and stationery products. The completion of the transaction is subject to customary closing conditions. Esselte's operations will be included in the Variable Print segment.

During the fourth quarter of 2013, the Company sold the assets and liabilities of R.R. Donnelley SAS ("MRM France"), its direct mail business located in Cosne sur Loire, France, for a loss of $17.9 million, which included cash incentive payments due to the purchaser of $18.8 million, of which $12.0 million was paid as of December 31, 2013. The operations of the MRM France business were included in the International segment.

On December 28, 2012, the Company acquired Presort Solutions ("Presort"), a provider of mail presorting services to businesses in various industries. Presort's operations are included in the Strategic Services segment.

On December 17, 2012, the Company acquired Meisel Photographic Corporation ("Meisel"), a provider of custom designed visual graphics products to the retail market. Meisel's operations are included in the Variable Print segment.

On September 6, 2012, the Company acquired Express Postal Options International ("XPO"), a provider of international outbound mailing services to pharmaceutical, e-commerce, financial services, information technology, catalog, direct mail and other businesses. XPO's operations are included in the Strategic Services segment.

On August 14, 2012, the Company acquired EDGAR Online, a leading provider of disclosure management services, financial data and enterprise risk analytics software and solutions. EDGAR Online's operations are included in the

Strategic Services segment.

On November 21, 2011, the Company acquired StratusGroup, Inc. ("Stratus"), a full service manufacturer of custom pressure sensitive label and paperboard packaging products for health and beauty, food, beverage and other segments. Stratus' operations are included in the Variable Print segment.

On September 6, 2011, the Company acquired Genesis Packaging & Design Inc. ("Genesis"), a full service provider of custom packaging, including designing, printing, die cutting, finishing and assembling. Genesis' operations are included in the Variable Print segment.

On August 16, 2011, the Company acquired LibreDigital, Inc. ("LibreDigital"), a leading provider of digital content distribution, e-reading software, content conversion, data analytics and business intelligence services. LibreDigital's operations are included in the Strategic Services segment.

On August 15, 2011, the Company acquired Sequence Personal LLC ("Sequence"), a provider of proprietary software that enables readers to select relevant content to be digitally produced as specialized publications. Sequence's operations are included in the Strategic Services segment.

On June 21, 2011, the Company acquired Helium, Inc. (“Helium”), an online community offering publishers, catalogers and other customers stock and custom content, as well as a comprehensive range of editorial solutions, in which the Company previously held an equity investment. Helium’s operations are included in the Strategic Services segment.

On March 24, 2011, the Company acquired Journalism Online, LLC (“Journalism Online”), an online provider of tools that allow consumers to purchase online subscriptions from publishers. Journalism Online’s operations are included in the Strategic Services segment.

Segment Descriptions

The Company operates primarily in the print and related services industry, with product and service offerings designed to offer customers complete solutions for communicating their messages to target audiences.

During the fourth quarter of 2013, management changed the Company’s reportable segments to reflect changes in the management reporting structure of the organization and the manner in which the chief operating decision maker regularly assesses information for decision-making purposes, including allocation of resources. The revised reporting structure includes four operating segments: “Publishing and Retail Services,” “Variable Print,” “Strategic Services,” and “International.” All prior periods have been reclassified to conform to the current reporting structure.

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

Publishing and Retail Services

The Publishing and Retail Services segment’s primary product offerings include magazines, catalogs, retail inserts, books, directories and packaging.

The Publishing and Retail Services segment accounted for 26.5% of the Company’s consolidated net sales in 2013.

Variable Print

The Variable Print 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, office products, forms and packaging.

The Variable Print segment accounted for 24.7% of the Company’s consolidated net sales in 2013.

Strategic Services

The Strategic Services segment includes the Company’s financial print products and related services, logistics services, digital and creative solutions and print management offerings.

The Strategic Services segment accounted for 23.4% of the Company’s consolidated net sales in 2013.

International

The International segment includes the Company’s non-U.S. printing operations in Asia, Europe, Latin America and Canada. This segment’s product and service offerings include magazines, catalogs, retail inserts, books, directories, direct mail, packaging, forms, labels, manuals, statement printing, commercial and digital print, logistics services and digital and creative solutions. 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.

The International segment accounted for 25.4% of the Company’s consolidated net sales in 2013.

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 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 enables participating international locations to draw on the Company's overseas cash resources to meet local liquidity needs.

Financial and other information related to these segments is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and in Note 19, Segment Information, to the Consolidated Financial Statements. Additional information related to the Company's International operations is included in Note 20, Geographic Area and Products and Services Information, to the Consolidated Financial Statements.

Competition and Strategy

The print and related services industry, in general, continues to have excess capacity and remains highly competitive. Despite consolidation in recent years, the industry remains highly fragmented. Across the Company's range of products and services, competition is based primarily on price in addition to quality and the ability to service the special needs of customers. Management expects that prices for the Company's products and services will continue to be a focal point for customers in coming years. Therefore, the Company believes it needs to continue to lower its cost structure and differentiate its product and service offerings.

Technological changes, including the electronic distribution of documents and data, online distribution and hosting of media content, and advances in digital printing, print-on-demand and Internet technologies, continue to impact the market for the Company's products and services. The Company seeks to utilize the distinctive capabilities of its products and services to improve its customers' communications, whether in paper or electronic form. The Company's goal remains to help its customers succeed by delivering effective and targeted communications in the right format to the right audiences at the right time. Management believes that with the Company's competitive strengths, including its broad range of complementary print-related services, strong logistics capabilities, technology leadership, depth of management experience, customer relationships and economies of scale, the Company has developed and can further develop valuable, differentiated solutions for its customers. The Company seeks to draw on its unified platform and strong customer relationships in order to serve a larger share of its customers' print and related services needs.

The impact of digital technologies has been felt in many print products. Electronic communication and transaction technology has eliminated or reduced the role of many traditional printed products and has continued to drive electronic substitution in directory and statement printing, in part driven by environmental concerns and cost pressures at key customers. In addition, e-book substitution is having a continuing impact on consumer print book volume, though adoption rates are stabilizing, and a limited impact on educational and specialty books. Digital technologies have also impacted printed magazines, as advertiser spending has moved from print to electronic media. The future impact of technology on the Company's business is difficult to predict and could result in additional expenditures to restructure impacted operations or develop new technologies. In addition, the Company has made targeted acquisitions and investments in the Company's existing business to offer customers innovative services and solutions that further secure the Company's position as a technology leader in the industry.

The acquisition of Consolidated Graphics and proposed acquisition of Esselte's North American operations support the Company's strategic objective of generating profitable growth and improved cash flow and liquidity through targeted acquisitions. These acquisitions are expected to enhance the Company's existing capabilities and ability to serve its collective customers as well as provide cost savings through the combination of best practices, complementary products and manufacturing and distribution capabilities.

The Company has implemented a number of strategic initiatives to reduce its overall cost structure and improve efficiency, including the restructuring, reorganization and integration of operations and streamlining of administrative and support activities. Future cost reduction initiatives could include the reorganization of operations and the consolidation of facilities. Implementing such initiatives might result in future restructuring or impairment charges, which may be substantial. Management also reviews the Company's operations and management structure on a regular basis to balance appropriate risks and opportunities to maximize efficiencies and to support the Company’s long-term strategic goals.

Seasonality

Advertising and consumer spending trends affect demand in several of the end-markets served by the Company. Historically, demand for printing of magazines, catalogs, retail inserts and books is higher in the second half of the year driven by increased advertising pages within magazines, and holiday volume in catalogs, retail inserts and books. This typical seasonal pattern can be impacted by overall trends in the U.S. and world economy. The seasonal pattern in 2013 was in line with historical trends and the Company also expects future years to be in line with historical patterns. Additionally, the Company expects future years to be affected by the impact of election cycles on election-related print business as a result of the acquisition of Consolidated Graphics.

Raw Materials

The primary raw materials the Company uses in its print businesses are paper and ink. The Company negotiates with leading suppliers to maximize its purchasing efficiencies and uses a wide variety of paper grades, formats, ink formulations and colors. In addition, a substantial amount of paper used by the Company is supplied directly by customers. Variations in the cost and supply of certain paper grades and ink formulations used in the manufacturing process may affect the Company's consolidated financial results. Paper prices fluctuated during 2013, and volatility in the future is expected. Generally, customers directly absorb the impact of changing prices on customer-supplied paper. With respect to paper purchased by the Company, the Company has historically passed most changes in price through to its customers. Contractual arrangements and industry practice should support the Company's continued ability to pass on any future paper price increases, but there is no assurance that market conditions will continue to enable the Company to successfully do so. Management believes that the paper supply is consolidating, and there may be shortfalls in the future in supplies necessary to meet the demands of the entire marketplace. Higher paper prices and tight paper supplies may have an impact on customers' demand for printed products. Additionally, the Company has undertaken various strategic initiatives to mitigate any foreseeable supply disruptions with respect to the Company's ink requirements. The Company also resells waste paper and other print-related by-products and may be impacted by changes in prices for these by-products.

The Company continues to monitor the impact of changes in the price of crude oil and other energy costs, which impact the Company's ink suppliers, logistics operations and manufacturing costs. Crude oil and energy prices continue to be volatile. The Company believes its logistics operations will continue to be able to pass a substantial portion of any increases in fuel prices directly to its customers in order to offset the impact of related cost increases. The Company generally cannot pass on to customers the impact of higher energy prices on its manufacturing costs. However, the Company enters into fixed price contracts for a portion of its natural gas purchases to mitigate the impact of changes in energy prices. The Company cannot predict sudden changes in energy prices and the impact that possible future changes in energy prices might have upon either future operating costs or customer demand and the related impact either will have on the Company's consolidated annual results of operations, financial position or cash flows.

Distribution

The Company's products are distributed to end-users through the U.S. or foreign postal services, through retail channels, electronically or by direct shipment to customer facilities. Through its logistics operations, the Company manages the distribution of most customer products printed by the Company in the U.S. and Canada to maximize efficiency and reduce costs for customers.

Postal costs are a significant component of many customers' cost structures and postal rate changes can influence the number of pieces that the Company's customers are willing to print and mail. On January 27, 2013, the United States Postal Service ("USPS") increased postage rates across all classes of mail by approximately 2.6%, on average. Under the 2006 Postal Accountability and Enhancement Act, it had been anticipated that postage would increase annually by an amount equal to or slightly less than the Consumer Price Index (the "CPI"). However, on December 24, 2013, the Postal Regulatory Commission (the "PRC") approved the USPS Board of Governors' request under the Exigency Provision in the applicable law for price increases of 4.3%. The exigent rate increase was implemented in addition to a 1.7% rate increase, equal to the CPI, for total price increases of 6.0%, on average, across all mail categories, effective January 26, 2014. According to the PRC's ruling, the USPS must develop a plan by May 1, 2014 to phase out the exigent rate increase once it has produced the revenue justified by the request. As a leading provider of print logistics and among the largest mailers of standard mail in the U.S., the Company works closely with its customers and the USPS to offer innovative products and services to minimize postage costs. While the Company does not directly absorb the impact of higher postal rates on its customers' mailings, demand for products distributed through the U.S. or foreign postal services is expected to be impacted by changes in postal rates.

During the third quarter of 2012, the USPS defaulted on two mandatory payments for the funding of retiree health benefits. The USPS announced that these defaults were not expected to impact mail services. However, the USPS is continuing to pursue its previously announced plans to restructure its mail delivery network, including the closure of many post office facilities. On April 10, 2013, the USPS announced a delay in the shift to a five-day mail and six-day package delivery schedule that was initially scheduled for August 2013, until legislation is passed that provides the authority to do so. Mail delivery services through the USPS accounted for approximately 46% of the Company’s logistics revenues during the year ended December 31, 2013. The impact to the Company of the USPS’s restructuring plans, many of which require legislative action, cannot currently be estimated.

Customers

For each of the years ended December 31, 2013, 2012 and 2011, no customer accounted for 10% or more of the Company’s consolidated net sales.

Technology, Research and Development

The Company has a research facility that supports the development and implementation of new technologies to meet customer needs and improve operating efficiencies. The Company’s cost for research and development activities is not material to the Company’s consolidated annual results of operations, financial position or cash flows.

Environmental Compliance

It is the Company's policy to conduct its global operations in accordance with all applicable laws, regulations and other requirements. 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 adverse effect on the Company's consolidated annual results of operations, financial position or cash flows.

Employees

As of December 31, 2013, the Company had approximately 57,000 employees.

Available Information

The Company maintains an Internet website at www.rrdonnelley.com where the Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are available without charge, as soon as reasonably practicable following the time they are filed with, or furnished to, the Securities and Exchange Commission ("SEC"). The Principles of Corporate Governance of the Company's Board of Directors, the charters of the Audit, Human Resources and Corporate Responsibility & Governance Committees of the Board of Directors and the Company's Principles of Ethical Business Conduct are also available on the Investor Relations portion of www.rrdonnelley.com, and will be provided, free of charge, to any shareholder who requests a copy. References to the Company's website address do not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document.

Special Note Regarding Forward-Looking Statements

The Company has made forward-looking statements in this Annual Report on Form 10-K that are subject to risks and uncertainties. These statements are based on the beliefs and assumptions of the Company. Generally, forward-looking statements include information concerning possible or assumed future actions, events, or results of operations of the Company.

These statements may include, or be preceded or followed by, the words "may," "will," "should," "might," "could," "would," "potential," "possible," "believe," "expect," "anticipate," "intend," "plan," "estimate," "hope" or similar expressions. The Com claims the protection of the Safe Harbor for Forward-Looking Statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements.

Forward-looking statements are not guarantees of performance. The following important factors, in addition to those discussed elsewhere in this Annual Report on Form 10-K, could affect the future results of the Company and could cause those results or other outcomes to differ materially from those expressed or implied in its forward-looking statements:

the volatility and disruption of the capital and credit markets, and adverse changes in the global economy;
successful execution of acquisitions and negotiation of future acquisitions;
the ability of the Company to integrate operations of acquisitions successfully and achieve enhanced earnings or effect cost savings, including the acquisition of Consolidated Graphics and proposed acquisition of Esselte;
the ability to implement comprehensive plans for the integration of sales forces, cost containment, asset rationalization, systems integration and other key strategies;
the ability to divest non-core businesses;
future growth rates in the Company's core businesses;
competitive pressures in all markets in which the Company operates;

the Company’s ability to access debt and the capital markets and the ability of its counterparties to perform their contractual obligations under the Company’s lending and insurance agreements;
changes in technology, including electronic substitution and migration of paper based documents to digital data formats;
factors that affect customer demand, including changes in postal rates, postal regulations and service levels, changes in the capital markets, changes in advertising markets, customers’ budgetary constraints and changes in customers’ short-range and long-range plans;
the ability to gain customer acceptance of the Company’s new products and technologies;
the ability to secure and defend intellectual property rights and, when appropriate, license required technology;
customer expectations and financial strength;
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performance issues with key suppliers;
changes in the availability or costs of key materials (such as ink, paper and fuel) or in prices received for the sale of by-products;
changes in ratings of the Company's debt securities;
the ability of the Company to comply with covenants under its credit agreement and indentures governing its debt securities;
the ability to generate cash flow or obtain financing to fund growth;
the effect of inflation, changes in currency exchange rates and changes in interest rates;
the effect of changes in laws and regulations, including changes in accounting standards, trade, tax, environmental compliance (including the emission of greenhouse gases and other air pollution controls), health and welfare benefits (including the Patient Protection and Affordable Care Act, as modified by the Health Care and Education Reconciliation Act, and further healthcare reform initiatives), price controls and other regulatory matters and the cost, which could be substantial, of complying with these laws and regulations;
contingencies related to actual or alleged environmental contamination;
the retention of existing, and continued attraction of additional customers and key employees;
the effect of a material breach of security of any of the Company's systems;
the failure to properly use and protect customer information and data;
the effect of labor disruptions or shortages;
the effect of economic and political conditions on a regional, national or international basis;
the effect of economic weakness and constrained advertising;
uncertainty about future economic conditions;
the possibility of future terrorist activities or the possibility of a future escalation of hostilities in the Middle East or elsewhere;
the possibility of a regional or global health pandemic outbreak;
disruptions to the Company's operations resulting from possible natural disasters, interruptions in utilities and similar events;
adverse outcomes of pending and threatened litigation; and
other risks and uncertainties detailed from time to time in the Company's filings with the SEC.

Because forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Undue reliance should not be placed on such statements, which speak only as of the date of this document or the date of any document that may be incorporated by reference into this document.

Consequently, readers of this Annual Report on Form 10-K should consider these forward-looking statements only as the Company's current plans, estimates and beliefs. The Company does not undertake and specifically declines any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. The Company undertakes no obligation to update or revise any forward-looking statements in this Annual Report on Form 10-K to reflect any new events or any change in conditions or circumstances.

ITEM 1A. RISK FACTORS

The Company's consolidated results of operations, financial position and cash flows can be adversely affected by various risks. These risks include the principal factors listed below and the other matters set forth in this Annual Report on Form 10-K. You should carefully consider all of these risks.

Risks Relating to the Businesses of the Company

Global market and economic conditions, as well as the effects of these conditions on customers' businesses could adversely affect the Company.

