RR Donnelley & Sons Co
Form 10-K
February 25, 2016

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, 2015
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.)
35 West Wacker Drive, Chicago, Illinois (Address of principal executive offices)	60601 (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 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, held by nonaffiliates was $3,607,975,994.

As of February 19, 2016, 208,766,693 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 19, 2016 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.

Segment Descriptions

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 22.4% of the Company's consolidated net sales in 2015.

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, office products, direct mail, labels, statement printing, forms and packaging. The Variable Print segment accounted for 33.4% of the Company's consolidated net sales in 2015.

Strategic Services

The Strategic Services segment includes the Company's logistics services, financial print products and related services, print management offerings, digital and creative solutions and book publishing. The Strategic Services segment accounted for 23.8% of the Company's consolidated net sales in 2015.

International

The International segment includes the Company's non-U.S. printing operations in Asia, Europe, Latin America and Canada. This segment's primary 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 20.4% of the Company's consolidated net sales in 2015.

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.

Proposed Spinoff Transactions

On August 4, 2015, the Company announced that its Board of Directors intends to create three independent public companies: (i) a financial communications services company with estimated 2015 net sales of approximately $1.0 billion (“Donnelley Financial Solutions”), (ii) a publishing and retail-centric print services company with estimated 2015 net sales of approximately $3.5 billion (“LSC Communications”), and (iii) a multichannel communications management company with estimated 2015 net sales of approximately $6.8 billion (“RR Donnelley & Sons Company”). Estimated 2015 net sales for each company reflects the elimination of intercompany transactions; as a result net sales for each company may differ on a standalone basis. Donnelley Financial Solutions is expected to consist of the Company’s current financial reporting unit of the Company’s Strategic Services segment. LSC Communications is expected to consist of the Company’s current Publishing and Retail Services segment as well as the office products reporting unit from the Company’s Variable Print segment, substantially all of the operations currently within the Europe reporting unit of the Company’s International segment, certain Mexican operations currently within the Latin America reporting unit of the Company’s International segment and the co-mail and related list services operations currently within the logistics reporting unit of the Company’s Strategic Services segment. RR Donnelley & Sons Company is expected to consist of the current Variable Print segment except for the office products reporting unit that will become part of LSC Communications, the logistics reporting unit within the current Strategic Services segment except for the operations that will become part of LSC Communications, the sourcing and digital and creative solutions reporting units within the current Strategic Services segment, and the current International segment except for substantially all of the Europe reporting unit and certain Mexican operations that will become part of LSC Communications. The transaction is expected to take the form of a tax-free distribution to RR Donnelley shareholders of shares of stock in two new, independent, publicly traded companies, Donnelley Financial Solutions and LSC Communications.

The transactions are subject to customary conditions, including obtaining rulings from the Internal Revenue Service and/or tax opinions, execution of inter-company agreements and final approval by the Company’s Board of Directors. The Company expects to complete the transactions in October 2016, but there can be no assurance that the transactions will be completed on the anticipated timeline or at all or that the terms of the transactions will not change. See Item 1A, Risk Factors, of Part I of this Annual Report on Form 10-K for certain risk factors relating to the proposed transactions. The disclosures within Item 7, Management Discussion and Analysis of Financial Condition and Results of Operations, of Part II of this Annual Report on Form 10-K are on a consolidated Company basis, reflect the Company’s current operating and management structure, and do not take into account the proposed transactions.

Upon separation, the historical results of Donnelley Financial Solutions and LSC Communications will be presented as discontinued operations.

Business Acquisitions and Dispositions

2015 Acquisition

On June 8, 2015, the Company acquired Courier Corporation (“Courier”), a leader in digital printing and publishing primarily in the United States, specializing in educational, religious and trade books.

2015 Disposition

On April 29, 2015, the Company sold its 50.1% interest in its Venezuelan operating entity.

2014 Acquisitions

On March 25, 2014, the Company acquired substantially all of the North American operations of Esselte Corporation ("Esselte"), a developer and manufacturer of nationally branded and private label office and stationery products. On March 10, 2014, the Company acquired the assets of MultiCorpora R&D Inc. and MultiCorpora International Inc. (together "MultiCorpora"). 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.

2014 Dispositions

On August 15, 2014, the Company sold the assets and liabilities of Journalism Online, LLC ("Journalism Online"), a provider of online subscription management services. On August 11, 2014, the Company's subsidiary, RR Donnelley Argentina S.A. ("RRDA"), filed for bankruptcy liquidation in bankruptcy court in Argentina. On February 7, 2014, the Company sold the assets and liabilities of Office Tiger Global Real Estate Services Inc. ("GRES"), its commercial and residential real estate advisory services business.

2013 Disposition

During the fourth quarter of 2013, the Company sold the assets and liabilities of R.R. Donnelley SAS ("MRM France"), its direct mail business located in Cosne sur Loire, France.

For further information on the above acquisitions and dispositions, see Note 2, Acquisitions and Dispositions, to the Consolidated Financial Statements.

Competitive Environment

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. One of the Company's competitive strengths is that it offers a wide array of communications products and services, including print, which provide differentiated solutions for its customers. The Company works with its customers to create, manage, deliver and optimize their multi-channel communications strategies. The Company has and will continue to develop and expand its creative and design, content management, digital and print production, supply chain management and distribution services to address its customers' evolving needs while supporting the strategic objective of becoming a leading global provider of integrated communication services.

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 continue to differentiate its product and service offerings.

Digital technologies have impacted printed retail inserts, magazines and catalogs as some advertiser spending has moved from print to electronic media. 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 recent years the trend in e-book substitution has shifted and the publishing industry has experienced growth in consumer print book volume, while sales of e-books have declined. 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 to offer customers innovative services and solutions that further secure the Company's position as a technology leader in the industry.

The acquisitions of Courier, Consolidated Graphics, Esselte and MultiCorpora support the Company's strategic objective of generating profitable growth and improved cash flow and liquidity through targeted acquisitions. These acquisitions have enhanced the Company's existing capabilities and ability to serve its customers and have provided 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. Additionally, to align with its long-term strategic goals, the Company announced that it intends to create three independent public companies and expects the transactions to be effective in October 2016. The

proposed spinoff transactions will allow each of the businesses to pursue their own strategies and invest according to the unique dynamics of their respective industries. Refer to Business – Proposed Spinoff Transactions for further details regarding the proposed spinoff transactions.

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. Partially offsetting this pattern, demand for financial print and related services is typically stronger in the first half of the year due to annual compliance requirements. As a result of the acquisition of Consolidated Graphics, which provides significant campaign-related printed products, quarterly and annual results may also be impacted by U.S. election cycles. These typical seasonal patterns can be impacted by overall trends in the U.S. and world economy. The seasonal pattern in 2015 was in line with historical patterns.

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 2015, 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. 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. Decreases in fuel prices are also passed on to customers which negatively impacts sales. 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. 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 United States Postal Service ("USPS") Board of Governors' request under the Exigency Provision in the applicable law for price increases of 4.3%. The exigent rate increase was approved as a surcharge in addition to a 1.7% rate increase, equal to the CPI, for total price increases of 6.0%, on average, across all significant mail categories, effective January 26, 2014. On January 15, 2015, the USPS filed for a CPI rate increase of approximately 2.0%, which was approved by the PRC on May 7, 2015, and became effective May 31, 2015. In January 2016, the USPS announced that the 4.3% exigency rate increase is expected to be eliminated in April 2016. 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 mail preparation 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 has been negatively impacted by increases in postal rates. 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 a possible suspension of Saturday service. The impact to the Company of the USPS's restructuring plans, many of which require legislative action, cannot currently be estimated. Mail delivery services through the USPS accounted for approximately 43% of the Company's logistics revenues during the year ended December 31, 2015.

Customers

For each of the years ended December 31, 2015, 2014 and 2013, 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, 2015, the Company had approximately 68,400 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 Governance, Responsibility & Technology 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. Company 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;
-

successful execution of the proposed spinoffs of LSC Communications and Donnelley Financial Solutions and the ability of the Company, LSC Communications and Donnelley Financial Solutions to perform as expected as separate, independent entities;

- the ability of the Company to integrate operations of acquisitions successfully and achieve enhanced earnings or effect cost savings;
- 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 rates of growth or decline 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;
- 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 or 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 or its vendors' systems;
- the failure to properly use and protect customer information and data;
- the failure to properly protect the Company's and its employees' 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 Eastern Europe, 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.

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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

The proposed spinoffs of the Company's Publishing and Retail Services Company and Financial Services Company may not be completed on the terms or timeline currently contemplated, if at all.

Unanticipated developments could delay, prevent or otherwise adversely affect the proposed spinoffs of LSC Communications and Donnelley Financial Solutions, including possible problems or delays in obtaining favorable rulings from the Internal Revenue Service or tax opinions, disruptions in general market conditions, or other developments. In addition, consummation of the proposed transactions will require final approval from the Company's Board of Directors. Therefore, the Company cannot assure that it will be able to complete the transactions on the terms or on the timeline that it announced, if at all. Further, the Company could decide to consummate one of the spin-offs and not the other, depending on market conditions and other factors.

In order to position ourselves for the proposed spinoffs, we are actively pursuing structural and process realignment and restructuring actions within our operations. These actions could lead to disruption of our operations. The Company will incur significant expenses in connection with the proposed spinoffs. In addition, completion of the proposed transactions will require significant amounts of management's time and effort which may divert management's attention from other aspects of the Company's business operations.

If the proposed spinoffs are completed, they may not achieve the intended results.

If the proposed spinoff transactions are completed, the Company's operational and financial profile will change upon the separation of LSC Communications and Donnelley Financial Solutions from the Company's other businesses. As a result, the Company's diversification of revenue sources will diminish, and the Company's results of operations, cash flows, working capital and financing requirements may be subject to increased volatility and greater risk as a result of the concentration of our business in the multichannel communications management industry. Further, shares of the Company's common stock will represent an investment in a smaller company than in existence today. These changes may not meet some shareholders' investment strategies, which could cause investors to sell their shares of the Company's common stock. Excessive selling could cause the relative market price of the Company's common stock to decrease following the consummation of the proposed spinoff transactions.

Further, the anticipated benefits to the Company of the proposed spinoff transactions are based on a number of assumptions, some of which may prove incorrect. Any such incorrect assumptions could adversely affect the Company's business, results of operations or financial condition.

The terms of the spinoffs and the stand-alone capital structure of each entity have not been determined.

The terms of the proposed spinoffs and each entity's stand-alone capital structure have not yet been determined. The Company's preliminary plans are described in Business – Proposed Spinoff Transactions. However, the final capital structure and terms of the transactions may not coincide with those set forth in this Annual Report on Form 10-K.

Following the spinoffs, the price of the Company's common stock may fluctuate significantly.

We cannot predict the prices at which the Company's common stock may trade after the proposed spinoffs, the effect of the proposed spinoffs on the trading prices of the Company's common stock or whether the market value of the Company's common stock and the common stock of each of the new public companies held by a stockholder after the spinoffs will be, in the aggregate, less than, equal to or greater than the market value of the Company's common stock held by such stockholder prior to the spinoffs.

The Company may be unable to hire and retain talented employees, including management, which may be exacerbated by the proposed spinoffs.

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 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.

Furthermore, although senior management for LSC Communications and Donnelley Financial Solutions to be in place following the proposed spinoffs has not yet been identified, one or more of our executive officers may serve in similar or different roles for either company upon the completion of the proposed spinoff transactions, upon which they would resign from their current role with us. If one or more members of the Company's senior management team leave, due to the spinoffs or otherwise, 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 Proposed Spinoff Transactions, if Consummated, Could Result in Significant Tax Liability.

We expect to obtain an opinion from our outside legal counsel substantially to the effect that, among other things, the distributions in connection with the proposed spinoff transactions will qualify as tax-free distributions under the U.S. Internal Revenue Code of 1986, as amended (the "Code"). The opinion will not be binding on the IRS or the courts. Additionally, we have applied for a private letter ruling from the IRS concluding that certain limited aspects of the distributions will not prevent the distributions from satisfying certain requirements for tax-free treatment under the Code. The opinion and the private letter ruling will rely on customary factual representations and assumptions, which if incorrect or inaccurate may jeopardize the ability to rely on such opinion and letter ruling.