Global economic conditions affect customers' businesses and the markets they serve. Demand for advertising tends to correlate with changes in the level of economic activity in the markets customers serve. Because a significant part of the Company's business relies on its customers' advertising spending, a prolonged downturn in the global economy and an uncertain economic outlook could further reduce the demand for printing and related services that the Company provides to these customers. Economic weakness and constrained advertising spending may result in decreased revenue, operating margin, earnings and growth rates and difficulty in managing inventory levels and collecting accounts receivable. The Company may experience reduced demand for its products and services due to economic conditions and other macroeconomic factors affecting consumers' and businesses' spending behavior. In addition, customer difficulties could result in increases in bad debt write-offs and allowances for doubtful accounts receivable. In particular, the Company's exposure to certain industries currently experiencing financial difficulties and certain financially troubled customers could have an adverse effect on the Company's results of operations. The Company may experience operating margin declines in certain businesses, reflecting the effect of items such as competitive price pressures, inventory write-downs, cost increases for wages and materials, and increases in pension and other postretirement benefits plan funding requirements. Economic downturns may also result in restructuring actions and associated expenses and impairment of long-lived assets, including goodwill and other intangibles. Uncertainty about future economic conditions makes it difficult for the Company to forecast operating results and to make decisions about future investments. Delays or reductions in customers' spending would have an adverse effect on demand for the Company's products and services, which could be material, and consequently impact the Company's consolidated results of operations, financial position and cash flow.

Adverse credit market conditions may limit the Company's ability to obtain future financing.

Uncertainty and volatility in global financial markets may cause financial markets institutions to fail or may cause lenders to hoard capital and reduce lending. The failure of a financial institution that supports the Company's existing credit agreement would reduce the size of its committed facility unless a replacement institution were added.

The Company's operating performance and creditworthiness may limit its ability to obtain future financing and the cost of any such capital may be higher than in past periods.

The Company's access to future financing will depend on a variety of factors such as the general availability of credit, its credit ratings and credit capacity at the time it pursues such financing. The Company's current Corporate credit ratings are below investment grade and, as a result, the Company's borrowing costs may further increase or ability to borrow may be limited. The Company's obligations under its current $1.15 billion senior secured revolving credit facility (the "Credit Agreement") which expires October 15, 2017, are guaranteed by material and certain other domestic subsidiaries and are secured by a pledge of the equity interests of certain subsidiaries, including most of its domestic subsidiaries, and a security interest in substantially all of the domestic current assets and mortgages of certain domestic real property of the Company. The Credit Agreement is subject to a number of covenants, including a minimum Interest Coverage Ratio and a maximum Leverage Ratio, that, in part, restrict the Company's ability to incur additional indebtedness, create liens, engage in mergers and consolidations, make restricted payments, dispose of certain assets and may also limit the use of proceeds. The Credit Agreement generally allows annual dividend payments of up to $200.0 million in aggregate, though additional dividends may be allowed subject to certain conditions. If adequate capital is not available to the Company and its internal sources of liquidity prove to be insufficient, or if future financings require more restrictive covenants, such combination of events could adversely affect the Company’s ability to (i) acquire new businesses or enter new markets, (ii) service or refinance its existing debt, (iii) pay dividends on common stock, (iv) make necessary capital investments, and (v) make other expenditures necessary for the ongoing conduct of its business.

The indentures governing the notes and debentures the Company issues do not contain restrictive covenants and the Company may incur substantially more debt or take other actions, including engaging in mergers and acquisitions, paying dividends and making other distributions to holders of equity securities, and disposing of certain assets, which may adversely affect the Company’s ability to satisfy its obligations under the notes and debentures issued under its indentures.

Although the Credit Agreement is subject to a number of negative and financial covenants, including a minimum interest coverage ratio and a maximum leverage ratio, and covenants that restrict the Company’s ability to incur additional indebtedness, engage in mergers and acquisitions, pay dividends and make other distributions to the holders of the Company’s equity securities, and dispose of certain assets, the indentures governing the Company’s notes and debentures do not contain financial or operating covenants or restrictions on the incurrence of indebtedness, the payment of dividends or making other distributions, or the disposition of certain assets. In addition, the limited covenants applicable to the notes and debentures do not require the Company to achieve or maintain any minimum financial results relating to its financial position or results of operations.

In carrying out the Company's strategy focused on maximizing long-term shareholder value, the Company may enter into transactions which may increase its financial leverage. The Company's ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the indentures governing its notes and debentures could have the effect of diminishing the Company's ability to make payments on those notes and debentures when due, and require the Company to dedicate a substantial portion of its cash flow from operations to payments on its indebtedness, which would reduce the availability of cash flow to fund the Company's operations, working capital and capital expenditures.

Fluctuations in the costs of paper, ink, energy and other raw materials may adversely impact the Company.

Purchases of paper, ink, energy and other raw materials represent a large portion of the Company's costs. Increases in the costs of these inputs may increase the Company's costs and the Company may not be able to pass these costs on to customers through higher prices. In addition, the Company may not be able to resell waste paper and other print-related by-products or may be adversely impacted by decreases in the prices for these by-products. Increases in the cost of materials may adversely impact customers' demand for the Company's printing and related services.

The Company may be adversely affected by a decline in the availability of raw materials.

The Company is dependent on the availability of paper, ink and other raw materials to support its operations. Unforeseen developments in these markets could result in a decrease in the supply of paper, ink or other raw materials and could cause a decline in the Company's revenues.

The financial condition of the Company's customers may deteriorate.

Many of the Company's customers participate in highly competitive markets, and their financial condition may deteriorate as a result. A decline in the financial condition of the Company's customers would hinder the Company's ability to collect amounts owed by customers. In addition, such a decline would result in lower demand for the Company's products and services. A lack of liquidity in the capital markets or a sustained period of unfavorable economic conditions will increase the Company's exposure to credit risks and result in increases in bad debt write-offs and allowances for doubtful accounts receivable.

The Company may be unable to improve its operating efficiency rapidly enough to meet market conditions.

Because the markets in which the Company competes are highly competitive, the Company must continue to improve its operating efficiency in order to maintain or improve its profitability. There is no assurance that the Company will be able to do so in the future. In addition, the need to reduce ongoing operating costs may result in significant up-front costs to reduce workforce, close or consolidate facilities, or upgrade equipment and technology.

The Company may be unable to successfully integrate the operations of acquired businesses and may not achieve the cost savings and increased revenues anticipated as a result of these acquisitions.

Achieving the anticipated benefits of acquisitions will depend in part upon the Company's ability to integrate these businesses in an efficient and effective manner. The integration of companies that have previously operated independently may result in significant challenges, and the Company may be unable to accomplish the integration smoothly or successfully. In particular, the coordination of geographically dispersed organizations with differences in corporate cultures and management philosophies may increase the difficulties of integration. The integration of acquired businesses may also require the dedication of significant management resources, which may temporarily distract management's attention from the day-to-day operations of the Company. In addition, the process of integrating operations may cause an interruption of, or loss of momentum in, the activities of one or more of the Company's businesses and the loss of key personnel from the Company or the acquired businesses. Further, employee uncertainty and lack of focus during the integration process may disrupt the businesses of the Company or the acquired businesses. The Company's strategy is, in part, predicated on the Company's ability to realize cost savings and to increase revenues through the acquisition of businesses that add to the breadth and depth of the Company's products and services. Achieving these cost savings and revenue increases is dependent upon a number of factors, many of which are beyond the Company's control. In particular, the Company may not be able to realize the benefits of more comprehensive product and service offerings, anticipated integration of sales forces, asset rationalization and systems integration.

The Company may be unable to hire and retain talented employees, including management.

The Company's success depends, in part, on its general ability to attract, develop, motivate and retain highly skilled employees. The loss of a significant number of the Company's employees or the inability to attract, hire, develop, train and retain additional skilled personnel could have a serious negative effect on the Company. Various locations may encounter competition with other manufacturers for skilled labor. Many of these competitors may be able to offer significantly greater compensation and benefits or more attractive lifestyle choices than the Company offers. In addition, many members of the Company's management have significant industry experience that is valuable to the Company's competitors. The Company enters into non-solicitation and, as appropriate, non-competition agreements with its executive officers, prohibiting them contractually from soliciting the Company's customers and employees and from leaving and joining a competitor within a specified period. If one or more members of the Company's senior management team leave and cannot be replaced with a suitable candidate quickly, the Company could experience difficulty in managing its business properly, which could harm business prospects and the Company's consolidated results of operations.

The trend of increasing costs to provide health care and other benefits to the Company's employees and retirees may continue.

The Company provides health care and other benefits to both employees and retirees. For many years, costs for health care have increased more rapidly than general inflation in the U.S. economy. If this trend in health care costs continues, the Company's cost to provide such benefits could increase, adversely impacting the Company's profitability. Changes to health care regulations in the U.S. may also increase the Company's cost of providing such benefits.

Changes in market conditions or lower returns on assets may increase required pension and other postretirement benefits plan contributions in future periods.

The funded status of the Company's pension and other postretirement benefits plans is dependent upon many factors, including returns on invested assets and the level of certain market interest rates. As experienced in prior years, declines in the market value of the securities held by the plans coupled with historically low interest rates have reduced, and in the future could materially reduce, the funded status of the plans. These reductions have increased the level of expected required pension and other postretirement benefits plan contributions in future years. Market conditions may lead to changes in the discount rates used to value the year-end benefit obligations of the plans, which could partially mitigate or worsen the effects of lower asset returns. If adverse market conditions were to continue for an extended period of time, the Company's costs and required cash contributions associated with pension and other postretirement benefits plans may substantially increase in future periods.

There are risks associated with operations outside the United States.

The Company has significant operations outside the United States. Revenues from the Company's operations in geographic regions outside the United States accounted for approximately 25% of the Company's consolidated net sales for the year ended December 31, 2013. As a result, the Company is subject to the risks inherent in conducting business outside the United States, including the impact of economic and political instability of those countries in which the Company operates. The volatile economic environment has increased the risk of disruption and losses resulting from hyper-inflation, currency devaluation and tax or regulatory changes in certain countries in which the Company has operations.

The Company is exposed to significant risks related to potential adverse changes in currency exchange rates.

The Company is exposed to market risks resulting from changes in the currency exchange rates of the currencies in the countries in which it does business. Although operating in local currencies may limit the impact of currency rate fluctuations on the operating results of the Company's non-U.S. subsidiaries, fluctuations in such rates may affect the translation of these results into the Company's consolidated financial statements. To the extent borrowings, sales, purchases, revenues and expenses or other transactions are not in the applicable local currency, the Company may enter into foreign currency spot and forward contracts to hedge the currency risk. Management cannot be sure, however, that the Company's efforts at hedging will be successful, and such efforts could, in certain circumstances, lead to losses.

A decline in expected profitability of the Company or individual reporting units of the Company could result in the impairment of assets, including goodwill, other long-lived assets and deferred tax assets.

The Company holds material amounts of goodwill, other long-lived assets and deferred tax assets on its balance sheet. A decline in expected profitability, particularly if there is a decline in the global economy, could call into question the recoverability of the Company's related goodwill, other long-lived tangible and intangible assets or deferred tax assets and require the write down or write off these assets or, in the case of deferred tax assets, recognition of a valuation allowance through a charge to income. Such an occurrence has had and could continue to have a material adverse effect on the Company's consolidated results of operations, financial position and cash flows.

Risks Related to the Printing and Related Services Industry

The highly competitive market for the Company's products and industry consolidation may continue to create adverse price pressures.

The markets for the majority of the Company's product categories are highly fragmented and the Company has a large number of competitors. Management believes that excess capacity in the Company's markets has caused downward price pressure and that this trend is likely to continue. In addition, consolidation in the markets in which the Company competes may increase competitive price pressures due to competitors lowering prices as a result of synergies achieved.

The substitution of electronic delivery for printed materials may continue to adversely affect the Company's businesses.

Electronic delivery of documents and data, including the online distribution and hosting of media content, offer alternatives to traditional delivery of printed documents. Consumers continue to accept electronic substitution in directory and statement printing and are replacing traditional reading of print materials with online, hosted media content or e-reading devices. The extent to which consumers will continue to accept electronic delivery is uncertain and it is difficult to predict future rates of acceptance of these alternatives. Electronic delivery has negatively impacted the Company's products, such as directories, books, forms and statement printing. Digital technologies have also impacted printed magazines, as advertising spending has moved from print to electronic media. To the extent that consumers, customers and regulators continue to accept these alternatives, the Company's products will be adversely affected.

Changes in the rules and regulations to which the Company is subject may increase the Company's costs.

The Company is subject to numerous rules and regulations, including, but not limited to, product safety, environmental and health and welfare benefit regulations. These rules and regulations may be changed by local, state or federal governments in countries in which the Company operates. Changes in these regulations may result in a significant increase in the Company's costs to comply. Compliance with changes in rules and regulations could require increases to the Company's workforce, increased cost for compensation and benefits, or investments in new or upgraded equipment. In addition, growing concerns about climate change, including the impact of global warming, may result in new regulations with respect to greenhouse gas emissions (including carbon dioxide) and/or "cap and trade" legislation. Compliance with new rules and regulations or changes in existing rules and regulations could result in additional costs to the Company.

Declines in general economic conditions or political unrest may adversely impact the Company's business.

In general, demand for the Company's products and services are highly correlated with general economic conditions. Declines in economic conditions in the U.S. or in other countries in which the Company operates may adversely impact the Company's consolidated financial results. Because such declines in demand are difficult to predict, the Company or the industry may have increased excess capacity as a result. An increase in excess capacity may result in declines in prices for the Company's products and services. The overall business climate may also be impacted by wars or acts of terrorism. Such acts may have sudden and unpredictable adverse impacts on demand for the Company's products and services.

Changes in the rules and regulations to which customers are subject may impact demand for the Company's products and services.

Many of the Company's customers are subject to rules and regulations requiring certain printed or electronic communications, governing the form of such communications and protecting the privacy of consumers. Changes in these regulations may impact customers' business practices and could reduce demand for the Company's printed products and related services. Changes in such regulations could eliminate the need for certain types of printed communications altogether or such changes may impact the quantity or format of printed communications.

Changes in postal rates, regulations and delivery structure may adversely impact demand for the Company's products and services.

Postal costs are a significant component of many of the Company's customers' cost structures and postal rate changes can influence the number of pieces and types of mailings that the Company's customers mail. On December 24, 2013, the PRC approved the USPS Board of Governors' request for price increases of 4.3%. This exigent rate increase was implemented in addition to a 1.7% rate increase, equal to the CPI, for total price increases of 6.0%, on average, across all mail categories, effective January 26, 2014. In addition, the USPS has incurred significant financial losses in recent years and may, as a result, implement significant changes to the breadth or frequency of its mail delivery. The USPS is continuing to pursue its previously announced plans to restructure its mail delivery network, including the closure of many post office facilities and suspension of Saturday service. On April 10, 2013, the USPS announced a delay in the shift to a five-day mail and six-day package delivery schedule that was initially scheduled for August 2013, until legislation is passed that provides the authority to do so. The impact to the Company of the USPS's restructuring plans, many of which require legislative action, cannot currently be estimated. If implemented, such changes could impact customers' ability or willingness to communicate by mail. Declines in print volumes mailed would have an adverse effect on the Company's business.

Changes in the advertising, retail and capital markets may impact the demand for printing and related services.

Many of the end markets in which customers of the Company compete are experiencing changes due to technological progress and changes in consumer preferences. The Company cannot predict the impact that these changes will have on demand for the Company's products and services. Such changes may decrease demand, increase price pressures, require investment in updated equipment and technology, or cause other adverse impacts to the Company's business. In addition, the Company must monitor changes in its customers' markets and develop new solutions to meet customers' needs. The development of such solutions may be costly, and there is no assurance that these solutions will be accepted by customers.

ITEM 1B. UNRESOLVED STAFF COMMENTS

The Company has no unresolved written comments from the SEC staff regarding its periodic or current reports under the Securities Exchange Act of 1934.

ITEM 2. PROPERTIES

The Company's corporate office is located in leased office space in Chicago, Illinois. As of December 31, 2013, the Company leased or owned 308 U.S. facilities, some of which had multiple buildings and warehouses, and these U.S. facilities encompassed approximately 38.5 million square feet. The Company leased or owned 155 international facilities encompassing approximately 9.4 million square feet in Canada, Latin America, Europe and Asia. Of the Company's U.S. and international facilities, approximately 30.7 million square feet of space was owned, while the remaining 17.2 million square feet of space was leased.

ITEM 3. LEGAL PROCEEDINGS

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 eleven active federal and state Superfund and other multiparty remediation sites. In addition to these sites, the Company may also have the obligation to remediate ten 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF R.R. DONNELLEY & SONS COMPANY

Name, Age and Positions with the Company	Officer Since	Business Experience During Past Five Years
Thomas J. Quinlan, III 51, President and Chief Executive Officer	2004	Served as RR Donnelley's President and Chief Executive Officer since April 2007. Prior to this, served as Group President, Global Services since October 2006 and Chief Financial Officer since April 2006. Prior to this, served as Executive Vice President, Operations since February 2004.
Suzanne S. Bettman 49, Executive Vice President, General Counsel, Corporate Secretary & Chief Compliance Officer	2004	Served as RR Donnelley's Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer since January 2007. Served previously as Senior Vice President, General Counsel since March 2004.
Andrew B. Coxhead 45, Senior Vice President and Chief Accounting Officer	2007	Served as RR Donnelley's Senior Vice President and Chief Accounting Officer since October 2007, and Corporate Controller from October 2007 to January 2013. Prior to this, served as Vice President, Assistant Controller since September 2006. Prior to this, from 1995 until 2006, served in various capacities with RR Donnelley in financial planning, accounting, manufacturing management, operational finance and mergers and acquisitions.
Daniel L. Knotts 49, Chief Operating Officer	2007	Served as RR Donnelley's Chief Operating Officer since January 2013. Prior to this, served as Group President from April 2007 to December 2012 and Chief Operating Officer, Global Print Solutions from January 2007 to April 2007. Prior to this, from 1986 until 2007, served in various capacities with RR Donnelley, including Group Executive Vice President, Operations, Publishing and Retail Services and President, Catalog/Retail/Magazine Solutions, RR Donnelley Print Solutions.
Daniel N. Leib 47, Executive Vice President and Chief Financial Officer	2009	Served as RR Donnelley's Executive Vice President and Chief Financial Officer since May 2011. Prior to this, served as Group Chief Financial Officer and Senior Vice President, Mergers and Acquisitions since August 2009 and Treasurer from June 2008 to February 2010. Prior to this, served as RR Donnelley's Senior Vice President, Treasurer, Mergers and Acquisitions and Investor Relations since July 2007. Prior to this, from May 2004 to 2007, served in various capacities in financial management, corporate strategy and investor relations.