If either or both of the distributions do not qualify for tax-free treatment for U.S. federal income tax purposes, then, in general, we would be subject to tax as if we had sold the common stock of such spun-off entity in a taxable sale for its fair value. In that case, it is expected that RR Donnelley shareholders would be subject to tax as if they had received a distribution equal to the fair value of the spun-off entity's common stock that was distributed to them, which generally would be treated first as a taxable dividend to the extent of our earnings and profits, then as a non-taxable return of capital to the extent of each holder's tax basis in its Company common stock, and thereafter as capital gain with respect to any remaining value. It is expected that the amount of any such taxes to RR Donnelley shareholders and us would be substantial if this were to occur.

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 institutions to fail, may cause lenders to reduce lending or may cause investors to reinvest in assets that are considered less risky. 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. Furthermore, the Company expects to revise its existing financing structure to consummate the proposed spinoff transactions, including through refinancing or debt tender or exchange transactions. Any potential capital markets transaction will be dependent on market conditions, which may result in the Company receiving financing on terms less favorable to the Company than its existing financings. Further, the Company expects LSC Communications and Donnelley Financial Solutions will rely on access to credit and the capital markets immediately prior to consummation of the spinoff transactions to raise capital to refinance existing Company obligations or to finance their ongoing business needs, and the inability to obtain financing on commercially reasonable terms or at all may alter, hinder or prevent the consummation of the spinoff transactions.

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 $1.5 billion senior secured revolving credit facility (the "Credit Agreement") which expires September 9, 2019, 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 $225.0 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 outstanding 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, by-products 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 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 low interest rates have substantially reduced, and in the future could further 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 21% of the Company's consolidated net sales for the year ended December 31, 2015. 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.

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, catalogs and retail inserts, as some 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 products and services. Changes in such regulations could eliminate the need for certain types of communications altogether or such changes may impact the quantity or format of such 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 an exigent price increase of 4.3%. The exigent rate increase was approved as a surcharge in addition to a 1.7% rate increase, equal to the CPI, for total price increases of 6.0%, on average, across all significant mail categories, effective January 26, 2014. On January 15, 2015, the USPS filed for a CPI rate increase of approximately 2.0%, which was approved by the PRC on May 7, 2015, and became effective May 31, 2015. In January 2016, the USPS announced that the 4.3% exigency rate increase is expected to be eliminated in April 2016. 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 a possible suspension of Saturday service. 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.

A failure to adapt to technological changes to address the changing demands of customers may adversely impact the Company’s business.

Many of the end markets in which customers of the Company compete are experiencing changes due to technological progress and changes in consumer preferences. In order to grow and remain competitive, the Company will need to continue to adapt to future changes in technology, enhance the Company's existing offerings and introduce new offerings to address the changing demands of customers. If the Company is unable to continue to exploit new and existing technologies to distinguish its products and services from those of its competitors or adapt to new distribution methods, the Company’s business may be adversely affected.

Technological developments and changing demands of customers may require additional investment in new equipment and technologies. 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. If the Company is unable to adapt to technological changes on a timely basis or at an acceptable cost, customers' demand for the Company's products and services may be adversely affected.

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, 2015, the Company leased or owned 368 U.S. facilities, some of which had multiple buildings and warehouses, and these U.S. facilities encompassed approximately 42.9 million square feet. The Company leased or owned 137 international facilities, some of which had multiple buildings and warehouses, encompassing approximately 10.1 million square feet in Canada, Latin America, Europe and Asia. Of the Company's U.S. and international facilities, approximately 31.5 million square feet of space was owned, while the remaining 21.5 million square feet of space was leased.

ITEM 3. LEGAL PROCEEDINGS

For a discussion of certain litigation involving the Company, see Note 10, Commitments and Contingencies, to the Consolidated Financial Statements.

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
Thomas J. Quinlan, III 53, 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 51, Executive Vice President, General Counsel, Corporate Secretary and 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 47, 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 51, 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 49, 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.

As of February 19, 2016, there were 6,994 stockholders of record of the Company's common stock. Quarterly closing prices of the Company's common stock, as reported on the NASDAQ, and dividends paid per share during the years ended December 31, 2015 and 2014, are contained in the chart below:

	Dividends Paid		Closing Common Stock Prices			
			2015		2014	
	2015	2014	High	Low	High	Low
First Quarter	$0.26	$0.26	$19.69	$15.66	$20.38	$17.15
Second Quarter	0.26	0.26	20.13	17.43	18.30	15.10
Third Quarter	0.26	0.26	18.00	14.31	17.82	15.85
Fourth Quarter	0.26	0.26	17.22	14.40	17.70	15.02

The Credit Agreement generally allows annual dividend payments of up to $225.0 million in aggregate, though additional dividends may be allowed subject to certain conditions. For more detail refer to the Credit Agreement and its amendments filed as exhibits to this Annual Report on Form 10-K.

ISSUER PURCHASES OF EQUITY SECURITIES

There were no repurchases of equity securities during the three months ended December 31, 2015.

EQUITY COMPENSATION PLANS

For information regarding equity compensation plans, see Item 12 of Part III 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, 2010. 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*

	Base Period	Fiscal Years Ended December 31,				
Company Name/Index	2010	2011	2012	2013	2014	2015
RR Donnelley	100	87.91	60.16	146.75	129.15	120.05
Standard & Poor's 500	100	102.11	118.45	156.82	178.29	180.75
Peer Group	100	104.43	128.27	198.68	223.29	234.74

Below are the specific companies included in the peer group.

*Peer Group Companies

A.H. Belo Corp.	McClatchy Co.
American Greetings(a)	McGraw-Hill Financial Inc.(b)
Deluxe Corp.	Media General Inc.
Scripps (E.W.) Co.	Meredith Corp.
Gannett Co.	New York Times Co.
Graham Holdings Co.	Scholastic Corp.
Journal Communications Inc.	John Wiley & Sons Co.

(a) American Greetings was included through August 9, 2013, when American Greetings went private.
(b) Name change from the McGraw-Hill Companies

Consolidated Graphics Inc. was acquired by RR Donnelley on January 31, 2014, and as a result has been excluded from the peer group.