PART II

ITEM 5. MARKET FOR R.R. DONNELLEY & SONS COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

RR Donnelley's common stock is listed and traded on the NASDAQ Stock Market. The Company withdrew its common stock listing from the Chicago Stock Exchange during the year ended December 31, 2013.

As of February 21, 2014, there were 7,443 stockholders of record of the Company's common stock. Quarterly closing prices of the Company's common stock, as reported on NASDAQ, and dividends paid per share during the years ended December 31, 2013 and 2012, are contained in the chart below:

	Dividends Paid		Closing Common Stock Prices			
			2013		2012	
	2013	2012	High	Low	High	Low
First Quarter	$0.26	$0.26	$12.05	$8.72	$15.13	$11.35
Second Quarter	0.26	0.26	14.07	10.98	12.85	10.02
Third Quarter	0.26	0.26	19.26	14.23	13.26	10.60
Fourth Quarter	0.26	0.26	20.60	15.74	11.12	8.58

The Credit Agreement generally allows annual dividend payments of up to $200.0 million in aggregate, though additional dividends may be allowed subject to certain conditions. See Exhibit 4.6 for additional details.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
October 1, 2013–October 31, 2013	-	$ -	-	$ -
November 1, 2013–November 30, 2013	-	-	-	$ -
December 1, 2013–December 31, 2013	-	-	-	$ -
Total	-	$ -	-	

There were no repurchases of equity securities during the three months ended December 31, 2013.

EQUITY COMPENSATION PLANS

For information regarding equity compensation plans, see Item 12 of this Annual Report on Form 10-K.

PEER PERFORMANCE TABLE

The graph below compares five-year returns of the Company’s common stock with those of the S&P 500 Index and a selected peer group of companies. The comparison assumes all dividends have been reinvested, and an initial investment of $100 on December 31, 2008. The returns of each company in the peer group have been weighted to reflect their market capitalizations.

Because the Company’s services and customers are so diverse, the Company does not believe that any single published industry index is appropriate for comparing stockholder return. Therefore, the peer group used in the performance graph combines two industry groups identified by Value Line Publishing, Inc., the publishing group (including printing companies) and the newspaper group. The Company itself has been excluded, and its contributions to the indices cited have been subtracted out. Changes in the peer group from year to year result from companies being added to or deleted from the Value Line publishing group or newspaper group.

Comparison of Five-Year Cumulative Total Return Among RR Donnelley, S&P 500 Index and Peer Group*

Company Name / Index	Base Period 2008	Fiscal Years Ended December 31, 2009	2010	2011	2012	2013
RR Donnelley	100	176.83	147.07	129.29	88.48	215.82
Standard & Poor’s 500	100	126.46	145.51	148.59	172.37	228.19
Peer Group	100	152.69	166.45	173.66	211.74	328.80

Below are the specific companies included in the peer group.

*Peer Group Companies

A.H. Belo Corp.	McGraw-Hill Companies
American Greetings(a)	Media General
Consolidated Graphics Inc.	Meredith Corp.
Deluxe Corp.	New York Times Co.
EW Scripps	Scholastic Corp.
Gannett Co.	Washington Post
Journal Communications Inc.	Wiley (John) & Sons
McClatchy Co.	

(a) American Greetings was included through August 9, 2013, when American Greetings went private.

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA

(in millions, except per share data)

	2013	2012	2011	2010	2009
Net sales	$10,480.3	$10,221.9	$10,611.0	$10,018.9	$9,857.4
Net earnings (loss) attributable to RR Donnelley common shareholders	211.2	(651.4)	(122.6)	221.7	(27.3)
Net earnings (loss) attributable to RR Donnelley common shareholders per diluted share	1.15	(3.61)	(0.63)	1.06	(0.13)
Total assets	7,238.2	7,262.7	8,281.7	9,083.2	8,747.6
Long-term debt	3,587.0	3,420.2	3,416.8	3,398.6	2,982.5
Cash dividends per common share	1.04	1.04	1.04	1.04	1.04

Reflects results of acquired businesses from the relevant acquisition dates.

Includes the following significant items:

- For 2013: Pre-tax restructuring, impairment and other charges of $133.5 million ($88.2 million after-tax), $81.9 million pre-tax loss ($53.9 million after-tax) on the repurchases of $753.7 million of senior notes, $58.5 million income tax benefit related to the decline in value and reorganization of certain entities within the Publishing and Retail Services segment and a $7.2 million benefit for previously unrecognized tax benefits related to the expected resolution of certain federal tax matters, pre-tax loss of $17.9 million ($12.3 million after-tax) on the disposal of the MRM France direct mail business in the International segment, pre-tax charges of $5.9 million ($5.2 million after-tax) for acquisition-related expenses, pre-tax impairment loss on equity investments of $5.5 million ($3.6 million after-tax) and a $3.2 million pre-tax loss ($2.0 million after-tax) on the currency devaluation in Venezuela;
- For 2012: Pre-tax restructuring, impairment and other charges of $1,118.5 million ($981.9 million after-tax), $16.1 million pre-tax loss ($10.6 million after-tax) on the repurchases of $441.8 million of senior notes and termination of the Company's previous $1.75 billion unsecured revolving credit agreement (the "Previous Credit Agreement") which was due to expire on December 17, 2013, $4.8 million net benefit from income tax adjustments including the recognition of $26.1 million of previously unrecognized tax benefits due to the resolution of certain U.S. federal uncertain tax positions and a $22.4 million benefit related to the decline in value and reorganization of certain entities within the International segment, partially offset by a valuation allowance provision of $32.7 million on certain deferred tax assets in Latin America and an $11.0 million provision related to certain foreign earnings no longer considered to be permanently reinvested, $4.1 million pre-tax impairment loss ($2.6 million after-tax) on an equity investment, $3.7 million pre-tax gain ($2.8 million after-tax) on pension curtailment and pre-tax charges of $2.5 million ($2.2 million after-tax) for acquisition-related expenses;
- For 2011: Pre-tax restructuring, impairment and other charges of $667.8 million ($532.8 million after-tax), $74.8 million recognition of income tax benefits due to the expiration of U.S. federal statutes of limitations for certain years, $69.9 million pre-tax loss ($44.1 million after-tax) on the repurchases of $427.8 million of senior notes, pre-tax gain on pension curtailment of $38.7 million ($24.3 million after-tax), $15.3 million of pre-tax expense ($9.7 million after-tax) for contingent compensation earned by the prior owners of an acquired business, $9.8 million pre-tax gain ($9.5 million after-tax) on the Helium investment and pre-tax charges of $2.2 million ($2.0 million after-tax) for acquisition-related expenses;
- For 2010: Pre-tax restructuring, impairment and other charges of $157.9 million ($130.0 million after-tax), pre-tax charges of $13.5 million ($11.8 million after-tax) for acquisition-related expenses, $8.9 million pre-tax loss ($8.1

million after-tax) on the currency devaluation in Venezuela, including an increase in loss attributable to noncontrolling interests of $3.6 million, and a pre-tax $1.1 million write-down ($0.7 million after-tax) of affordable housing investments; and

- For 2009: Pre-tax restructuring, impairment and other charges of $382.7 million ($334.0 million after-tax), $15.6 million of income tax expense due to the reorganization of entities within the International segment, a $13.0 million pre-tax loss ($8.0 million after-tax) on the repurchases of $640.6 million of senior notes, a pre-tax $2.4 million write-down ($1.5 million after-tax) of affordable housing investments and pre-tax charges of $1.6 million ($1.0 million after-tax) for acquisition-related expenses.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of RR Donnelley's financial condition and results of operations should be read together with the consolidated financial statements and notes to those statements included in Item 15 of Part IV of this Annual Report on Form 10-K.

Business

For a description of the Company's business, segments and product and service offerings, see Item 1, Business.

The Company separately reports its net sales, related costs of sales and gross profit for its product and service offerings. The Company's product offerings primarily consist of magazines, catalogs, retail inserts, direct mail, statement printing, books, directories, financial print, labels, forms, commercial and digital print, packaging, office products, manuals and other related products procured through the Company's print management offering. The Company's service offerings primarily consist of logistics, EDGAR-related and eXtensible Business Reporting Language ("XBRL") financial services, certain business outsourcing services and digital and creative solutions.

Executive Overview

2013 FINANCIAL PERFORMANCE

The changes in the Company's income (loss) from operations, operating margin, net earnings (loss) attributable to RR Donnelley common shareholders and net earnings (loss) attributable to RR Donnelley common shareholders per diluted share for the year ended December 31, 2013, from the year ended December 31, 2012, were due to the following:

	Income (Loss) from Operations	Operating Margin	Net Earnings (Loss) Attributable to RR Donnelley Common Shareholders	Net Earnings (Loss) Attributable to RR Donnelley Common Shareholders per Diluted Share
	(in millions, except margin and per share data)			
For the year ended December 31, 2012	$(369.8)	(3.6%)	$ (651.4)	$ (3.61)
2013 restructuring, impairment and other charges—net	(133.5)	(1.3%)	(88.2)	(0.48)
2012 restructuring, impairment and other charges—net	1,118.5	10.9%	981.9	5.44
Acquisition-related expenses	(3.4)	(0.1%)	(3.0)	(0.02)
2012 gain on pension curtailment	(3.7)	(0.0%)	(2.8)	(0.02)
2013 loss on disposal of business	—	—	(12.3)	(0.07)
Loss on investments	—	—	(1.0)	(0.01)
2013 Venezuela devaluation	—	—	(1.0)	(0.01)
Loss on debt extinguishment	—	—	(43.3)	(0.23)
Income tax adjustments	—	—	60.9	0.33
Operations	(28.4)	(0.4%)	(28.6)	(0.17)
For the year ended December 31, 2013	$579.7	5.5%	$ 211.2	$ 1.15

2013 restructuring, impairment and other charges—net: included pre-tax charges of $40.4 million for employee termination costs primarily related to the closing of two manufacturing facilities within the Publishing and Retail Services segment and one manufacturing facility within the Variable Print segment and the reorganization of certain operations; $38.4 million for other estimated charges related to the decision to partially withdraw from certain multi-employer pension plans; $33.8 million of lease termination and other restructuring costs, of which $14.7 million related to multi-employer pension plan withdrawal charges primarily attributable to manufacturing facility closures; $17.6 million for impairment of other long-lived assets, primarily for buildings and machinery and equipment associated with facility closures and charges of $3.3 million for the impairment of other intangible assets in the financial reporting unit within the Strategic Services segment;.

2012 restructuring, impairment and other charges—net: included charges of $848.4 million for the impairment of goodwill within the magazines, catalogs and retail inserts, books, digital and creative solutions, Europe, financial and commercial and digital print reporting units; $158.0 million for the impairment of other intangible assets within the books, magazines, catalogs and retail inserts, Latin America and commercial and digital print reporting units; pre-tax charges of $66.6 million for employee termination costs primarily related to the reorganization of sales and administrative functions across all segments and the closing of three manufacturing facilities within the Variable Print segment, two manufacturing facilities within the Publishing and Retail Services segment and one manufacturing facility within the International segment; $25.3 million of lease termination and other restructuring costs; and $20.2 million for impairment of other long-lived assets, primarily for machinery and equipment associated with facility closures and other asset disposals.

Acquisition-related expenses: included pre-tax charges of $5.9 million ($5.2 million after-tax) related to legal, accounting and other expenses for the year ended December 31, 2013 associated with acquisitions contemplated or completed in subsequent periods. For the year ended December 31, 2012, these pre-tax charges were $2.5 million ($2.2 million after-tax).

2012 gain on pension curtailment: included a pre-tax gain of $3.7 million ($2.8 million after-tax) for the year ended December 31, 2012, related to the remeasurement of the U.K. pension plan's assets and obligations that was required with the announced freeze on further benefit accruals as of December 31, 2012.

2013 loss on disposal of business: included a pre-tax loss on the disposal of the MRM France direct mail business in the International segment of $17.9 million ($12.3 million after-tax).

Loss on investments: included pre-tax impairment losses on equity investments of $5.5 million ($3.6 million after-tax) for the year ended December 31, 2013 and $4.1 million ($2.6 million after-tax) for the year ended December 31, 2012.

2013 Venezuela devaluation: currency devaluation in Venezuela resulted in a pre-tax loss of $3.2 million ($2.0 million after-tax), of which $1.0 million was included in income attributable to noncontrolling interests.

Loss on debt extinguishment: included a pre-tax loss of $81.9 million ($53.9 million after-tax) for the year ended December 31, 2013, related to the premiums paid, unamortized debt issuance costs and other expenses due to the repurchase of $273.5 million of the 6.125% senior notes due January 15, 2017, $250.0 million of the 7.25% senior notes due May 15, 2018, $130.2 million of the 8.60% senior notes due August 15, 2016 and $100.0 million of the 5.50% senior notes due May 15, 2015. For the year ended December 31, 2012, a pre-tax loss on debt extinguishment of $16.1 million ($10.6 million after-tax) was recognized due to the repurchase of $341.8 million of the 4.95% senior notes due April 1, 2014 and $100.0 million of the 5.50% senior notes due May 15, 2015 as well as the termination of the Previous Credit Agreement. The loss consisted of $27.2 million related to the premiums paid, unamortized debt issuance costs and other expenses, partially offset by the elimination of $11.1 million of the fair value adjustment on the 4.95% senior notes.

Income tax adjustments: included the recognition of a $58.5 million benefit related to the decline in value and reorganization of certain entities within the Publishing and Retail Services segment and a $7.2 million benefit for previously unrecognized tax benefits related to the expected resolution of certain federal tax matters for the year ended December 31, 2013. For the year ended December 31, 2012, income tax adjustments included the recognition of $26.1 million of previously unrecognized tax benefits due to the resolution of certain U.S. federal uncertain tax positions and a $22.4 million benefit related to the decline in value and reorganization of certain entities within the International segment, partially offset by a valuation allowance provision of $32.7 million on certain deferred tax assets in Latin America and an $11.0 million provision related to certain foreign earnings no longer considered to be permanently reinvested.

Operations: reflected price pressures, wage and other inflation in Latin America and Asia, an increase in incentive compensation expense, a decline in pension and other postretirement benefits plan income, the $22.7 million prior year adjustments to net sales to correct an over-accrual of rebates owed to certain office products customers, lower volume and unfavorable mix within commercial and digital print and directories and lower recoveries on print-related by-products, partially offset by price increases driven by inflation in Latin America, lower depreciation and amortization expense, an increase in capital markets transactions activity, the suspension of the Company's 401(k) match, cost savings from restructuring activities, higher volume and favorable mix within Asia, books and logistics and reduced healthcare costs. Income tax expense for the year ended December 31, 2013 reflected the release of valuation allowances on certain deferred tax assets and the recognition of previously unrecognized tax benefits related to certain state tax matters. See further details in the review of operating results by segment that follows below.

2013 Overview

Net sales increased by 2.5% in 2013 compared to 2012 primarily due to sales from acquisitions, including incremental pass-through postage revenue, as well as price increases driven by inflation in Latin America, an increase in capital markets transactions activity and higher organic volume and favorable mix within Asia, logistics, Global Turnkey Solutions, digital and creative solutions and books. The largest net sales increases were experienced within logistics, primarily due to acquisitions, as well as organic growth in freight brokerage services and print logistics; Asia, due to higher book export and packaging products and technology manuals volume, an increase in pass-through paper sales and changes in foreign exchange rates; Latin America, due to price increases driven by inflation and higher volume in certain products; and financial, due to an increase in capital markets transactions activity. Despite the increase in net sales, the Company experienced the impact of continued economic uncertainty, overcapacity in the industry and electronic substitution on certain product offerings. As a result, these net sales increases were partially offset by price pressures, lower pass-through print management sales and volume within business process outsourcing, a decline in compliance volume within financial, lower volume and unfavorable mix within commercial and digital print, directories and magazines, catalogs and retail inserts and the $22.7 million prior year adjustments to net sales to correct for an over-accrual of rebates owed to certain office products customers. The largest net sales declines were experienced within business process outsourcing, due to customer losses, primarily impacting pass-through print management sales, as well as real estate and outsourcing services volume; magazines, catalogs and retail inserts, due to price pressures, lower volume and unfavorable mix in magazines and customers furnishing their own paper; and directories, due to customers furnishing their own paper and the impact of electronic substitution on directories volume.

During the years ended December 31, 2013 and 2012, the Company continued to implement strategic initiatives across all platforms to reduce its overall cost structure and enhance productivity. During the year ended December 31, 2013, the Company realized cost savings of $30.8 million compared to 2012 from the suspension of the Company's 401(k) match; restructuring activities, including the impact of the prior year reorganization of sales and administrative functions across all segments as well as continuing facility consolidations and reorganizations across certain platforms; and reduced healthcare costs, primarily as a result of lower enrollment and favorable claims experience. As a result of the improving trend in net sales and the benefits of its ongoing cost reduction efforts, the Company anticipates higher full-year employee incentive compensation payouts for 2013 compared to 2012. Incentive compensation expense in 2013 was $66.6 million, an increase of $42.5 million as compared to 2012. Of the increase in incentive compensation expense, $15.5 million, $9.4 million, $8.5 million, $4.8 million and $4.3 million was reflected in the International, Strategic Services, Publishing and Retail Services and Variable Print segments and Corporate, respectively.