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA

(in millions, except per share data)

	2015	2014	2013	2012	2011
Net sales	$11,256.8	$11,603.4	$10,480.3	$10,221.9	$10,611.0
Net earnings (loss) attributable to RR Donnelley common shareholders	151.1	117.4	211.2	(651.4)	(122.6)
Net earnings (loss) attributable to RR Donnelley common shareholders per diluted share	0.73	0.59	1.15	(3.61)	(0.63)
Total assets	7,279.3	7,608.8	7,205.1	7,240.4	8,262.0
Long-term debt	3,188.3	3,398.6	3,553.9	3,397.9	3,397.1
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:

Year ended December 31, 2015	Pre-tax	After-tax
Restructuring, impairment and other charges – net	$122.6	$ 91.5
Loss on Venezuela currency remeasurement	30.3	17.0
Loss primarily related to the disposal of the Venezuelan operating entity	15.7	15.7
Acquisition-related expenses	14.3	13.7
Purchase accounting inventory adjustments	10.8	6.6
Spinoff-related transaction expenses	13.6	9.3
Gain from the sale of one of the Company’s affordable housing investments	(3.9)	(2.4)
Loss from the impairment of the Company’s investment in the Brazilian operations of Courier	2.8	2.8
Loss from the impairment of an equity investment	1.3	1.3
Tax expense due to the receipt of an unfavorable court decision relating to payment of prior year taxes in the International segment	—	6.0

Year ended December 31, 2014	Pre-tax	After-tax
Restructuring, impairment and other charges - net	$133.7	$ 97.0
Pension settlement charges	95.7	58.4
Loss on debt extinguishment	77.1	49.8
Net loss on Venezuela currency remeasurement	18.4	8.2
Loss on bankruptcy liquidation of RRDA, a subsidiary of RR Donnelley	16.4	14.2
Purchase accounting inventory adjustments	14.3	9.1
Net gain on sale of Journalism Online and GRES	(10.4)	(6.4)

Net gain on bargain purchase of Esselte	(9.5)	(9.5)
Acquisition-related expenses	8.6	6.9
Gain from the sale of the Company's shares of a previously impaired equity investment	(3.0)	(1.9)
Loss from the impairment of an equity investment	1.3	0.8
Tax benefit related to the decline in value of an entity within the Strategic Services segment	—	(15.2)

Year ended December 31, 2013	Pre-tax	After-tax
Restructuring, impairment and other charges – net	$133.5	$ 88.2
Loss on debt extinguishment	81.9	53.9
Loss on the disposal of MRM France direct mail business in the International segment	17.9	12.3
Acquisition-related expenses	5.9	5.2
Loss from the impairment of equity investments	5.5	3.6
Net loss on Venezuela currency remeasurement	3.2	1.0
Tax benefit related to the decline in value and reorganization of certain entities within the Publishing and Retail Services segment	—	(58.5)
Tax benefit for previously unrecognized tax benefits related to the resolution of certain U.S. federal uncertain tax positions	—	(7.2)

Year ended December 31, 2012	Pre-tax	After-tax
Restructuring, impairment and other charges – net	$1,118.5	$ 981.9
Loss on debt extinguishment	16.1	10.6
Loss from the impairment of an equity investment	4.1	2.6
Gain on pension curtailment	(3.7)	(2.8)
Acquisition-related expenses	2.5	2.2
Valuation allowance provision on certain deferred tax assets in Latin America	—	32.7
Tax benefit for previously unrecognized tax benefits related to the expected resolution of certain federal tax matters	—	(26.1)
Tax benefit related to the decline in value and reorganization of certain entities within the International segment	—	(22.4)
Tax provision related to certain foreign earnings no longer considered to be permanently reinvested	—	11.0

Year ended December 31, 2011	Pre-tax	After-tax
Restructuring, impairment and other charges – net	$667.8	$ 532.8
Loss on debt extinguishment	69.9	44.1
Gain on pension curtailment	(38.7)	(24.3)
Contingent consideration earned by the prior owners of an acquired business	15.3	9.7
Gain on the Helium investment	(9.8)	(9.5)
Acquisition-related expenses	2.2	2.0
Recognition of income tax benefits due to the expiration of U.S. federal statutes of limitations for certain years	—	74.8

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, of Part I of this Annual Report on Form 10-K.

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, commercial and digital print, books, financial print, statement printing, direct mail, labels, office products, packaging, forms, manuals and other related products procured through the Company’s print management offering and directories. 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

2015 OVERVIEW

Net sales decreased by $346.6 million, or 3.0%, in 2015 compared to 2014. On a pro forma basis, the Company’s net sales decreased by approximately $653.6 million, or 5.4% (see Note 2, Acquisitions and Dispositions, to the Consolidated Financial Statements). There was a $251.0 million, or 2.2%, decrease due to changes in foreign exchange rates. In addition to the impact of foreign exchange rates, the net sales decrease was due to volume declines in the Publishing and Retail Services and Variable Print segments, an $85.2 million, or 0.7%, decrease due to the impact of the Venezuelan currency devaluation and sale of the Company’s Venezuelan operating entity, an $80.0 million, or 0.7%, decrease due to a decline in pass-through paper sales, a decrease in fuel surcharges in the Strategic Services segment and price pressures. The decreases were partially offset by the acquisition of Courier and increases in volume in the Strategic Services segment.

The Company continues to take actions across all platforms to reduce its cost structure and enhance productivity. During the year ended December 31, 2015, the Company realized cost savings from restructuring activities, including the reorganization of administrative and support functions across all segments as well as continuing facility consolidations and reorganizations across platforms. Additionally, cost savings were realized as a result of synergies from the acquisitions of Consolidated Graphics, Esselte and Courier and lower incentive compensation expense.

Net cash provided by operating activities for the year ended December 31, 2015 was $652.0 million as compared to $722.7 million for the year ended December 31, 2014. The decrease in net cash provided by operating activities reflected the timing of payments for employee-related liabilities and higher payments for incentive compensation costs and taxes, partially offset by lower pension and other postretirement benefit plan contributions.