Net cash provided by operating activities for the year ended December 31, 2013 was $694.8 million as compared to $691.9 million for the year ended December 31, 2012. The slight increase in net cash provided by operating activities reflected lower pension and other postretirement benefits plan contributions, lower payments in 2013 related to 2012 incentive compensation and the 2013 suspension of the Company's 401(k) match, partially offset by the impact of working capital changes. The Company had a modest increase in working capital during 2013 compared to a significant reduction during 2012. Despite the increase in year-end working capital, the Company's average working capital requirements in 2013 were lower than in 2012 due to an ongoing focus on billing cycle improvement, collections efficiency and inventory management.

During the year ended December 31, 2013, the Company issued $450.0 million of 7.875% senior notes due March 15, 2021, and $400.0 million of 7.00% senior notes due February 15, 2022. The proceeds from these offerings were primarily used to repurchase $273.5 million of the 6.125% senior notes due January 15, 2017, $250.0 million of the 7.25% senior notes due May 15, 2018, $130.2 million of the 8.60% senior notes due August 15, 2016 and $100.0 million of the 5.50% senior notes due May 15, 2015, to reduce borrowings under the Credit Agreement and for general corporate purposes. The repurchases resulted in a pre-tax loss on debt extinguishment of $81.9 million for the year ended December 31, 2013 related to premiums paid, unamortized debt issuance costs and other expenses. As a result of the repurchases, the Company's annual long-term debt maturities are less than $360.0 million in each year until 2019. Additionally, in anticipation of the closing of the acquisition of Consolidated Graphics, the Company issued $350.0 million of 6.50% senior notes due November 15, 2023 during the fourth quarter of 2013.

On January 31, 2014, the Company acquired Consolidated Graphics, a provider of digital and commercial printing, fulfillment services, print management and proprietary Internet-based technology solutions, with operations in North America, Europe and Asia. The purchase price for Consolidated Graphics was $359.9 million in cash and 16.0 million shares of RR Donnelley common stock, or a total transaction value of $660.6 million based on the Company's closing share price on January 30, 2014, plus the assumption of Consolidated Graphics' net debt. Immediately following the acquisition, the Company repaid the debt assumed. On January 6, 2014, the Company announced that it had entered into a definitive agreement to acquire substantially all of the North American operations of Esselte. The purchase price includes a combination of cash and up to 1.0 million shares of RR Donnelley common stock for a total transaction value of approximately $96.5 million. Esselte is a developer and manufacturer of nationally branded and private label office and stationery products. The completion of the Esselte transaction is subject to customary closing conditions. These acquisitions are expected to enhance the Company's existing capabilities and ability to serve its collective customers as well as provide cost savings through the combination of best practices, complementary products and manufacturing and distribution capabilities.

Changes in market interest rates during the year have resulted in an increase in the discount rate assumptions for the Company's most significant pension and other postretirement benefits plans from 4.2% and 3.9%, respectively, as of December 31, 2012, to 5.0% and 4.5%, respectively, as of December 31, 2013. Additionally, the market value of the securities held by the Company's pension and other postretirement benefits plans has increased from $3,402.4 million as of December 31, 2012 to $3,914.1 million as of December 31, 2013. Primarily as a result of these factors, the Company's underfunded obligation has decreased from $1,396.6 million as of December 31, 2012 to $420.9 million as of December 31, 2013. Future changes in market conditions may lead to changes in discount rates and the market value of the securities held by the plans, which could significantly increase or decrease the funded status of the plans.

OUTLOOK

Vision and Strategy

RR Donnelley's vision is to improve on its existing position as a global provider of integrated communications by providing its customers with the highest quality products and services.

The Company's long-term strategy is focused on maximizing long-term shareholder value by driving profitable growth, continuing its focus on productivity and maintaining a disciplined approach to capital deployment. The Company pursues three major strategic objectives, which are summarized below, along with more specific areas of focus.

Strategic Objective	2014 Priorities
Profitable growth	—Provide comprehensive communications solutions for targeted vertical segments —Leverage existing customer base to generate organic growth —Targeted mergers and acquisitions
Productivity and cost control	—Maintain variable cost structure —Use technology to continue to increase productivity —Disciplined approach to managing costs
Cash flow and liquidity	—Limit annual debt maturities —Prudent deployment of capital —Disciplined approach to mergers and acquisitions —Achieve a gross leverage ratio within the targeted range —Quarterly Board of Directors' review of dividends

The Company's long-term strategy is to generate profitable growth. In order to accomplish this, the Company will continue to make targeted capital investments to support new business and leverage its global platform. The Company is focusing its information technology efforts on projects that facilitate integration and make it easier for customers to manage their full range of communication needs. The Company is also working to more fully integrate its sales efforts to broaden customer relationships and meet its customers' demands. The Company's global platform provides differentiated solutions for its customers through its broad range of complementary print-related services, strong logistics capabilities, and its innovative leadership in both conventional and digital technologies.

Management believes productivity improvement and cost reduction are critical to the Company's competitiveness, while enhancing the value the Company delivers to its customers. The Company continues to implement strategic initiatives across all platforms to reduce its overall cost structure and enhance productivity, including restructuring, consolidation, reorganization and integration of operations, and streamlining of administrative and support activities.

The Company seeks to deploy its capital using a balanced approach in order to ensure financial flexibility and provide returns to shareholders. Priorities for capital deployment, over time, include principal and interest payments on debt obligations, distributions to shareholders, targeted acquisitions and capital expenditures. The Company believes that a strong financial condition is important to customers focused on establishing or growing long-term relationships with a stable provider of integrated communications. The Company also expects to make targeted acquisitions that extend its capabilities, drive cost savings and reduce future capital spending needs. The Company’s acquisition of Consolidated Graphics and proposed acquisition of Esselte are expected to enhance existing capabilities and improve the ability to serve customers. The Company is focused on successfully integrating the acquisitions and expects to drive cost savings from synergies and provide additional capacity to meet customer needs.

The Company uses several key indicators to gauge progress toward achieving these objectives. These indicators include organic sales growth, operating margins, cash flow from operations and capital expenditures. The Company targets long-term net sales growth at or above industry levels, while maintaining operating margins by achieving productivity improvements that offset the impact of price declines and cost inflation. Cash flows from operations are expected to be stable over time, however, cash flows from operations in any given year can be significantly impacted by the timing of non-recurring or infrequent receipts and expenditures, the level of required pension and other postretirement benefits plan contributions and the impact of working capital management efforts.

The Company faces many challenges and risks as a result of competing in highly competitive global markets. Item 1A, Risk Factors, discusses many of these issues.

2014 Outlook

In 2014, the Company expects net sales to increase over 2013 driven by the acquisition of Consolidated Graphics and the proposed acquisition of Esselte, as well as organic growth across most product and service offerings in the Strategic Services, International and Variable Print segments that are expected to more than offset the anticipated continuing volume declines, price pressures and lower pass-through paper sales in the Publishing and Retail Services segment. The highly competitive market conditions and unused industry capacity will continue to put price pressure on both transactional work and contract renewals across all segments. The Company's outlook assumes that the U.S. and European economies will grow modestly in 2014, with somewhat faster growth in developing countries and tapered growth in China. The Company expects a slight increase in consumer discretionary spending and a stable or slight increase in the overall level of advertising spending by U.S. businesses, although an anticipated decline in advertising spending for magazines. The Company will continue to leverage its customer relationships in order to provide a larger share of its customers' communications needs. In addition, the Company expects to continue cost control and productivity initiatives, including selected facility consolidations across certain platforms.

The acquisition of Consolidated Graphics and proposed acquisition of Esselte will enhance the Company's existing capabilities and improve its ability to serve its collective customers.

The Company initiated several restructuring actions in 2013 and 2012 to further reduce the Company's overall cost structure. These restructuring actions included the closures of three manufacturing facilities during 2013 as well as the reorganization of certain operations. These and future cost reduction actions are expected to have a positive impact on operating earnings in 2014 and in future years. In addition, the Company expects to identify other cost reduction opportunities in connection with acquired businesses and possibly take further actions in 2014, which may result in significant additional restructuring charges. These restructuring actions will be funded by cash generated from operations and cash on hand or, if necessary, by utilizing the Company's credit facilities.

During the fourth quarter of 2013, management changed the Company's reportable segments to reflect changes in the management reporting structure of the organization and the manner in which the chief operating decision maker regularly assesses information for decision-making purposes, including allocation of resources. The following is a summary of expected changes in net sales and income from operations by segment for 2014 as compared to 2013:

Publishing and Retail Services

Net sales in the Publishing and Retail Services segment are expected to decrease in 2014 driven by volume declines and unfavorable mix primarily in books, directories and magazines, price pressures and lower pass-through paper sales. Net sales in magazines, catalogs and retail inserts are also expected to decline due to price reductions on major contract renewals, lower pass-through paper sales and unfavorable mix. Lower volume is expected in magazines, due to an expected decrease in advertising spending and the recent increase in postage prices, and directories, due to the impact of electronic substitution. Net sales in books are expected to decline as a result of electronic substitution, primarily of consumer books, and the impact of state and local budget spending on educational book volumes.

The Company expects operating income in the Publishing and Retail Services segment to decrease from 2013, as a result of lower volume and unfavorable mix and continued price pressures that will be partially offset by an improved cost structure from ongoing productivity efforts and lower depreciation and amortization expense.

Variable Print

Net sales in the Variable Print segment are expected to increase in 2014 driven by the acquisition of Consolidated Graphics and proposed acquisition of Esselte, as well as organic growth in certain products. An increase in volume from the healthcare industry is expected to drive higher organic net sales in commercial and digital print. Higher volume in direct mail, in-store marketing materials and packaging is also expected in 2014. Continued volume growth in labels is anticipated, including net sales growth as a result of higher volume in radio-frequency identification labels. The impact on organic office products volume as a result of the merger of certain significant customers cannot currently be estimated, however, higher volume in binders is expected from other customers. These increases are expected to be partially offset by the continued decline of forms and statement printing volume, due to the impact of electronic substitution, and price pressures.

Operating income for the Variable Print segment is expected to increase from 2013 due to the acquisition of Consolidated Graphics and proposed acquisition of Esselte, including cost savings to be derived from synergies and other restructuring activities, as well as organic growth in certain products as described above, partially offset by price pressures.

Strategic Services

Net sales in the Strategic Services segment are expected to increase from 2013 primarily due to higher logistics volume, largely driven by continuing growth in freight brokerage services, print logistics and co-mail services. Net sales in financial are expected to increase in 2014 as compared to 2013. Strong capital markets transactions activity is currently expected to continue in 2014, but the level of such activity across the full year will depend on continued favorable market conditions. An increase in compliance volume is also expected due to enhanced service offerings and targeted sales efforts. Net sales for digital and creative solutions and sourcing are expected to increase compared to 2013 due to higher volume.

Operating income in the Strategic Services segment is expected to increase in 2014 as compared to 2013 consistent with the expected organic sales growth described above.

International

Net sales in the International segment are expected to increase from 2013 primarily driven by anticipated volume increases in Global Turnkey Solutions, Asia and business process outsourcing, as well as the impact of price inflation in Latin America. Net sales in Asia are expected to increase slightly due to volume growth in book export, packaging products and technology manuals and labels, as well as higher pass-through paper sales, largely offset by price pressures. Business process outsourcing net sales are expected to increase as higher volume in outsourcing services is expected to be partially offset by a decline in print-management pass-through sales. Higher net sales are expected in Global Turnkey Solutions due to volume increases, partially offset by price declines on contract renewals. A net sales increase in Europe is expected due to higher pass-through paper sales and increases in print and packaging, retail inserts and magazine volume, partially offset by projected unfavorable changes in foreign exchange rates, the impact of electronic substitution on directories volume, a decline in technology manuals volume and price pressures. Net sales in Canada are expected to remain constant as increases in labels, statement printing and in-store marketing volume are expected to be offset by declines in commercial and digital print volume and price pressures.

Operating income in the International segment is expected to decrease from 2013 as wage and other inflation in certain countries, price declines and unfavorable mix are expected to more than offset higher volume.

Other

The Company's pension and other postretirement benefits plans were underfunded by $245.4 million and $175.5 million, respectively, as of December 31, 2013, an improvement of $908.1 million and $67.6 million, respectively, compared to December 31, 2012, as reported in the Company's Consolidated Balance Sheets and further described in Note 11, Retirement Plans, to the Consolidated Financial Statements. Governmental regulations for measuring pension plan funded status differ from those required under accounting principles generally accepted in the United States of America ("GAAP") for financial statement preparation. Based on the plans' regulatory funded status, required contributions in 2014 under all pension and other postretirement benefits plans are expected to be approximately $59 million to $79 million, which is an increase compared to contributions made in 2013 of $29.6 million.

As of December 31, 2013, the Company was contributing to two defined benefit multi-employer pension plans. It is reasonably possible that the Company will withdraw from the remaining multi-employer pension plans in the near term, which would give rise to additional withdrawal obligations. The Company currently estimates that the potential withdrawal obligations for these plans range from $15 million to $25 million. The Company's withdrawal liabilities may be disproportionate to its current costs of continuing to participate in the plans and 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. As a result of the Consolidated Graphics acquisition, the Company will participate in three additional defined benefit multi-employer pension plans, including a plan from which the Company had previously withdrawn. While it is not possible to quantify the potential impact of future events or circumstances, further reductions in participation or withdrawals from multi-employer pension plans could have a material impact on the Company's consolidated annual results of operations, financial position or cash flows.

Cash flows from operations in 2014 will be negatively impacted by the expected increase in pension and other postretirement benefits plan contributions and higher payments for incentive compensation as well as integration-related restructuring payments related to the acquisition of Consolidated Graphics. These negative impacts are expected to be partially offset by increased operating cash flow from the acquisition of Consolidated Graphics and improved profitability driven by organic net sales growth. The Company expects capital expenditures to be in the range of $225 million to $250 million in 2014.

Significant Accounting Policies and Critical Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's most critical accounting policies are those that are most important to the portrayal of its financial condition and results of operations, and which require the Company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. The Company has identified the following as its most critical accounting policies and judgments. Although management believes that its estimates and assumptions are reasonable, they are based upon information available when they are made, and therefore, actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

The Company recognizes revenue for the majority of its products upon the transfer of title and risk of ownership, which is generally upon shipment to the customer. Contracts and customer agreements generally specify F.O.B. shipping point terms. Under agreements with certain customers, custom products may be stored by the Company for future delivery. In these situations, the Company may also receive a logistics or warehouse management fee for the services it provides. In certain of these cases, delivery and billing schedules are outlined in the customer agreement and product revenue is recognized when manufacturing is complete, title and risk of ownership transfer to the customer, and there is reasonable assurance as to collectability. Because substantially all of the Company's products are customized, product returns are not significant; however, the Company accrues for the estimated amount of customer credits at the time of sale.

Revenue from services is recognized as services are performed. For the Company's logistics operations, whose operations include the delivery of printed material, the Company recognizes revenue upon completion of the delivery of services. Within the Company's financial operations, which serve the global financial services end market, the Company files highly customized materials, such as regulatory S-filings and initial public offerings documents, with the SEC on behalf of its customers, and performs EDGAR-related and XBRL services. Revenue is recognized for these services upon completion of the service performed or following final delivery of the printed product. Within the Company's business process outsourcing operations, the Company provides various outsourcing services. Depending on the nature of the service performed, revenue is recognized for outsourcing services either as services are rendered or upon completion of the service. Revenues related to the Company's digital and creative solutions operations, which include digital content management, photography, color services and page production, are recognized in accordance with the terms of the contract, which are typically upon completion of the performed service and acceptance by the customer.

The Company records deferred revenue in situations where amounts are invoiced but the revenue recognition criteria outlined above are not met. Such revenue is recognized when all criteria are subsequently met.

Certain revenues earned by the Company require judgment to determine if revenue should be recorded gross, as a principal, or net of related costs, as an agent. Billings for third-party shipping and handling costs as well as certain postage costs, primarily in the Company's logistics operations, and out-of-pocket expenses are recorded gross. In the Company's Global Turnkey Solutions operations, each contract is evaluated using various criteria to determine if revenue for components and other materials should be recognized on a gross or net basis. In general, these revenues are recognized on a gross basis if the Company has control over selecting vendors and pricing, is the primary obligor in the arrangement and bears credit risk and the risk of loss for inventory in its possession. Revenue from contracts that do not meet these criteria is recognized on a net basis. Many of the Company's operations process materials, primarily paper, that may be supplied directly by customers or may be purchased by the Company and sold to customers. No revenue is recognized for customer-supplied paper, but revenues for Company-supplied paper are recognized on a gross basis. As a result, the Company's reported sales and margins may be impacted by the mix of customer-supplied paper and Company-supplied paper.

Accounts Receivable

The Company maintains an allowance for doubtful accounts receivable, which is reviewed for estimated losses resulting from the inability of its customers to make required payments for products and services. Specific customer provisions are made when a review of significant outstanding amounts, utilizing information about customer creditworthiness and current economic trends, indicates that collection is doubtful. In addition, provisions are made at differing rates, based upon the age of the receivable and the Company's past collection experience. The Company's estimates of the recoverability of accounts receivable could change, and additional changes to the allowance could be necessary in the future, if any major customer's creditworthiness deteriorates or actual defaults are higher than the Company's historical experience.

Inventories

The Company records inventories at the lower of cost or market value. A majority of the Company's inventories are valued under the last-in first-out (LIFO) basis. Changes in inflation indices may cause an increase or decrease in the value of inventories accounted for under the LIFO costing method. The Company maintains inventory allowances for excess and obsolete inventories determined in part by future demand forecasts. If there were a sudden and significant decrease in demand for its products, or if there were a higher incidence of inventory obsolescence because of changing technology and customer requirements, the Company could be required to increase its inventory allowances.

Goodwill and Other Long-Lived Assets

The Company's methodology for allocating the purchase price of acquisitions is based on established valuation techniques that reflect the consideration of a number of factors, including valuations performed by third-party appraisers when appropriate. Goodwill is measured as the excess of the cost of an acquired entity over the fair value assigned to identifiable assets acquired and liabilities assumed. Based on its current organization structure, the Company has identified nineteen reporting units for which cash flows are determinable and to which goodwill may be allocated. Goodwill is either assigned to a specific reporting unit or allocated between reporting units based on the relative excess fair value of each reporting unit. Due to the change in the Company's reporting structure, as of December 31, 2013, the Company's goodwill balances for certain reporting units were reallocated based on the relative fair values of the businesses.

The Company performs its goodwill impairment tests annually as of October 31, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. As of October 31, 2013, under the Company's previous organization structure, prior to the reorganization of the Company's reportable segments in the fourth quarter of 2013 (the "Previous Organization Structure"), the Company identified fifteen reporting units for which cash flows were determinable and to which goodwill was allocated. The annual goodwill impairment test, as of October 31, was performed based on the fifteen reporting units identified under the Previous Organization Structure. The Company also performs an interim review for indicators of impairment at each quarter-end to assess whether an interim impairment review is required for any reporting unit. For all periods prior to December 31, 2013, the interim reviews for indicators of impairment were also performed under the Company's Previous Organization Structure. As part of its interim reviews, management analyzes potential changes in the value of individual reporting units based on each reporting unit's operating results for the period compared to expected results as of the prior year's annual impairment test. In addition, management considers how other key assumptions, including discount rates and expected long-term growth rates, used in the last annual impairment test, could be impacted by changes in market conditions and economic events. Based on these interim assessments, management concluded that as of the interim periods, no events or changes in circumstances indicated that it was more likely than not that the fair value for any reporting unit under the Previous Organization Structure had declined below its carrying value. The Company also performed an interim review for impairment as of December 31, 2013, under the Company's current reporting structure. Based on this interim assessment, management concluded that as of December 31, 2013, there were no indicators that the fair value of any of the nineteen reporting units under the current organization structure was more likely than not below its carrying value.

As of October 31, 2013, nine reporting units under the Previous Organization Structure had goodwill. The books and directories, commercial, Latin America, business process outsourcing, Europe and Canada reporting units had no goodwill as of October 31, 2013. The reporting units with goodwill were reviewed for impairment using either a qualitative or quantitative assessment.

Qualitative Assessment for Impairment

For the logistics and premedia reporting units under the Previous Organization Structure, the Company performed a qualitative assessment to determine whether it was more likely than not that the fair values of the reporting units were less than their carrying values. As of October 31, 2012, the fair values of the logistics and premedia reporting units exceeded their carrying values by 382.0% and 110.4%, respectively, according to the valuation performed by a third-party appraisal firm.

In performing this analysis, the Company considered various factors, including the effect of market or industry changes and the reporting units' actual results compared to projected results. In addition, management considered how other key assumptions, such as the discount rate, used in the 2012 impairment test could be impacted by changes in market conditions and economic events.

Since October 31, 2012, the market value of the Company's stock has increased and market yields on the Company's debt have decreased. In addition, long-term projections for both reporting units remain in line with what the Company expected as of October 31, 2012. Based on this qualitative assessment, management concluded that as of October 31, 2013, it was more likely than not that the fair values of the logistics and premedia reporting units under the Previous Organization Structure were greater than their carrying values. The goodwill balances of the logistics and premedia reporting units under the Previous Organization Structure were $291.8 million and $23.4 million, respectively, as of October 31, 2013.

Quantitative Assessment for Impairment

For the remaining seven reporting units under the Previous Organization Structure with goodwill, a two-step method was used for determining goodwill impairment. In the first step ("Step One"), the Company compared the estimated fair value of each reporting unit to its carrying value, including goodwill. If the carrying value of a reporting unit exceeded the estimated fair value, the second step ("Step Two") is completed to determine the amount of the impairment charge. Step Two requires the allocation of the estimated fair value of the reporting unit to the assets, including any unrecognized intangible assets, and liabilities in a hypothetical purchase price allocation. Any remaining unallocated fair value represents the implied fair value of goodwill, which is compared to the corresponding carrying value of goodwill to compute the goodwill impairment charge. The results of Step One of the goodwill impairment test as of October 31, 2013, indicated that the estimated fair values for all seven reporting units exceeded their respective carrying values. Therefore, the Company did not perform Step Two for any of the reporting units.

As part of its impairment test for these reporting units, the Company engaged a third-party appraisal firm to assist in the Company's determination of the estimated fair value. This determination included estimating the fair value using both the income and market approaches. The income approach requires management to estimate a number of factors for each reporting unit, including projected future operating results, economic projections, anticipated future cash flows, discount rates and the allocation of shared or corporate items. The market approach estimates fair value using comparable marketplace fair value data from within a comparable industry grouping. The Company weighted both the income and market approach equally to estimate the concluded fair value of each reporting unit.

The determination of fair value in Step One and the allocation of that value to individual assets and liabilities in Step Two, if necessary, requires the Company to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to: the selection of appropriate peer group companies; control premiums appropriate for acquisitions in the industries in which the Company competes; the discount rate; terminal growth rates; and forecasts of revenue, operating income, depreciation and amortization, restructuring charges and capital expenditures. The allocation of fair value under Step Two requires several analyses to determine the fair value of assets and liabilities including, among others, trade names, customer relationships, and property, plant and equipment.

As a result of the 2013 annual goodwill impairment test, the Company did not recognize any goodwill impairment charges as the estimated fair values of all reporting units exceeded their respective carrying values.

Goodwill Impairment Assumptions

Although the Company believes its estimates of fair value are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on either the fair value of the reporting units, the amount of the goodwill impairment charge, or both. Future declines in the overall market value of the Company's equity and debt securities may also result in a conclusion that the fair value of one or more reporting units has declined below its carrying value.

One measure of the sensitivity of the amount of goodwill impairment charges to key assumptions is the amount by which each reporting unit "passed" (fair value exceeds the carrying value) or "failed" (the carrying value exceeds fair value) Step One of the goodwill impairment test. All reporting units passed Step One, with fair values that exceeded the carrying values by between 15.4% and 138.8% of their respective estimated fair values. Relatively small changes in the Company's key assumptions would not have resulted in any reporting units failing Step One.

Generally, changes in estimates of expected future cash flows would have a similar effect on the estimated fair value of the reporting unit. That is, a 1.0% decrease in estimated annual future cash flows would decrease the estimated fair value of the reporting unit by approximately 1.0%. The estimated long-term net sales growth rate can have a significant impact on the estimated future cash flows, and therefore, the fair value of each reporting unit. A 1.0% decrease in the long-term net sales growth rate would have resulted in no reporting units failing Step One of the goodwill impairment test. Of the other key assumptions that impact the estimated fair values, most reporting units have the greatest sensitivity to changes in the estimated discount rate. The discount rate for the reporting units with operations primarily located in the U.S. was estimated to be 9.5% as of October 31, 2013. Estimated discount rates for reporting units with operations primarily in foreign locations ranged from 11.5% to 12.5%. A 1.0% increase in estimated discount rates would have resulted in no reporting units failing Step One. The Company believes that its estimates of future cash flows and discount rates are reasonable, but future changes in the underlying assumptions could differ due to the inherent uncertainty in making such estimates. Additionally, further price deterioration or lower volume could have a significant impact on the fair values of the reporting units.

Other Long-Lived Assets

The Company evaluates the recoverability of other long-lived assets, including property, plant and equipment and certain identifiable intangible assets, whenever events or changes in circumstances indicate that the carrying value of an asset or asset group may not be recoverable. The Company performs impairment tests of indefinite-lived intangible assets on an annual basis or more frequently in certain circumstances. Factors which could trigger an impairment review include significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the assets or the strategy for the overall business, a significant decrease in the market value of the assets or significant negative industry or economic trends. When the Company determines that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the indicators, the assets are assessed for impairment based on the estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the carrying value of an asset exceeds its estimated future undiscounted cash flows, an impairment loss is recorded for the excess of the asset's carrying value over its fair value. During the year ended December 31, 2013, the Company recognized non-cash impairment charges of $3.3 million related to acquired customer relationship intangible assets in the financial reporting unit within the Strategic Services segment. In addition, the Company recognized non-cash impairment charges of $19.0 million during the year ended December 31, 2013, related to land, buildings, machinery and equipment and leasehold improvements, primarily as a result of restructuring actions.

Commitments and Contingencies

The Company is subject to lawsuits, investigations and other claims related to environmental, employment, commercial and other matters, as well as preference claims related to amounts received from customers and others prior to their seeking bankruptcy protection. Periodically, the Company reviews the status of each significant matter and assesses potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the related liability is estimable, the Company accrues a liability for the estimated loss. Because of uncertainties related to these matters, accruals are based on the best information available at the time. As additional information becomes available, the Company reassesses the related potential liability and may revise its estimates.

The Company purchases third-party insurance for workers' compensation, automobile and general liability claims that exceed a certain level. The Company is responsible for the payment of claims below and above these insured limits, and consulting actuaries are utilized to assist the Company in estimating the obligation associated with incurred losses, which are recorded in accrued and other non-current liabilities. Historical loss development factors for both the Company and the industry are utilized to project the future development of incurred losses, and these amounts are adjusted based upon actual claims experience and settlement. If actual experience of claims development is significantly different from these estimates, an adjustment in future periods may be required. Expected recoveries of such losses are recorded in other current and other non-current assets.

Restructuring

The Company records restructuring charges when liabilities are incurred as part of a plan approved by management with the appropriate level of authority for the elimination of duplicative functions, the closure of facilities, or the exit of a line of business, generally in order to reduce the Company's overall cost structure. The restructuring liabilities might change in future periods based on several factors that could differ from original estimates and assumptions. These include, but are not limited to: contract settlements on terms different than originally expected; ability to sublease properties based on market conditions at rates or on timelines different than originally estimated; or changes to original plans as a result of acquisitions. Such changes might result in reversals of or additions to restructuring charges that could affect amounts reported in the Consolidated Statements of Operations of future periods.

Accounting for Income Taxes

Significant judgment is required in determining the provision for income taxes and related accruals, deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. In the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. Additionally, the Company's tax returns are subject to audit by various U.S. and foreign tax authorities. The Company recognizes a tax position in its financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. This recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Consolidated Financial Statements as of December 31, 2013 and 2012 reflect these tax positions. Although management believes that its estimates are reasonable, the final outcome of uncertain tax positions may be materially different from that which is reflected in the Company's historical financial statements.

The Company has recorded deferred tax assets related to future deductible items, including domestic and foreign tax loss and credit carryforwards. The Company evaluates these deferred tax assets by tax jurisdiction. The utilization of these tax assets is limited by the amount of taxable income expected to be generated within the allowable carryforward period and other factors. Accordingly, management has provided a valuation allowance to reduce certain of these deferred tax assets when management has concluded that, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be fully realized. If actual results differ from these estimates, or the estimates are adjusted in future periods, adjustments to the valuation allowance might need to be recorded. As of December 31, 2013 and 2012, valuation allowances of $268.2 million and $273.6 million, respectively, were recorded in the Company's Consolidated Balance Sheets.

Deferred U.S. income taxes and foreign taxes are not 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. The Company has recognized deferred tax liabilities of $7.9 million as of December 31, 2013 related to local taxes on certain foreign earnings that are not considered to be permanently reinvested. Management regularly evaluates whether foreign earnings are expected to be permanently reinvested. This evaluation requires judgment about the future operating and liquidity needs of the Company’s foreign subsidiaries. Changes in economic and business conditions, foreign or U.S. tax laws, or the Company’s financial situation could result in changes to these judgments and the need to record additional tax liabilities.

Share-Based Compensation

The Company recognizes share-based compensation expense based on estimated fair values for all share-based awards made to employees and directors, including stock options, restricted stock units and performance share units. The Company recognizes compensation expense for share-based awards expected to vest on a straight-line basis over the requisite service period of the award based on their grant date fair value. The amount of expense recognized for these awards is determined by the Company’s estimates of several factors, including future forfeitures of awards, expected volatility of the Company’s stock, the average life of options prior to expiration and expected performance compared to target for performance share units. See Note 17, Stock and Incentive Programs for Employees, to the Consolidated Financial Statements for further discussion.

Pension and Other Postretirement benefits plans

The Company records annual income and expense amounts relating to its pension and other postretirement benefits plans based on calculations which include various actuarial assumptions including discount rates, expected long-term rates of return, turnover rates, health care cost trend rates and compensation increases. The Company reviews its actuarial assumptions on an annual basis as of December 31 (or more frequently if a significant event requiring remeasurement occurs) and modifies the assumptions based on current rates and trends when it is appropriate to do so. The effects of modifications are recognized immediately on the Consolidated Balance Sheet, but are generally amortized into operating earnings over future periods, with the deferred amount recorded in accumulated other comprehensive income (loss). The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience, market conditions and input from its actuaries and investment advisors. The Company determines its assumption for the discount rate to be used for purposes of computing pension and other postretirement benefits plan obligations based on an index of high-quality corporate bond yields and matched-funding yield curve analysis. The discount rates for pension benefits at December 31, 2013 and 2012 were 5.0% and 4.2%, respectively. The discount rates for other postretirement benefits plans at December 31, 2013 and 2012 were 4.5% and 3.9%, respectively.

A one-percentage point change in the discount rates at December 31, 2013 would have the following effects on the accumulated benefit obligation and projected benefit obligation:

Pension Plans

	1% Increase	1% Decrease
	(in millions)	
Accumulated benefit obligation	$(449.7)	$544.4
Projected benefit obligation	(451.5)	548.1

Other Postretirement Benefits Plans

	1% Increase	1% Decrease
	(in millions)	
Accumulated benefit obligation	$(33.5)	$39.2

Pension and other postretirement benefits plan contributions are dependent on many factors, including returns on invested assets and discount rates used to determine pension obligations. The Company made contributions of $21.6 million to its pension plans and $8.0 million to its other postretirement benefits plans in 2013. The Company estimates that it will make cash contributions totaling approximately $59 million to $79 million to its pension and other postretirement benefits plans in 2014.

Further benefit accruals under the primary defined benefit plans maintained by the Company have been frozen. On December 20, 2012, the Company announced a freeze on further benefit accruals under its U.K. pension plans as of December 31, 2012. As of January 1, 2013, participants ceased earning additional benefits under the U.K. plan and no new participants entered these plans. The plan freeze required a remeasurement of the plan's assets and obligations as of December 31, 2012, which resulted in a non-cash curtailment gain of $3.7 million recognized in 2012. Additionally, on February 1, 2012, the Company announced a freeze on further benefit accruals under its Canadian pension plans as of March 31, 2012. On November 2, 2011, the Company announced a freeze on further benefit accruals under all of its U.S. pension plans as of December 31, 2011. The remeasurement of the U.S. pension plans' assets and obligations resulted in a non-cash curtailment gain of $38.7 million, which was recognized in the Consolidated Statement of Operations during the fourth quarter of 2011.

The Company employed a total return investment approach for its pension and other postretirement benefits plans whereby a mix of equities, fixed income and, for certain pension plans, alternative investments are used to maximize the long-term return of pension and other postretirement benefits plan assets. The intent of this strategy is to minimize plan contributions by outperforming the growth in plan liabilities over the long run. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolios contain a diversified blend of equity, fixed income and, for certain plans, alternative investments. Furthermore, equity investments are diversified across geography, market capitalization and investment style. Fixed income investments are diversified across geography and include holdings of corporate bonds, government and agency bonds and asset-backed securities. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies and quarterly investment portfolio reviews. As the majority of the Company's pension plans have been frozen as of December 31, 2012, the Company continues to evaluate its investment approach and expects to, over time, transition to a risk management approach for its pension and other postretirement benefits plan investments. The overall investment objective of the risk management approach is to reduce the risk of significant decreases in the plans' funded status.

The expected long-term rate of return for plan assets is based upon many factors including expected asset allocations, historical asset returns, current and expected future market conditions and risk. In addition, the Company considered the impact of the current interest rate environment on the expected long-term rate of return for certain asset classes, particularly fixed income. The target asset allocation percentage for both the pension and other postretirement benefits plans was approximately 75.0% for equity and other securities and approximately 25.0% for fixed income. As the Company shifts to a risk management approach, the target asset allocation percentage is expected to decrease for equity and increase for fixed income, though the target allocation will fluctuate based on the plans' funded status. In addition, the Company will seek to invest in assets that more effectively hedge interest rate risk in the plan liabilities; such investments may include long-duration government or corporate bonds and certain derivative instruments. The expected long-term rate of return on plan assets assumption at December 31, 2013 was 8.0% and 7.25% for the Company's major U.S. and Canadian pension plans, respectively, and 7.25% for the Company's U.S. other postretirement benefits plan. The expected long-term rate of return on plan assets assumption that will be used to calculate net pension and other postretirement benefits plan expense in 2014 is 7.75% and 7.0% for the Company's major U.S. and Canadian pension plans, respectively, and 7.25% for the Company's U.S. other postretirement benefits plan.

The Company also maintains several pension plans in other international locations. The expected returns on plan assets and discount rates for those plans are determined based on each plan's investment approach, local interest rates and plan participant profiles.

Off-Balance Sheet Arrangements

Other than non-cancelable operating lease commitments, the Company does not have off-balance sheet arrangements, financings or special purpose entities.