During the year ended December 31, 2015, the Company announced that it intends to spin off two new independent public companies as described in more detail in Item 1, Business – Proposed Spinoff Transactions, of Part I of this Annual Report on Form 10-K. In connection with the proposed spinoff transactions, the Company incurred $13.6 million of spinoff-related transaction expenses during the year ended December 31, 2015. The Company expects to incur a significant amount of spinoff-related transaction and transition expenses in 2016, including information technology, consulting, real estate, finance and other incremental expenses. The disclosures within this Management’s

Discussion and Analysis of Financial Condition and Results of Operations are on a consolidated basis, reflect the Company's current operating and management structure and do not take into account the proposed transactions.

2015 Financial Performance

The changes in the Company's income from operations, operating margin, net earnings attributable to RR Donnelley common shareholders and net earnings attributable to RR Donnelley common shareholders per diluted share for the year ended December 31, 2015, from the year ended December 31, 2014, were due to the following:

	Income from Operations	Operating Margin	Net Earnings Attributable to RR Donnelley Common Shareholders	Net Earnings Attributable to RR Donnelley Shareholders Per Diluted Share
	(in millions, except margin and per share data)			
For the year ended December 31, 2014	$515.9	4.4 %	$ 117.4	$ 0.59
2015 restructuring, impairment and other charges - net	(122.6)	(1.1 %)	(91.5)	(0.44)
2014 restructuring, impairment and other charges - net	133.7	1.2 %	97.0	0.49
Spinoff-related transaction expenses	(13.6)	(0.1 %)	(9.3)	(0.04)
Acquisition-related expenses	(5.7)	0.0 %	(6.8)	(0.04)
Purchase accounting inventory adjustments	3.5	0.0 %	2.5	0.02
Pension settlement charges	95.7	0.8 %	58.4	0.29
Loss on debt extinguishment	—	—	49.8	0.25
Net loss on disposals of businesses	—	—	(22.1)	(0.11)
Loss on bankruptcy of subsidiary	—	—	14.2	0.07
Gain on bargain purchase	—	—	(9.5)	(0.05)
Venezuela currency remeasurement	—	—	(8.8)	(0.04)
Net loss on investments	—	—	(2.8)	(0.01)
Income tax adjustments	—	—	(21.2)	(0.11)
Operations	(19.5)	0.0 %	(16.2)	(0.14)
For the year ended December 31, 2015	$587.4	5.2 %	$ 151.1	$ 0.73

2015 restructuring, impairment and other charges - net: included pre-tax charges of $44.3 million for employee termination costs; $24.6 million of other charges, primarily for integration charges related to the Courier acquisition; $18.0 million for the impairment of goodwill in the Europe and Latin America reporting units, respectively, within the International segment; $17.6 million of lease termination and other restructuring costs; $11.9 million for the impairment of intangible assets, substantially all related to acquired customer relationship intangible assets; and $6.2 million for net impairment charges of other long-lived assets, primarily for buildings and machinery and equipment associated with facility closures.

2014 restructuring, impairment and other charges - net: included $35.5 million for other estimated charges related to the decision to withdraw from certain multi-employer pension plans serving facilities that are currently operating; $30.3 million for employee termination costs; $20.8 million of lease termination and other restructuring costs, including charges related to multi-employer pension plan withdrawal obligations as a result of facility closures; $18.1 million for the impairment of goodwill in the magazines, catalogs and retail inserts reporting unit; $14.0 million for impairment of other long-lived assets, primarily for buildings and machinery and equipment associated with facility closures; $13.6 million for the impairment of acquired customer relationship intangible assets; and $1.4 million for the impairment of acquired tradenames.

Spinoff-related transaction expenses: included pre-tax charges of $13.6 million ($9.3 million after-tax) related to consulting, tax advice, legal and other expenses for the year ended December 31, 2015 associated with the proposed spinoff transactions.

Acquisition-related expenses: included pre-tax charges of $14.3 million ($13.7 million after-tax) related to legal, accounting and other expenses for the year ended December 31, 2015 associated with completed or contemplated acquisitions. For the year ended December 31, 2014, these pre-tax charges were $8.6 million ($6.9 million after-tax).

Purchase accounting inventory adjustments: included pre-tax charges of $10.8 million ($6.6 million after-tax) for the year ended December 31, 2015 as a result of inventory purchase accounting adjustments for Courier. For the year ended December 31, 2014, these pre-tax charges were $14.3 million ($9.1 million after-tax) as a result of inventory purchase accounting adjustments for Consolidated Graphics and Esselte.

Pension settlement charges: included pre-tax charges of $95.7 million ($58.4 million after-tax) for the year ended December 31, 2014, related to lump-sum pension settlement payments.

Loss on debt extinguishment: included a pre-tax loss of $77.1 million ($49.8 million after-tax) for the year ended December 31, 2014, related to the premiums paid, unamortized debt issuance costs and other expenses due to the repurchase of $211.1 million of the 8.25% senior notes due March 15, 2019, $100.0 million of the 7.25% senior notes due May 15, 2018 and $50.0 million of the 7.625% senior notes due June 15, 2020.

Net loss on disposals of businesses: included a pre-tax loss of $15.7 million ($15.7 million after-tax) for the year ended December 31, 2015, primarily related to the disposal of the Venezuelan operating entity in the International segment. For the year ended December 31, 2014, these pre-tax charges included a gain on the sale of Journalism Online of $11.2 million ($6.9 million after-tax), offset by a loss on the disposal of GRES in the International segment of $0.8 million ($0.5 million after-tax).

Loss on bankruptcy of subsidiary: included a pre-tax loss of $16.4 million ($14.2 million after-tax) for the year ended December 31, 2014 as a result of the bankruptcy liquidation of RRDA, a subsidiary of RR Donnelley.

Gain on bargain purchase: acquisition of Esselte resulted in a pre-tax gain of $9.5 million ($9.5 million after-tax) for the year ended December 31, 2014.

Venezuela currency remeasurement: currency remeasurement in Venezuela and the related impact of the devaluation resulted in a pre-tax loss of $30.3 million ($27.5 million after-tax) for the year ended December 31, 2015, of which $10.5 million was included in loss attributable to noncontrolling interests. For the year ended December 31, 2014, currency remeasurement in Venezuela resulted in a pre-tax loss, net of foreign exchange gains, of $18.4 million ($13.8 million after-tax), of which $5.6 million was included in loss attributable to noncontrolling interests.