Financial Review

In the financial review that follows, the Company discusses its consolidated results of operations, financial position, cash flows and certain other information. This discussion should be read in conjunction with the Company's consolidated financial statements and related notes that begin on page F-1.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2013 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2012

The following table shows the results of operations for the years ended December 31, 2013 and 2012, which reflects the results of acquired businesses from the relevant acquisition dates:

	2013	2012	$ Change	% Change
	(in millions, except percentages)			
Products net sales	$8,765.8	$8,835.1	$(69.3)	(0.8%)
Services net sales	1,714.5	1,386.8	327.7	23.6%
Total net sales	10,480.3	10,221.9	258.4	2.5%
Products cost of sales (exclusive of depreciation and amortization)	6,816.9	6,874.2	(57.3)	(0.8%)
Services cost of sales (exclusive of depreciation and amortization)	1,332.9	1,014.8	318.1	31.3%
Total cost of sales	8,149.8	7,889.0	260.8	3.3%
Products gross profit	1,948.9	1,960.9	(12.0)	(0.6%)
Services gross profit	381.6	372.0	9.6	2.6%

Total gross profit	2,330.5	2,332.9	(2.4)	(0.1 %)
Selling, general and administrative expenses (exclusive of depreciation and amortization)	1,181.5	1,102.6	78.9	7.2 %
Restructuring, impairment and other charges—net	133.5	1,118.5	(985.0)	(88.1 %)
Depreciation and amortization	435.8	481.6	(45.8)	(9.5 %)
Income (loss) from operations	$579.7	$(369.8)	$949.5	nm

Consolidated

Net sales of products for the year ended December 31, 2013 decreased $69.3 million, or 0.8%, to $8,765.8 million versus the same period in the prior year, including a $14.2 million, or 0.2%, decrease due to the impact of changes in foreign exchange rates. Net sales of products decreased primarily due to lower sales in the Publishing and Retail Services and Variable Print segments, as a result of lower volume and unfavorable mix, price pressures, lower pass-through paper sales and the $22.7 million prior year adjustments to net sales to correct for an over-accrual of rebates owed to certain office products customers. Net sales of products increased in the International segment due to price increases driven by inflation in Latin America, higher volume and increased pass-through paper sales in Asia and favorable mix and higher volume in Global Turnkey Solutions, partially offset by customer losses, primarily resulting in a decline in pass-through print management volume within business process outsourcing. Net sales of products also increased in the Strategic Services segment due to an increase in capital markets transactions activity.

Net sales from services for the year ended December 31, 2013 increased $327.7 million, or 23.6%, to $1,714.5 million versus the same period in the prior year, including a $2.4 million, or 0.2%, impact of unfavorable changes in foreign exchange rates. The increase in net sales from services was primarily due to the acquisitions of Presort and XPO. Net sales from services also increased as a result of higher freight brokerage services and print logistics volume, an increase in digital and creative solutions volume and higher courier services volume, partially offset by a decline in compliance volume in financial services.

Products gross profit decreased $12.0 million to $1,948.9 million for the year ended December 31, 2013 versus the same period in 2012. During the fourth quarter of 2013, the Company reallocated certain costs between products cost of sales and services cost of sales, resulting in a $40.2 million increase in products gross profit for the year ended December 31, 2013 and corresponding decrease in services gross profit. The remaining decrease in products gross profit was primarily due to price pressures, wage and other inflation in Latin America and Asia, lower volume and unfavorable mix within commercial and digital print and directories, the prior year rebate adjustments, higher incentive compensation expense and lower recoveries on print-related by-products, partially offset by price increases driven by inflation in Latin America, higher volume in Asia and Latin America, an increase in capital markets transactions activity, the suspension of the Company’s 401(k) match, higher volume and favorable mix within books, cost savings from restructuring activities and reduced healthcare costs due to favorable claims experience and lower enrollment. Products gross margin remained constant at 22.2%, reflecting price pressures, wage and other inflation in Latin America and Asia, the prior year rebate adjustments, higher incentive compensation expense, lower recoveries on print-related by-products and unfavorable mix in certain products, offset by higher prices driven by inflation in Latin America, the change in allocation between products and services cost of sales, the suspension of the Company’s 401(k) match, cost savings from restructuring activities, reduced healthcare costs and lower pass-through print management and paper sales.

Services gross profit increased $9.6 million to $381.6 million for the year ended December 31, 2013 versus the same period in 2012 primarily due to higher sales in logistics as a result of volume increases in freight brokerage services and print logistics and the acquisition of XPO, as well as the suspension of the Company’s 401(k) match, reduced healthcare costs due to favorable claims experience and lower enrollment and cost savings from restructuring activities. These increases were partially offset by the change in allocation between products and services cost of sales described above, wage and other inflation and lower volume within business process outsourcing, higher incentive compensation expense and lower compliance volume in financial services. Services gross margin decreased from 26.8% to 22.3%, of which 2.9 percentage points resulted from pass-through postage sales from the acquisition of Presort and 2.3 percentage points resulted from the change in allocation between products and services cost of sales. The resulting increase was due to the suspension of the Company’s 401(k) match, reduced healthcare costs and cost savings from restructuring activities, largely offset by higher incentive compensation expense, wage and other inflation in business process outsourcing and higher organic pass-through postage sales in international mail services.

Selling, general and administrative expenses increased $78.9 million to $1,181.5 million, and from 10.8% to 11.3% as a percentage of net sales, for the year ended December 31, 2013 versus the prior year reflecting a decline in pension and other postretirement benefits plan income, higher incentive compensation expense, wage and other inflation in Latin America and Asia and an increase in bad debt expense, partially offset by the suspension of the Company’s 401(k) match, cost savings from restructuring activities, lower share-based compensation expense and reduced healthcare costs.

For the year ended December 31, 2013, the Company recorded net restructuring, impairment and other charges of $133.5 million compared to $1,118.5 million in 2012. In 2013, these charges included $40.4 million of employee termination costs for 1,382 employees, of whom 1,363 were terminated as of December 31, 2013. These charges were the result of the closing of two manufacturing facilities within the Publishing and Retail Services segment and one manufacturing facility within the Variable Print segment and the reorganization of certain operations. Additionally, the Company recorded $38.4 million of other charges for estimated obligations related to the decision to withdraw from certain multi-employer pension plans. For the year ended December 31, 2013, the Company also incurred lease termination and other restructuring charges of $33.8 million, of which $14.7 million related to multi-employer pension plan complete or partial withdrawal charges as a result of facility closures, and $17.6 million of impairment charges primarily related to buildings and machinery and equipment associated with facility closings. In addition, the Company recorded non-cash charges of $3.3 million related to the impairment of acquired customer relationship intangible assets in the financial reporting unit within the Strategic Services segment.

For the year ended December 31, 2012, the Company recorded net restructuring, impairment and other charges of $1,118.5 million. These charges included non-cash pre-tax charges of $848.4 million for the impairment of goodwill for the magazines, catalogs and retail inserts, books and directories and Europe reporting units under the Previous Organization Structure. The goodwill impairment charges resulted from reductions in the estimated fair value of these reporting units, based on lower expectations for future revenue, profitability and cash flows as compared to expectations as of the previous annual goodwill impairment test. The lower expectations for the magazines, catalogs and retail inserts reporting unit were due to price pressures driven by excess capacity in the industry and erosion of ad pages and circulation for magazines. The lower expectations for the books and directories reporting unit were due to lower demand for educational books as a result of state and local budget constraints, the impact of electronic substitution on consumer book and directory volumes and price pressure driven by excess capacity in the industry. The lower expectations for the

Europe reporting unit were due to lower volumes from existing customers and price pressures driven by excess capacity in the industry. Of the $848.4 million goodwill impairment charge recorded in the magazines, catalogs and retail inserts, books and directories and Europe reporting units under the Previous Organization Structure, $669.9 million, $129.9 million, $44.9 million and $3.7 million is now included in the Publishing and Retail Services, Strategic Services, International and Variable Print segments, respectively. In addition, the Company recorded non-cash charges of $158.0 million related to the impairment of acquired customer relationship intangible assets in the books and directories, magazines, catalogs and retail inserts and Latin America reporting units, under the Previous Organization Structure. For the year ended December 31, 2012, the Company also recorded $66.6 million for workforce reductions of 2,200 employees (substantially all of whom were terminated as of December 31, 2013) associated with actions resulting from the reorganization of sales and administrative functions across all segments, the closing of three manufacturing facilities within the Variable Print segment, two manufacturing facilities within the Publishing and Retail Services segment and one manufacturing facility within the International segment and the reorganization of certain operations. Additionally, the Company incurred other restructuring charges, including lease termination and other facility closure costs of $25.3 million and impairment charges of $20.2 million, primarily related to machinery and equipment associated with facility closings and other asset disposals.

Depreciation and amortization decreased $45.8 million to $435.8 million for the year ended December 31, 2013 compared to the prior year, primarily due to the impairment of $158.0 million of other intangible assets in the fourth quarter of 2012 and the impact of lower capital spending in recent years compared to historical levels. Depreciation and amortization included $64.0 million and $87.6 million of amortization of other intangible assets related to customer relationships, patents, trademarks, licenses and agreements and trade names for the years ended December 31, 2013 and 2012, respectively.

Income from operations for the year ended December 31, 2013 was $579.7 million compared to a loss from operations of $369.8 million for the year ended December 31, 2012. The increase was primarily due to lower restructuring, impairment and other charges, as well as price increases driven by inflation in Latin America, reduced depreciation and amortization expense, an increase in capital markets transactions activity, the suspension of the Company's 401(k) match, cost savings from restructuring activities, higher volume and favorable mix within Asia, books and logistics and reduced healthcare costs, partially offset by price pressures, wage and other inflation in Latin America and Asia, higher incentive compensation expense, a decline in pension and other postretirement benefits plan income, the prior year rebate adjustments, lower volume and unfavorable mix within commercial and digital print and directories and lower recoveries on print-related by-products.

	2013	2012	$ Change	% Change
	(in millions, except percentages)			
Interest expense—net	$261.4	$251.8	$ 9.6	3.8 %
Investment and other expense—net	27.4	2.3	25.1	1,091.3 %
Loss on debt extinguishment	81.9	16.1	65.8	408.7 %

Net interest expense increased by $9.6 million for the year ended December 31, 2013 versus the prior year, primarily due to lower interest income, higher average interest rates on senior notes and the increase in long-term debt from the issuances of $1,200.0 million of senior notes, net of repurchases of $753.7 million during 2013, partially offset by lower average credit facility borrowings and associated fees.

Net investment and other expense for the years ended December 31, 2013 and 2012 was $27.4 million and $2.3 million, respectively. For the year ended December 31, 2013, the Company recorded a loss on the disposal of the MRM France direct mail business in the International segment of $17.9 million, impairment losses on equity investments of $5.5 million and a $3.2 million loss related to the devaluation of the Venezuelan currency. The year ended December 31, 2012 included an impairment loss on an equity investment of $4.1 million.

Loss on debt extinguishment for the year ended December 31, 2013 was $81.9 million related to the premiums paid, unamortized debt issuance costs and other expenses due to the repurchase of $753.7 million of senior notes. Loss on debt extinguishment for the year ended December 31, 2012 was $16.1 million due to the repurchase in 2012 of $441.8 million of senior notes as well as the termination of the Previous Credit Agreement. The loss consisted of $27.2 million related to the premiums paid, unamortized debt issuance costs and other expenses, partially offset by the elimination of $11.1 million of the fair value adjustment on the repurchased 4.95% senior notes.

	2013	2012	$ Change	% Change
	(in millions, except percentages)			
Income (loss) before income taxes	$209.0	$(640.0)	$849.0	nm
Income tax expense (benefit)	(9.2)	13.6	(22.8)	nm
Effective income tax rate	(4.4%)	(2.1%)		

The effective income tax rate for the year ended December 31, 2013 was negative 4.4% compared to negative 2.1% in 2012. The tax rate in 2013 reflected a $58.5 million benefit related to the decline in value and reorganization of certain entities within the Publishing and Retail Services segment, a benefit of $7.2 million for the recognition of previously unrecognized tax benefits related to the expected resolution of certain federal matters, the release of valuation allowances related to certain deferred tax assets and the recognition of previously unrecognized tax benefits related to the expected resolution of certain state tax matters. Additionally, substantially all the international jurisdictions have a statutory tax rate lower than the U.S. federal tax rate and foreign income constitutes a significant portion of total income before income taxes in 2013, resulting in a decrease in the effective tax rate for the year ended December 31, 2013. The 2012 effective tax rate was impacted by the non-deductible goodwill impairment charges, the recognition of $26.1 million of previously unrecognized tax benefits due to the resolution of certain U.S. federal uncertain tax positions and a $22.4 million benefit related to the decline in value and reorganization of certain entities within the International segment, partially offset by a valuation allowance provision of $32.7 million on certain deferred tax assets in Latin America and a provision of $11.0 million related to certain foreign earnings no longer considered to be permanently reinvested.

Income (loss) attributable to noncontrolling interests was income of $7.0 million for the year ended December 31, 2013 and a loss of $2.2 million for the year ended December 31, 2012. The increase in income attributable to noncontrolling interests was primarily due to an increase in earnings of the Company’s 50.1% owned Venezuelan subsidiary, which included the impact of inflation on prices, partially offset by wage and other cost inflation.

Net income attributable to RR Donnelley common shareholders for the year ended December 31, 2013 was $211.2 million, or $1.15 per diluted share, compared to a net loss attributable to RR Donnelley common shareholders of $651.4 million, or $3.61 per diluted share, for the year ended December 31, 2012. In addition to the factors described above, the per share results reflect an increase in weighted average diluted shares outstanding of 3.1 million.

Information by Segment

The following tables summarize net sales, income (loss) from operations and certain items impacting comparability within each of the operating segments and Corporate. The amounts included in the net sales by reporting unit tables and the descriptions of the reporting units included therein generally reflect the primary products or services provided by each reporting unit. Included in these net sales amounts are sales of other products or services that may be produced within a reporting unit to meet customer needs and improve operating efficiency.

Publishing and Retail Services

	Year Ended December 31,	
	2013	2012
	(in millions, except percentages)	
Net sales	$ 2,774.8	$ 2,919.5
Income (loss) from operations	109.6	(659.4)
Operating margin	3.9 %	(22.6 %)
Restructuring, impairment and other charges—net	73.7	846.2

Reporting unit	2013 Net Sales	2012 Net Sales	$ Change	% Change
	(in millions, except percentages)			
Magazines, catalogs and retail inserts	$1,724.7	$1,815.4	$ (90.7)	(5.0 %)
Books	875.2	868.0	7.2	0.8 %
Directories	174.9	236.1	(61.2)	(25.9 %)
	$2,774.8	$2,919.5	$ (144.7)	(5.0 %)

Total
Publishing and
Retail Services

Net sales for the Publishing and Retail Services segment for the year ended December 31, 2013 were $2,774.8 million, a decrease of $144.7 million, or 5.0%, compared to 2012. Net sales decreased due to price pressures in catalogs, magazines and retail inserts, decreases in pass-through paper sales and lower volume and unfavorable mix in directories, magazines and educational books, partially offset by volume increases in book fulfillment and packaging and consumer books and favorable pricing in directories and books. An analysis of net sales by reporting unit follows:

- Magazines, catalogs and retail inserts: Sales declined due to price pressures, primarily in magazines and catalogs, reduced volume and unfavorable mix in magazines and decreases in pass-through paper sales.
- Books: Sales increased primarily as a result of volume increases in book fulfillment and packaging and consumer books as well as favorable pricing, partially offset by lower volume and unfavorable mix in educational books.
- Directories: Sales decreased primarily as a result of a decline in pass-through paper sales and lower volume as a result of electronic substitution, partially offset by favorable pricing.

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Publishing and Retail Services segment income from operations increased $769.0 million for the year ended December 31, 2013 due to lower restructuring, impairment and other charges, as well as lower depreciation and amortization expense, higher volume and favorable mix in consumer books and book fulfillment and packaging, the suspension of the Company's 401(k) match, reduced healthcare costs and cost savings from restructuring activities. These increases were partially offset by price pressures, a decline in directories volume, lower recoveries on print-related by-products and higher incentive compensation expense. Operating margins increased from negative 22.6% for the year ended December 31, 2012 to positive 3.9% for the year ended December 31, 2013, of which 26.5 percentage points were due to lower restructuring, impairment and other charges. The remaining change in operating margin was due to price declines, lower recoveries on print-related by-products, higher incentive compensation expense and unfavorable mix, largely offset by lower depreciation and amortization expense, the suspension of the Company's 401(k) match, reduced healthcare costs, cost savings from restructuring activities and a decline in pass-through paper sales.

Variable Print

	Year Ended December 31, 2013	2012
	(in millions, except percentages)	
Net sales	$ 2,592.8	$ 2,637.2
Income from operations	197.9	202.1
Operating margin	7.6 %	7.7 %
Restructuring, impairment and other charges—net	15.6	29.6

Reporting unit	2013 Net Sales	2012 Net Sales	$ Change	% Change
	(in millions, except percentages)			
Commercial and digital print	$722.9	$743.9	$ (21.0)	(2.8 %)
Direct mail	548.7	534.4	14.3	2.7 %
Labels	432.5	422.7	9.8	2.3 %
Statement printing	396.5	396.5	—	— %
Forms	253.3	277.2	(23.9)	(8.6 %)
Office products	238.9	262.5	(23.6)	(9.0 %)
Total Variable Print	$2,592.8	$2,637.2	$ (44.4)	(1.7 %)

Net sales for the Variable Print segment for the year ended December 31, 2013 were $2,592.8 million, a decrease of $44.4 million, or 1.7%, compared to 2012. Net sales decreased due to lower volume and unfavorable mix within commercial and digital print and forms, the $22.7 million prior year adjustments to net sales to correct for an over-accrual of rebates owed to certain office products customers and price declines. These decreases were partially offset by sales from the acquisition of Meisel and an increase in labels and direct mail volume. An analysis of net sales by reporting unit follows:

- Commercial and digital print: Sales decreased due to lower commercial products volume from existing customers and unfavorable mix, lower print and fulfillment volume and a decline in pass-through postage sales, partially offset by sales from the acquisition of Meisel.
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Direct mail: Sales increased as a result of higher volume and increased pass-through postage sales, partially offset by price declines.
- Labels: Sales increased due to higher volume, primarily for consumer goods, partially offset by price pressures.
- Statement printing: Sales remained constant as a result of higher volume, offset by lower pass-through postage sales and price declines.
- Forms: Sales decreased due to lower volume, primarily as a result of electronic substitution, and price pressures.
- Office products: Sales decreased as a result of the prior year rebate adjustments and price declines, partially offset by an increase in binder products volume.