Net loss on investments: included a pre-tax gain of $3.9 million ($2.4 million after-tax) resulting from the sale of one of the Company’s affordable housing investments, a pre-tax loss of $2.8 million ($2.8 million after-tax) resulting from the impairment of the Company’s investment in the Brazilian operations of Courier and a pretax loss of $1.3 million ($1.3 million after-tax) for the impairment of an equity investment during the year ended December 31, 2015. The year ended December 31, 2014 included a pre-tax gain of $3.0 million ($1.9 million after-tax) resulting from the sale of the Company’s shares of a previously impaired equity investment offset by a pre-tax loss of $1.3 million ($0.8 million after-tax) from the impairment of an equity investment.

Income tax adjustments: for the year ended December 31, 2015, tax expense of $6.0 million was recorded due to the receipt of an unfavorable court decision relating to payment of prior year taxes in the International segment. For the year ended December 31, 2014, income tax adjustments includes a tax benefit related to the decline in value of an entity, within the Strategic Services segment, of $15.2 million.

Operations: reflected volume declines in the Publishing and Retail Services and Variable Print segments, price pressures and wage and other inflation in the International segment, partially offset by lower incentive compensation expense, the acquisition of Courier, lower depreciation and amortization expense, cost control initiatives resulting from the integration of Consolidated Graphics and Esselte and the reorganization of certain operations, and an increase in volume due to the acquisitions of Consolidated Graphics and Esselte.

OUTLOOK

Vision and Strategy

RR Donnelley works with its customers to create, manage, deliver and optimize their multi-channel communications strategies. The Company has and will continue to develop its creative and design, content management, digital and print production, supply chain management and distribution services to address its customers’ evolving needs. While the proposed spinoff transactions are expected to enable each company to pursue more tailored strategies, the Company is continuing to pursue its core strategic objectives. After completion of the proposed spinoff transactions, management expects LSC Communications and Donnelley Financial Solutions to pursue their own, more tailored, strategies and invest according to the unique dynamics of their respective industries. The Company’s remaining business is expected to be better positioned to continue its focus on further developing its industry leading customized

multi-channel communications offerings.

The Company's global platform provides differentiated solutions for its customers through its broad range of complementary communications services, strong logistics capabilities, and its innovative leadership in both conventional print and digital technologies. This platform has enabled RR Donnelley to develop strong customer relationships, and the Company is focused on expanding these relationships to a broader range of its offerings. The Company will invest to expand its capabilities in order to make it easier for customers to manage their full range of communication needs.

Management believes productivity improvement and cost reduction are critical to the Company's continued competitiveness, and the flexibility of its platform enhances 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. The Company also expects to make targeted acquisitions that extend its capabilities, drive cost savings and reduce future capital spending needs.

Management 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 managing operating margins by achieving productivity improvements that offset the impact of price declines and cost inflation. Cash flows from operations are targeted 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. Refer to Item 1A, Risk Factors, of Part I of this Annual Report on Form 10-K for further discussion.

2016 Outlook

As discussed in Item 1, Business – Proposed Spinoff Transactions, of Part I of this Annual Report on Form 10-K, the Company expects its proposed spinoff transactions to be effective in October 2016. However, the 2016 outlook below reflects the Company's current operating and management structure and does not take into account the proposed transactions.

In 2016, the Company expects net sales to increase slightly as compared to 2015 driven by the acquisition of Courier, as well as organic growth across certain product and service offerings primarily in the Strategic Services and International segments that are expected to more than offset the anticipated continuing volume declines and price pressures in the Publishing and Retail Services segment and slight volume declines in the Variable Print segment. The sales growth in the International segment is expected to be partially offset by the negative impact of fluctuations in foreign exchange rates. 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. economy will grow modestly in 2016, with a decline in growth expected in developing countries. 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.

The Company initiated several restructuring actions in 2015 and 2014 to further reduce the Company's overall cost structure. These restructuring actions included the closures of four manufacturing facilities during 2015 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 2016 and in future years. In addition, the Company expects to identify other cost reduction opportunities and possibly take further actions in 2016, 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.

Cash flows from operations in 2016 are expected to benefit from increased operating cash flow from the acquisition of Courier and improved profitability driven by organic net sales growth. The expected increases in cash flows are expected to be more than offset by payments for spinoff-related transaction and transition expenses. The Company expects capital expenditures to be in the range of $200 million to $225 million in 2016.

The Company's pension and other postretirement benefits plans were underfunded by $510.7 million and $169.6 million, respectively, as of December 31, 2015, as reported on 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 2016 under all pension and other postretirement benefits plans are expected to be

approximately $25.0 million to $30.0 million, which is consistent with contributions made in 2015 of $25.6 million.

During the fourth quarter of 2015, the Company communicated to retirees the option to receive a lump-sum pension payment or annuity with payments beginning in the second quarter of 2016. To the extent eligible individuals elect the option to receive a lump-sum pension payment or annuity, the Company's pension obligations will be reduced. The Company expects to record a significant non-cash settlement charge in 2016 in connection with the settlement payments. The amount of this charge will depend on how many individuals elect the option to receive a lump-sum pension payment or annuity, as well as the discount rate and asset values on the settlement date. The Company estimates the settlement charge to be approximately $90.0 million to $140.0 million assuming 20% to 30% of individuals elect the option to receive a lump sum pension payment or annuity.

In connection with the proposed spinoff transactions, the Company expects to incur a significant amount of spinoff-related transaction and transition expenses in 2016, including information technology, consulting, real estate, finance and other incremental expenses. Refer to Item 1, Business – Proposed Spinoff Transactions, of Part I of this Annual Report on Form 10-K for further details regarding the proposed spinoff transactions.

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. 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. Refer to Note 1, Basis of Presentation and Summary of Significant Accounting Policies, to the Consolidated Financial Statements for further discussion.

Certain revenues earned by the Company require significant 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.

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.

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. The Company also performs an interim review for indicators of impairment each quarter to assess whether an interim impairment review is required for any reporting unit. 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, the Company recognized non-cash charges of $13.7 million and $4.3 million during the third quarter of 2015 for the impairment of goodwill in the Europe and Latin America reporting units, respectively, both of which are within the International segment. The goodwill impairment charge in the Europe reporting unit was due to the announced reorganization of certain operations which resulted in a reduction in the estimated fair value of the reporting unit based on lower expectations of future revenue, profitability and cash flows as compared to the expectations as of the October 31, 2014 annual goodwill impairment test. As of December 31, 2015, the Europe and Latin America reporting units had no remaining goodwill. Based on the interim assessments, management concluded that other than the goodwill impairments recognized in the Europe and Latin America reporting units, no events or changes in circumstances indicated that it was more likely than not that the fair value for any reporting unit had declined below its carrying value.