Variable Print segment income from operations decreased $4.2 million for the year ended December 31, 2013 mainly driven by the prior year rebate adjustments, lower volume and unfavorable mix within commercial and digital print, price pressures and higher incentive compensation expense, partially offset by lower restructuring, impairment and other charges, cost savings from restructuring activities, lower information technology expense, the suspension of the Company's 401(k) match and reduced healthcare costs. Operating margins decreased slightly from 7.7% for the year ended December 31, 2012 to 7.6% for the year ended December 31, 2013, due to the prior year rebate adjustments, price declines, unfavorable mix and higher incentive compensation expense, largely offset by lower restructuring, impairment and other charges, cost savings from restructuring activities, reduced information technology expense, the suspension of the Company's 401(k) match and reduced healthcare costs.

Strategic Services

	Year Ended December 31,	
	2013	2012
	(in millions, except percentages)	
Net sales	$ 2,453.0	$ 2,065.4
Income from operations	232.8	59.0
Operating margin	9.5 %	2.9 %
Restructuring, impairment and other charges—net	19.2	146.6
Gain on pension curtailment	—	1.0

Reporting unit	2013 Net Sales	2012 Net Sales	$ Change	% Change
	(in millions, except percentages)			
Logistics	$ 1,084.3	$ 754.1	$ 330.2	43.8 %
Financial	1,005.3	970.4	34.9	3.6 %
Digital and creative solutions	185.9	173.1	12.8	7.4 %
Sourcing	177.5	167.8	9.7	5.8 %
Total Strategic Services	$ 2,453.0	$ 2,065.4	$ 387.6	18.8 %

Net sales for the Strategic Services segment for the year ended December 31, 2013 were $2,453.0 million, an increase of $387.6 million, or 18.8%, compared to 2012, including a $2.9 million, or 0.1%, decrease due to changes in foreign exchange rates. Net sales increased primarily due to sales from acquisitions, including incremental pass-through postage revenue, as well as an increase in capital markets transactions activity and volume increases in freight brokerage services, print logistics, digital and creative solutions and courier services, partially offset by a decline in compliance volume in financial. An analysis of net sales by reporting unit follows:

- Logistics: Sales increased primarily due to the acquisition of Presort, which included pass-through postage sales, the acquisition of XPO, higher volume in freight brokerage services, print logistics and courier services, higher pass-through postage sales for international mail services and higher co-mail services volume, partially offset by a decrease in expedited and organic international mail services volume.
- Financial: Sales increased due to an increase in capital markets transactions activity and sales from the acquisition of Edgar Online, partially offset by lower compliance volume, lower volume and price pressures in investment management products, a decline in pass-through postage sales and changes in foreign exchange rates.
- Digital and creative solutions: Sales increased due to higher photography, creative and prepress services volume, partially offset by price pressures in prepress services.
- Sourcing: Sales increased due to higher print-management volume in labels and commercial and digital print products.

Strategic Services segment income from operations increased $173.8 million for the year ended December 31, 2013 mainly driven by lower restructuring, impairment and other charges, an increase in capital markets transactions activity, higher volume in logistics, cost savings from restructuring activities and the suspension of the Company's 401(k) match. These increases were partially offset by higher incentive compensation expense, higher depreciation and amortization expense, primarily due to an increase in software amortization expense and an increase in depreciation expense for acquired assets, and unfavorable mix in digital and creative solutions. Operating margins increased from 2.9% to 9.5%, of which 6.2 percentage points were due to lower restructuring, impairment and other charges. Additionally, changes in operating margin reflected a decrease of 0.8 percentage points resulting from the impact of pass-through postage sales from the acquisition of Presort. The remaining increase in operating margins reflected cost savings from restructuring activities and the suspension of the Company's 401(k) match, partially offset by higher incentive compensation expense, higher depreciation and amortization expense and unfavorable mix in digital and creative solutions.

International

	Years Ended December 31, 2013		2012	
	(in millions, except percentages)			
Net sales	$ 2,659.7		$ 2,599.8	
Income from operations	147.3		91.6	
Operating margin	5.5	%	3.5	%
Restructuring, impairment and other charges—net	18.9		65.7	
Gain on pension curtailment	—		2.7	
Acquisition-related expenses	0.2		—	

Reporting unit	2013 Net Sales	2012 Net Sales	$ Change	% Change	
	(in millions, except percentages)				
Asia	$743.4	$650.9	$92.5	14.2	%
Latin America	511.7	474.2	37.5	7.9	%
Business process outsourcing	491.7	596.3	(104.6)	(17.5	%)
Europe	373.6	358.3	15.3	4.3	%
Global Turnkey Solutions	305.4	289.8	15.6	5.4	%
Canada	233.9	230.3	3.6	1.6	%
Total International	$2,659.7	$2,599.8	$59.9	2.3	%

Net sales in the International segment for the year ended December 31, 2013 were $2,659.7 million, an increase of $59.9 million, or 2.3%, compared to the same period in 2012, including a $13.4 million, or 0.5%, decrease due to changes in foreign exchange rates. The net sales increase was due to price increases driven by inflation and higher volume in Latin America, increased book export and packaging products and technology manuals volume in Asia, higher pass-through paper sales in Asia and Europe and favorable mix and increased volume within Global Turnkey Solutions, partially offset by lower pass-through print management sales and lower volume within business process outsourcing and price pressures. An analysis of net sales by reporting unit follows:

Asia: Sales increased due to higher book export volume, increased pass-through paper sales, higher volume in packaging products and technology manuals and changes in foreign exchange rates, partially offset by price pressures.
Latin America: Sales increased primarily due to price increases driven by inflation, as well as higher volume in security products, catalogs, magazines and labels, partially offset by changes in foreign exchange rates.
Business process outsourcing: Sales decreased due to customer losses, primarily impacting pass-through print management volume, as well as in real estate and outsourcing services, lower volume in direct mail, including the impact of the disposition of the MRM France business, and changes in foreign exchange rates.
Europe: Sales increased due to higher volume in print and packaging, retail inserts and magazines, changes in foreign exchange rates and an increase in pass-through paper sales, partially offset by a decline in technology manuals and directories volume and price pressures.
Global Turnkey Solutions: Sales increased due to favorable mix, higher volume and changes in foreign exchange rates, partially offset by price pressures.

Canada: Sales increased due to an increase in labels and statement printing volume, largely offset by changes in foreign exchange rates.

International segment income from operations increased $55.7 million primarily due to price increases driven by inflation and higher volume in Latin America, lower restructuring, impairment and other charges, higher volume in Asia, cost savings from restructuring activities and reduced depreciation and amortization expense, partially offset by wage and other inflation in Latin America, Asia and business process outsourcing, price pressures, higher incentive compensation expense, higher information technology costs and an increase in bad debt expense. Operating margins increased from 3.5% for the year ended December 31, 2012 to 5.5% for the year ended December 31, 2013, of which 1.8 percentage points were due to lower restructuring, impairment and other charges. The remainder of the increase reflected price increases driven by inflation in Latin America, cost savings from restructuring activities, lower pass-through print management sales, reduced depreciation and amortization expense and favorable mix, partially offset by wage and other inflation, price pressures and an increase in incentive compensation expense.

Corporate

The following table summarizes unallocated operating expenses and certain items impacting comparability within the activities presented as Corporate:

	Years Ended December 31, 2013 (in millions)	2012
Operating expenses	$ 107.9	$ 63.1
Restructuring, impairment and other charges—net	6.1	30.4
Acquisition-related expenses	5.7	2.5

Corporate operating expenses in the year ended December 31, 2013 were $107.9 million, an increase of $44.8 million compared to the same period in 2012. The increase was driven by lower pension and other postretirement benefits plan income, an increase in workers' compensation expense, higher LIFO inventory provisions, an increase in bad debt expense and higher incentive compensation expense, partially offset by lower restructuring, impairment and other charges, lower share-based compensation expense and the suspension of the Company's 401(k) match.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2012 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2011

	Income (Loss) from Operations	Operating Margin	Net Earnings (Loss) Attributable to RR Donnelley Common Shareholders	Net Earnings (Loss) Attributable to RR Donnelley Common Shareholders per Diluted Share
	(in millions, except margin and per share data)			
For the year ended December 31, 2011	$65.2	0.6 %	$ (122.6)	$ (0.63)
2012 restructuring, impairment and other charges—net	(1,118.5)	(10.9 %)	(981.9)	(5.44)
2011 restructuring, impairment and other charges—net	667.8	6.3 %	532.8	2.75
Acquisition-related expenses	(0.3)	0.0 %	(0.2)	—
Net gain (loss) on investments	—	—	(12.1)	(0.06)
Loss on debt extinguishment	—	—	33.5	0.17
Gain on pension curtailment	(35.0)	(0.3 %)	(21.5)	(0.11)
2011 acquisition contingent compensation	15.3	0.1 %	9.7	0.05
Income tax adjustments	—	—	(70.0)	(0.36)
Operations	35.7	0.6 %	(19.1)	0.02
For the year ended December 31, 2012	$(369.8)	(3.6 %)	$ (651.4)	$ (3.61)

2012 restructuring, impairment and other charges—net: included charges of $848.4 million for the impairment of goodwill within the magazines, catalogs and retail inserts, books, digital and creative solutions, Europe, financial and commercial and digital print reporting units; $158.0 million for the impairment of other intangible assets within the books, magazines, catalogs and retail inserts, Latin America and commercial and digital print reporting units; pre-tax charges of $66.6 million for employee termination costs primarily related to the reorganization of sales and administrative functions across all segments and the closing of three manufacturing facilities within the Variable Print segment, two manufacturing facilities within the Publishing and Retail Services segment and one manufacturing facility within the International segment; $25.3 million of lease termination and other restructuring costs; and $20.2 million for impairment of other long-lived assets, primarily for machinery and equipment associated with facility closures and other asset disposals.

2011 restructuring, impairment and other charges —net: included charges of $392.3 million for the impairment of goodwill within the commercial and digital print, forms, labels, Canada, Latin America, financial and digital and creative solutions reporting units; $90.7 million for the impairment of other intangible assets primarily within the forms, labels and commercial and digital print reporting units; $76.7 million for employee termination costs; $59.6 million of lease termination and other restructuring costs, including multi-employer pension plan complete or partial withdrawal charges of $15.1 million due to the closing of a manufacturing facility within each of the Publishing and Retail Services, Variable Print and Strategic Services segments; and $48.5 million for impairment of other long-lived assets, primarily for land, buildings, machinery and equipment and leasehold improvements associated with facility closures.

Acquisition-related expenses: included pre-tax charges of $2.5 million ($2.2 million after-tax) related to legal, accounting and other expenses for the year ended December 31, 2012 associated with acquisitions completed or contemplated. For the year ended December 31, 2011, these pre-tax charges were $2.2 million ($2.0 million after-tax).

Net gain (loss) on investments: included a pre-tax impairment loss on an equity investment of $4.1 million ($2.6 million after-tax) for the year ended December 31, 2012. The year ended December 31, 2011 included a pre-tax gain of $9.8 million ($9.5 million after-tax) as a result of the acquisition of Helium, in which the Company previously held an equity investment. The pre-tax gain is net of the Company's portion of the transaction costs incurred by Helium as a result of the acquisition.

Loss on debt extinguishment: included a pre-tax loss of $16.1 million ($10.6 million after-tax) for the year ended December 31, 2012 due to the repurchase of $441.8 million of senior notes as well as the termination of the Previous Credit Agreement. The loss consisted of $27.2 million related to the premiums paid, unamortized debt issuance costs and other expenses, partially offset by the elimination of $11.1 million of the fair value adjustment on the repurchased 4.95% senior notes. For the year ended December 31, 2011, a pre-tax loss on debt extinguishment of $69.9 million ($44.1 million after-tax) was recognized due to the repurchase of $427.8 million of senior notes.

Gain on pension curtailment: included a pre-tax gain of $3.7 million ($2.8 million after-tax) for the year ended December 31, 2012, related to the remeasurement of the U.K. pension plan's assets and obligations that was required with the announced freeze on further benefit accruals as of December 31, 2012. For the year ended December 31, 2011, the Company recorded a pre-tax gain of $38.7 million ($24.3 million after-tax) related to the remeasurement of the U.S. pension plans' assets and obligations that was required with the announced freeze on further benefit accruals under all of the U.S. pension plans as of December 31, 2011.

2011 acquisition contingent compensation: included pre-tax expense of $15.3 million ($9.7 million after-tax) related to contingent compensation earned by the prior owners, based on achieving certain volume milestones for the business following its acquisition by the Company.

Income tax adjustments: included for the year ended December 31, 2012, the recognition of $26.1 million of previously unrecognized tax benefits due to the resolution of certain U.S. federal uncertain tax positions and a $22.4 million benefit related to the decline in value and reorganization of certain entities within the International segment, partially offset by a valuation allowance provision of $32.7 million on certain deferred tax assets in Latin America and an $11.0 million provision related to certain foreign earnings no longer considered to be permanently reinvested. For the year ended December 31, 2011, an income tax benefit of $74.8 million was recognized related to previously unrecognized tax benefits due to the expiration of U.S. federal statutes of limitation for certain years.

Operations: reflected lower pension and other postretirement benefits plan expense, cost savings from restructuring activities, reduced depreciation and amortization expense and lower incentive compensation expense, partially offset by a net decrease in volume and unfavorable mix, price declines, lower recovery on print-related by-products, the Company's reinstated 401(k) match and higher healthcare costs. Income tax expense for the year ended December 31, 2011 reflected the recognition of previously unrecognized tax benefits due to changes in the expected resolution of certain state tax matters and the release of valuation allowances on certain deferred tax assets. See further details in the review of operating results by segment that follows below.

Consolidated

The following table shows the results of operations for the years ended December 31, 2012 and 2011, which reflects the results of acquired businesses from the relevant acquisition dates:

	2012	2011	$ Change	% Change
	(in millions, except percentages)			
Products net sales	$8,835.1	$9,375.1	$(540.0)	(5.8%)
Services net sales	1,386.8	1,235.9	150.9	12.2%
Total net sales	10,221.9	10,611.0	(389.1)	(3.7%)
Products cost of sales (exclusive of depreciation and amortization)	6,874.2	7,185.2	(311.0)	(4.3%)
Services cost of sales (exclusive of depreciation and amortization)	1,014.8	906.6	108.2	11.9%
Total cost of sales	7,889.0	8,091.8	(202.8)	(2.5%)
Products gross profit	1,960.9	2,189.9	(229.0)	(10.5%)
Services gross profit	372.0	329.3	42.7	13.0%
Total gross profit	2,332.9	2,519.2	(186.3)	(7.4%)
Selling, general and administrative expenses (exclusive of depreciation and amortization)	1,102.6	1,236.3	(133.7)	(10.8%)
Restructuring, impairment and other charges—net	1,118.5	667.8	450.7	67.5%
Depreciation and amortization	481.6	549.9	(68.3)	(12.4%)
Income (loss) from operations	$(369.8)	$65.2	$(435.0)	nm

Net sales of products for the year ended December 31, 2012 decreased $540.0 million, or 5.8%, to $8,835.1 million versus the same period in the prior year, including an $87.3 million, or 0.9%, decrease due to the impact of changes in foreign exchange rates. Net sales of products decreased primarily due to lower overall volume across all segments, changes in foreign exchange rates, price pressures, decreased pass-through paper sales and a decline in capital markets transactions activity. These decreases were partially offset by organic growth in Asia, an increase in volume and pass-through print management sales within business process outsourcing and higher sales in office products due to the rebate adjustments to net sales to correct an over-accrual of rebates owed to certain office products customers and higher volume in certain products.

Net sales from services for the year ended December 31, 2012 increased $150.9 million, or 12.2%, to $1,386.8 million versus the same period in the prior year, including a $5.6 million, or 0.5%, impact of unfavorable changes in foreign exchange rates. Net sales from services increased due to higher logistics volume, driven primarily by growth in freight brokerage services and sales from the acquisition of XPO, as well as higher volume in digital and creative solutions and increased volume in XBRL financial services.

Products gross profit decreased $229.0 million to $1,960.9 million for the year ended December 31, 2012 versus the prior year, primarily due to lower overall volume, price pressures, lower recoveries on print-related by-products, the reinstatement of the Company's 401(k) match and wage and other inflation in Latin America and Asia, partially offset by cost savings from restructuring activities, lower pension and other postretirement benefits plan expense primarily resulting from the freeze on further benefit accruals under all U.S. and Canadian pension plans beginning January 1, 2012 and April 1, 2012, respectively, the rebate adjustments and lower incentive compensation expense. Products gross margin decreased from 23.4% to 22.2%, reflecting unfavorable product mix, price pressures, lower recovery on print-related by-products, the Company's reinstated 401(k) match, wage and other inflation and higher pass-through print management sales, partially offset by cost savings from restructuring activities, lower pension and other postretirement benefits plan expense, a decline in pass-through paper sales, the rebate adjustments and lower incentive compensation expense.