As of October 31, 2015, eleven reporting units had goodwill. The magazines, catalogs and retail inserts, directories, forms, sourcing, business process outsourcing, Europe, Latin America and Canada reporting units had no goodwill as of October 31, 2015. The reporting units with goodwill were reviewed for impairment using either a qualitative or quantitative assessment.

Qualitative Assessment for Impairment

The Company performed a qualitative assessment for the Asia reporting unit to determine whether it was more likely than not that the fair value of the reporting unit was less than its carrying value. In performing this analysis, the Company considered various factors, including the effect of market or industry changes and the reporting unit's actual results compared to projected results. In addition, management considered how other key assumptions used in the October 31, 2014 annual goodwill impairment test could be impacted by changes in market conditions and economic events.

As part of the qualitative review of impairment, management analyzed the potential changes in fair value of the Asia reporting unit based on its operating results for the ten months ended October 31, 2015 compared to expected results. As of October 31, 2014, the estimated fair value of the Asia reporting unit exceeded its carrying value by approximately 80.2%, according to a valuation performed by a third-party appraisal firm.

Based on its qualitative assessment, management concluded that as of October 31, 2015, it was more likely than not that the fair values of the Asia reporting unit was greater than its carrying values. The goodwill balance of the Asia reporting unit was $57.3 million as of October 31, 2015.

Quantitative Assessment for Impairment

For the remaining ten reporting units 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, 2015, indicated that the estimated fair values for all ten 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 values. This determination included estimating the fair value of each reporting unit 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 2015 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. Ten reporting units passed Step One, with fair values that exceeded the carrying values by between 17% and 297% 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 estimated discount rates for the reporting units with operations primarily located in the U.S. ranged from 8.0% to 8.5% as of October 31, 2015. The estimated discount rate for a reporting unit with operations primarily in foreign locations was 11.0%. 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, 2015, the Company recognized non-cash impairment charges of $11.9 million, including $9.2 million and $2.2 million related to the impairment of certain acquired customer relationship intangible assets in the labels reporting unit within the Variable Print segment and the Latin America reporting unit within the International segment, respectively. The impairment of the customer relationship intangible assets resulted from lower expectations of future revenue to be derived from those relationships. In addition, the Company recognized non-cash impairment charges of $10.3 million during the year ended December 31, 2015, related to machinery and equipment, buildings and land, primarily as a result of restructuring activities.

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 discount rates for pension benefits at December 31, 2015 and 2014 were 4.5% and 4.1%, respectively. The discount rates for other postretirement benefits plans at December 31, 2015 and 2014 were 4.2% and 3.9%, respectively.

As of December 31, 2015, the Company changed the method used to estimate the interest cost components of net pension and other postretirement benefits plan expense for its defined benefit pension and other postretirement benefit plans. Historically, the interest cost components were estimated using a single weighted-average discount rate derived from the yield curve used to measure the projected benefit obligation at the beginning of the period. The Company has elected to use a full yield curve approach in the estimation of these interest components of net pension and other postretirement benefits plan expense by applying the specific spot rates along the yield curve used in the determination of the projected benefit obligation to the relevant projected cash flows. The Company made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates and to provide a more precise measurement of interest costs. This change does not affect the measurement and calculation of the Company's total benefit obligations. The Company has accounted for this change as a change in estimate and accordingly has accounted for it prospectively starting in the first quarter of 2016. The reduction in the interest cost components of net pension and other postretirement benefits plan expense for 2016 associated with this change in estimate is approximately $34.0 million.

A one-percentage point change in the discount rates at December 31, 2015 would have the following effects on the accumulated benefit obligation and projected benefit obligation:

Pension Plans

	1.0% Increase	1.0% Decrease
	(in millions)	
Accumulated benefit obligation	$(468.8)	$ 573.9
Projected benefit obligation	(471.8)	577.3

Other Postretirement Benefits Plans

	1.0% Increase	1.0% Decrease
	(in millions)	
Accumulated benefit obligation	$(36.1)	$ 43.4

The Company's U.S. pension plans are frozen and the Company has transitioned to a risk management approach for its U.S. pension plan assets. The overall investment objective of this approach is to further reduce the risk of significant decreases in the plan's funded status by allocating a larger portion of the plan's assets to investments expected to hedge the impact of interest rate risks on the plan's obligation. Over time, the target asset allocation percentage for the pension plan is expected to decrease for equity and other "return seeking" investments and increase for fixed income and other "hedging" investments. The assumed long-term rate of return for plan assets, which is determined annually, is likely to decrease as the asset allocation shifts over time.

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 the primary U.S. pension plan was approximately 60.0% for return seeking investments and approximately 40.0% for hedging investments. The expected long-term rate of return on plan assets assumption used to calculate net pension and other postretirement benefits plan expense in 2015 was 7.50% and 7.25%, respectively, for the Company's major U.S. pension and other postretirement benefits plans. 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 2016 is 7.25% for both of the Company's major U.S. pension and other postretirement benefits plans.

A 0.25% change in the expected long-term rate of return on plan assets at December 31, 2015 would have the following effects on 2015 and 2016 pension and other postretirement benefit plan (income)/expense:

0.25%	0.25%

	Increase	Decrease
	(in millions)	
2015		
U.S. pension plans	$(7.5)	$ 7.5
Other postretirement benefit plans	(0.5)	0.5
2016		
U.S. pension plans	$(7.7)	$ 7.7
Other postretirement benefit plans	(0.5)	0.5

The Company also maintains several pension plans in 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.

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. 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, 2015 and 2014, valuation allowances of $233.5 million and $257.8 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 $4.3 million as of December 31, 2015 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.

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.