Services gross profit increased $42.7 million to $372.0 million for the year ended December 31, 2012 versus the prior year primarily due to higher logistics volume, lower pension and other postretirement benefits plan expense resulting from the freeze on further benefit accruals under all U.S. and Canadian pension plans, cost savings from restructuring activities and lower incentive compensation expense, partially offset by unfavorable mix in financial services, the Company’s reinstated 401(k) match, price pressures in financial services and digital and creative solutions and wage and other inflation in business process outsourcing. Services gross profit margin increased from 26.6% to 26.8%, reflecting lower pension and other postretirement benefits plan expense, cost savings from restructuring activities, lower incentive compensation expense and favorable mix in logistics, largely offset by unfavorable mix and pricing in financial services, the Company’s reinstated 401(k) match and wage and other inflation.

Selling, general and administrative expenses decreased $133.7 million to $1,102.6 million, and from 11.7% to 10.8% as a percentage of net sales, for the year ended December 31, 2012 versus the prior year due to lower pension and other postretirement benefits plan expense, primarily resulting from the freeze on further benefit accruals under all U.S. and Canadian pension plans, cost savings from restructuring activities and lower incentive compensation expense.

For the year ended December 31, 2012, the Company recorded net restructuring, impairment and other charges of $1,118.5 million compared to $667.8 million in 2011. In 2012, these charges included non-cash pre-tax charges of $848.4 million for the impairment of goodwill for the magazines, catalogs and retail inserts, books and directories and Europe reporting units under the Previous Organization Structure. The goodwill impairment charges resulted from reductions in the estimated fair value of these reporting units, based on lower expectations for future revenue, profitability and cash flows as compared to expectations as of the previous annual goodwill impairment test. The lower expectations for the magazines, catalogs and retail inserts reporting unit were due to price pressures driven by excess capacity in the industry and erosion of ad pages and circulation for magazines. The lower expectations for the books and directories reporting unit were due to lower demand for educational books as a result of state and local budget constraints, the impact of electronic substitution on consumer book and directory volumes and price pressure driven by excess capacity in the industry. The lower expectations for the Europe reporting unit were due to lower volumes from existing customers and price pressures driven by excess capacity in the industry. Of the $848.4 million goodwill impairment charge recorded in the magazines, catalogs and retail inserts, books and directories and Europe reporting units under the Previous Organization Structure, $669.9 million, $129.9 million, $44.9 million and $3.7 million is now included in the Publishing and Retail Services, Strategic Services, International and Variable Print segments, respectively. In addition, the Company recorded non-cash charges of $158.0 million related to the impairment of acquired customer relationship intangible assets in the books and directories, magazines, catalogs and retail inserts and Latin America reporting units under the Previous Organization Structure. For the year ended December 31, 2012, the Company also recorded $66.6 million for workforce reductions of 2,200 employees (substantially all of whom were terminated as of December 31, 2013) associated with actions resulting from the reorganization of sales and administrative functions across all segments, the closing of three manufacturing facilities within the Variable Print segment, two manufacturing facilities within the Publishing and Retail Services segment and one manufacturing facility within the International segment and the reorganization of certain operations. Additionally, the Company incurred other restructuring charges, including lease termination and other facility closure costs of $25.3 million and impairment charges of $20.2 million, primarily related to machinery and equipment associated with facility closings and other asset disposals.

For the year ended December 31, 2011, the Company recorded restructuring, impairment and other charges of $667.8 million. These charges included non-cash pre-tax charges of $392.3 million for the impairment of goodwill in the commercial, forms and labels, Canada and Latin America reporting units reporting units under the Previous Organization Structure. The goodwill impairment charges resulted from reductions in the estimated fair value of these reporting units based on lower expectations for future revenue, profitability and cash flows due to the continued impact of electronic substitution on demand for business forms and other products and price pressures. Of the $392.3 million goodwill impairment charge recorded in the commercial, forms and labels, Canada and Latin America reporting units under the Previous Organization Structure, $267.4 million, $116.0 million and $8.9 million is now included in the Variable Print, International and Strategic Services segments, respectively. In addition, the Company recorded non-cash charges of $90.7 million primarily related to the impairment of acquired customer relationship intangible assets in the forms and labels reporting unit under the Previous Organization Structure. For the year ended December 31, 2011, the Company also recorded $76.7 million for workforce reductions of 2,899 employees (all of whom were terminated as of December 31, 2013) associated with actions resulting from the reorganization of certain operations, primarily related to the closings of certain facilities and headcount reductions due to the Bowne acquisition, and the closing of four manufacturing facilities within the Publishing and Retail Services segment and one manufacturing facility within the Variable Print segment. Additionally, the Company incurred other restructuring charges, including lease termination and other facility closure costs of $59.6 million, of which $15.1 million related to multi-employer pension plan complete or partial withdrawal charges primarily due to the closing of three manufacturing facilities, and $48.5 million of impairment charges primarily for land, buildings, machinery and equipment and leasehold improvements associated with facility closings.

Depreciation and amortization decreased $68.3 million to $481.6 million for the year ended December 31, 2012 compared to the prior year, primarily due to the impact of lower capital spending in recent years compared to historical levels, certain other intangible assets becoming fully amortized during the period and the impairment of

$158.0 million and $90.7 million of other intangible assets in the fourth quarters of 2012 and 2011, respectively. Depreciation and amortization included $87.6 million and $112.2 million of amortization of other intangible assets related to customer relationships, patents, trademarks, licenses and agreements and trade names for the years ended December 31, 2012 and 2011, respectively.

The loss from operations for the year ended December 31, 2012 was $369.8 million compared to income from operations of $65.2 million for the year ended December 31, 2011. The decrease was due to higher restructuring, impairment and other charges, lower overall volume, price declines, lower recovery on print-related by-products, wage and other inflation in Latin America and Asia, the Company's reinstated 401(k) match and higher healthcare costs, partially offset by lower pension and other postretirement benefits plan expense net of the prior year gain on pension curtailment, cost savings from restructuring activities, lower depreciation and amortization expense, lower incentive compensation expense and the rebate adjustments.

	2012	2011	$ Change	% Change
	(in millions, except percentages)			
Interest expense—net	$251.8	$243.3	$ 8.5	3.5 %
Investment and other expense (income)—net	2.3	(10.6)	12.9	nm
Loss on debt extinguishment	16.1	69.9	(53.8)	(77.0 %)

Net interest expense increased by $8.5 million for the year ended December 31, 2012 versus the prior year, primarily due to higher average interest rates on senior notes and higher average credit facility borrowings and associated fees, partially offset by increased interest income on short-term investments.

Net investment and other expense (income) for the years ended December 31, 2012 and 2011 was expense of $2.3 million and income of $10.6 million, respectively. The year ended December 31, 2012 included an impairment loss on an equity investment of $4.1 million. The year ended December 31, 2011 included a $10.0 million gain recognized on the acquisition of Helium, in which the Company previously held an equity investment.

Loss on debt extinguishment for the year ended December 31, 2012 was $16.1 million due to the repurchase in 2012 of $441.8 million of senior notes, as well as the termination of the Previous Credit Agreement. The loss consisted of $27.2 million related to the premiums paid, unamortized debt issuance costs and other expenses, partially offset by the elimination of $11.1 million of the fair value adjustment on the repurchased 4.95% senior notes. Loss on debt extinguishment for the year ended December 31, 2011 was $69.9 million due to the repurchases in 2011 of $427.8 million of senior notes.

	2012	2011	$ Change	% Change
	(in millions, except percentages)			
Loss before income taxes	$(640.0)	$(237.4)	$(402.6)	169.6 %
Income tax expense (benefit)	13.6	(116.3)	129.9	nm
Effective income tax rate	(2.1 %)	49.0 %		

The effective income tax rate for the year ended December 31, 2012 was negative 2.1% compared to positive 49.0% in 2011. The 2012 effective tax rate was impacted by the non-deductible goodwill impairment charges and the recognition of $26.1 million of previously unrecognized tax benefits due to the resolution of certain U.S. federal uncertain tax positions and a $22.4 million benefit related to the decline in value and reorganization of certain entities within the International segment, partially offset by a valuation allowance provision of $32.7 million on certain deferred tax assets in Latin America and a provision of $11.0 million related to certain foreign earnings no longer considered to be permanently reinvested. The effective tax rate for the year ended December 31, 2011 reflected the recognition of $74.8 million of previously unrecognized tax benefits due to the expiration of U.S. federal statutes of limitations for certain years and changes in the expected resolution of certain state tax matters, as well as the release of valuation allowances on certain deferred tax assets in the U.S. and Europe.

Income (loss) attributable to noncontrolling interests was a loss of $2.2 million for the year ended December 31, 2012 and income of $1.5 million for the year ended December 31, 2011.

Net loss attributable to RR Donnelley common shareholders for the year ended December 31, 2012 was $651.4 million, or $3.61 per diluted share, compared to $122.6 million, or $0.63 per diluted share, for the year ended December 31, 2011. In addition to the factors described above, the per share results reflect a decrease in weighted average diluted shares outstanding of 13.4 million primarily due to the purchase of shares as a result of an accelerated share repurchase in 2011.

Information by Segment

The following tables summarize net sales, income (loss) from operations and certain items impacting comparability within each of the operating segments and Corporate. The amounts included in the net sales by reporting unit tables and the descriptions of the reporting units included therein generally reflect the primary products or services provided by each reporting unit. Included in these net sales amounts are sales of other products or services that may be produced within a reporting unit to meet customer needs and improve operating efficiency.

Publishing and Retail Services

	Year Ended December 31,	
	2012	2011
	(in millions, except percentages)	
Net sales	$ 2,919.5	$ 3,175.1
Income (loss) from operations	(659.4)	227.6
Operating margin	(22.6%)	7.2%
Restructuring, impairment and other charges—net	846.2	52.8

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Reporting unit	2012 Net Sales	2011 Net Sales	$ Change	% Change
	(in millions, except percentages)			
Magazines, catalogs and retail inserts	$ 1,815.4	$ 1,923.7	$ (108.3)	(5.6 %)
Books	868.0	973.5	(105.5)	(10.8 %)
Directories	236.1	277.9	(41.8)	(15.0 %)
Total Publishing and Retail Services	$ 2,919.5	$ 3,175.1	$ (255.6)	(8.1 %)

Net sales for the Publishing and Retail Services segment for the year ended December 31, 2012 were $2,919.5 million, a decrease of $255.6 million, or 8.1%, compared to 2011. Net sales decreased due to a decline in pass-through paper sales, lower volume in educational books, price pressures in magazines, catalogs and retail inserts and books and lower volume and unfavorable mix in consumer books, magazines, directories, book fulfillment and packaging and retail inserts, partially offset by higher catalog volume. An analysis of net sales by reporting unit follows:

Magazines, catalogs and retail inserts: Sales declined due to decreases in pass-through paper sales, unfavorable product mix in magazines and retail inserts, due to lower advertising spending, and price pressures, partially offset by higher catalog volume.

Books: Sales decreased due to lower volume in educational and consumer books, primarily as a result of the continuing impact of lower levels of state funding for educational materials and electronic substitution for consumer books, as well as lower book fulfillment and packaging volume and price declines.

Directories: Sales decreased due to lower volume as well as a decline in pass-through paper sales, partially offset by favorable pricing.

Publishing and Retail Services segment income from operations decreased $887.0 million for the year ended December 31, 2012 mainly driven by higher restructuring, impairment and other charges, as well as lower volume and unfavorable mix, price pressures, lower recoveries on print-related by-products, the reinstatement of the Company's 401(k) match and an increase in healthcare costs, partially offset by cost savings from restructuring activities, reduced depreciation and amortization expense and lower incentive compensation expense. Operating margins decreased from positive 7.2% for the year ended December 31, 2011 to negative 22.6% for the year ended December 31, 2012, of which 25.0 percentage points were due to higher restructuring, impairment and other charges. The remaining decrease was due to price pressures, lower recoveries on print-related by-products, unfavorable mix in magazines and retail inserts, the reinstatement of the Company's 401(k) match and higher healthcare costs, partially offset by cost savings from restructuring activities, reduced depreciation and amortization expense, a decline in pass-through paper sales and lower incentive compensation expense.

Variable Print

	Year Ended December 31, 2012	2011
	(in millions, except percentages)	
Net sales	$ 2,637.2	$ 2,764.0
Income (loss) from operations	202.1	(204.7)
Operating margin	7.7 %	(7.4 %)
Restructuring, impairment and other charges—net	29.6	387.7

Reporting unit	2012 Net Sales	2011 Net Sales	$ Change	% Change
	(in millions, except percentages)			
Commercial and digital print	$743.9	$822.9	$(79.0)	(9.6%)
Direct mail	534.4	565.5	(31.1)	(5.5%)
Labels	422.7	417.3	5.4	1.3%
Statement printing	396.5	419.2	(22.7)	(5.4%)
Forms	277.2	318.4	(41.2)	(12.9%)
Office products	262.5	220.7	41.8	18.9%
Total Variable Print	$ 2,637.2	$ 2,764.0	$ (126.8)	(4.6%)

Net sales for the Variable Print segment for the year ended December 31, 2012 were $2,637.2 million, a decrease of $126.8 million, or 4.6%, compared to 2011. Net sales decreased due to lower volume in commercial and digital print, forms, labels, direct mail and statement printing, as well as price declines, partially offset by the $22.7 million adjustments to net sales to correct for an over-accrual of rebates owed to certain office products customers, favorable pricing and higher volume in office products and sales from the acquisition of Stratus. An analysis of net sales by reporting unit follows:

Commercial and digital print: Sales decreased due to lower volume from existing customers, as well as a decline in print and fulfillment volume and price pressures.

Direct mail: Sales decreased as a result of lower volume and unfavorable mix, due in part to a decline in advertising spending by customers, a decline in pass-through postage sales and lower pricing.

Labels: Sales increased due to sales from the acquisition of Stratus, partially offset by lower volume and price declines.

Statement printing: Sales decreased as a result of lower volume, due in part to electronic substitution, and lower pricing, partially offset by higher pass-through postage sales.

Forms: Sales declined due to lower volume, primarily as a result of electronic substitution, and price declines.

Office products: Sales increased as the result of the rebate adjustments described above, higher volume in binder and note-taking products from existing customers and favorable pricing.

Variable Print segment income from operations increased $406.8 million for the year ended December 31, 2012 mainly driven by lower restructuring, impairment and other charges, cost savings from restructuring activities, reduced depreciation and amortization expense, the rebate adjustments and lower incentive compensation expense, partially offset by lower volume and unfavorable mix in commercial and digital print, direct mail and statement printing, the reinstatement of the Company's 401(k) match, lower recoveries on print-related by-products, price pressures and higher healthcare costs. Operating margins increased from negative 7.4% for the year ended December 31, 2011 to positive 7.7% for the year ended December 31, 2012, of which 13.0 percentages points were due to lower restructuring, impairment and other charges. The remaining increase was due to cost savings from restructuring activities, lower depreciation and amortization expense, the rebate adjustments and lower incentive compensation expense, partially offset by the reinstatement of the Company's 401(k) match, lower recoveries on print-related by-products, price declines, unfavorable mix and higher healthcare costs.

Strategic Services

	Year Ended December 31, 2012	2011
	(in millions, except percentages)	
Net sales	$ 2,065.4	$ 2,058.8
Income from operations	59.0	180.6
Operating margin	2.9 %	8.8 %
Restructuring, impairment and other charges—net	146.6	71.9
Gain on pension curtailment	1.0	—

Reporting unit	2012 Net Sales	2011 Net Sales	$ Change	% Change
	(in millions, except percentages)			
Financial	$970.4	$1,062.1	$ (91.7)	(8.6%)
Logistics	754.1	671.2	82.9	12.4%
Digital and creative solutions	173.1	162.4	10.7	6.6 %
Sourcing	167.8	163.1	4.7	2.9 %
Total Strategic Services	$ 2,065.4	$ 2,058.8	$ 6.6	0.3 %

Net sales for the Strategic Services segment for the year ended December 31, 2012 were $2,065.4 million, an increase of $6.6 million, or 0.3%, compared to 2011, including a $2.4 million, or 0.1%, decrease due to changes in foreign exchange rates. Net sales increased primarily due to higher freight brokerage services volume, sales from the acquisition of XPO and an increase in other logistics services volume, as well higher volume in XBRL financial services and digital and creative solutions, largely offset by a decline in capital markets transactions activity and price pressures in financial and digital and creative solutions. An analysis of net sales by reporting unit follows:

Financial: Sales decreased primarily due to a decline in capital markets transactions activity, lower volume in investment management, compliance and other financial print products as well as price pressures, partially offset by an increase in XBRL financial services volume and sales from the acquisition of Edgar Online.
Logistics: Sales increased primarily due to higher freight brokerage services volume, as well as sales from the acquisition of XPO and volume increases in courier services, co-mail services and expedited services volume.
Digital and creative solutions: Sales increased due to higher photography services volume from existing customers, partially offset by price declines on prepress and photography contract renewals.

Sourcing: Sales increased due to higher volume in forms and labels products, partially offset by lower pass-through postage sales for commercial and digital print products.

Strategic Services segment income from operations decreased $121.6 million for the year ended December 31, 2012 mainly driven by higher restructuring, impairment and other charges, as well as a decrease in capital markets transactions activity, price pressures in financial and digital and creative solutions, the reinstatement of the Company's 401(k) match and higher depreciation and amortization expense due in part to an increase in software amortization expense, partially offset by cost savings from restructuring activities, higher volume in logistics and lower incentive compensation expense. Operating margins decreased from 8.8% to 2.9%, of which 3.6 percentage point were due to higher restructuring, impairment and other charges. The remaining decrease was due to price pressures, the reinstatement of the Company's 401(k) match, higher depreciation and amortization expense and unfavorable mix in financial, partially offset by cost savings from restructuring activities and lower incentive compensation expense.

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