With respect to claims made under the Company’s third-party insurance for workers’ compensation, automobile and general liability, the Company is responsible for the payment of claims below and above insured limits, and consulting actuaries are utilized to assist the Company in estimating the obligation associated with any such 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 such incurred losses, and these amounts are adjusted based upon actual claims experience and settlements. 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. Total restructuring charges were $61.9 million for the year ended December 31, 2015. 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.

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 allowance for doubtful accounts receivable was $41.5 million and $44.3 million at December 31, 2015 and 2014, respectively. 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.

Share-Based Compensation

The amount of expense recognized for share-based awards is determined by the Company's estimates of several factors, including expected performance compared to target for performance share units, future forfeitures of awards, expected volatility of the Company's stock and the average life of options prior to expiration. The total compensation expense related to all share-based compensation plans was $17.3 million for the year ended December 31, 2015. See Note 17, Stock and Incentive Programs for Employees, to the Consolidated Financial Statements for further discussion.

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, 2015 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2014

The following table shows the results of operations for the years ended December 31, 2015 and 2014, which reflects the results of acquired businesses from the relevant acquisition dates:

	2015	2014	$ Change	% Change
	(in millions, except percentages)			
Products net sales	$9,323.6	$9,715.2	$(391.6)	(4.0%)
Services net sales	1,933.2	1,888.2	45.0	2.4%
Total net sales	11,256.8	11,603.4	(346.6)	(3.0%)
Products cost of sales (exclusive of depreciation and amortization)	7,282.3	7,581.6	(299.3)	(3.9%)
Services cost of sales (exclusive of depreciation and amortization)	1,510.5	1,471.2	39.3	2.7%
Total cost of sales	8,792.8	9,052.8	(260.0)	(2.9%)

Products gross profit	2,041.3	2,133.6	(92.3)	(4.3 %)
Services gross profit	422.7	417.0	5.7	1.4 %
Total gross profit	2,464.0	2,550.6	(86.6)	(3.4 %)
Selling, general and administrative expenses (exclusive of depreciation and amortization)	1,300.0	1,427.0	(127.0)	(8.9 %)
Restructuring, impairment and other charges-net	122.6	133.7	(11.1)	(8.3 %)
Depreciation and amortization	454.0	474.0	(20.0)	(4.2 %)
Income from operations	$587.4	$515.9	$71.5	13.9 %

Consolidated

Net sales of products for the year ended December 31, 2015 decreased $391.6 million, or 4.0%, to $9,323.6 million versus the same period in 2014, including a $215.5 million, or 2.2% decrease due to changes in foreign exchange rates. Net sales of products decreased due to lower volume in the Publishing and Retail Services and Variable Print segments, an $85.2 million, or 0.9%, decrease due to the impact of the Venezuelan currency devaluation and sale of the Company's Venezuelan operating entity, an $80.0 million, or 0.8%, decrease due to a decline in pass-through paper sales and price pressures, partially offset by the acquisitions of Courier, Esselte and Consolidated Graphics.

Net sales from services for the year ended December 31, 2015 increased $45.0 million, or 2.4%, to $1,933.2 million versus the same period in 2014, including a $35.5 million, or 1.9%, decrease due to changes in foreign exchange rates. The increase in net sales from services was primarily due to higher volume in the Strategic Services segment, primarily driven by the logistics reporting unit.

Products cost of sales decreased $299.3 million, but increased 0.1% as a percentage of net sales of products for the year ended December 31, 2015 versus the same period in the prior year. Products cost of sales decreased primarily due to lower volume in the Publishing and Retail Services and Variable Print segments, the impact of the Venezuelan currency devaluation and sale of the Company's Venezuelan operating entity, lower incentive compensation expense and cost control initiatives, partially offset by the acquisitions of Courier, Esselte and Consolidated Graphics and wage and other inflation in the International segment.

Services cost of sales increased $39.3 million, or 0.2% as a percentage of net sales from services for the year ended December 31, 2015 versus the same period in the prior year. Services cost of sales increased primarily due to higher volume in the Strategic Services segment driven by the logistics reporting unit and increased transportation costs, partially offset by cost control initiatives.

Products gross profit decreased $92.3 million to $2,041.3 million for the year ended December 31, 2015 versus the same period in 2014 primarily due to volume declines in the Publishing and Retail Services and Variable Print segments, the impact of the Venezuelan currency devaluation and sale of the Company's Venezuelan operating entity, price pressures and wage and other inflation in the International segment, partially offset by the acquisitions of Courier, Consolidated Graphics and Esselte and cost control initiatives. Products gross margin decreased slightly from 22.0% to 21.9%, reflecting price pressures and wage and other inflation in the International segment.

Services gross profit increased $5.7 million to $422.7 million for the year ended December 31, 2015 versus the same period in 2014 primarily as a result of higher volume in the logistics reporting unit within the Strategic Services segment, partially offset by increased transportation costs. Services gross margin decreased from 22.1% to 21.9%, reflecting increased costs of transportation.

Selling, general and administrative expenses decreased $127.0 million to $1,300.0 million, or 0.8% as a percentage of net sales, for the year ended December 31, 2015 versus the same period in 2014 due to the favorable impact of the prior year pension settlement charges of $95.7 million, lower incentive compensation expense and cost control initiatives, partially offset by the acquisitions of Courier, Consolidated Graphics and Esselte, $13.6 million of spinoff-related transaction expenses and a $5.7 million increase in acquisition-related expenses.

For the year ended December 31, 2015, the Company recorded net restructuring, impairment and other charges of $122.6 million compared to $133.7 million in the same period in 2014. In 2015, these charges included $44.3 million of employee termination costs for 1,939 employees, of whom 1,719 were terminated as of December 31, 2015. These charges were primarily the result of two facility closures in the International segment, one facility closure in the Variable Print segment, one facility closure in the Publishing and Retail Services segment and the reorganization of certain operations. The Company also recorded $24.6 million of other charges, including integration charges of $19.1 million for payments made to certain Courier employees upon the termination of Courier's executive severance plan immediately prior to the acquisition during the second quarter of 2015. The Company also incurred lease termination and other restructuring charges of $17.6 million for the year ended December 31, 2015. Additionally, the Company recorded non-cash charges of $13.7 million and $4.3 million during the year ended December 31, 2015 for the impairment of goodwill in the Europe and Latin America reporting units respectively, both of which are within the International segment. The goodwill impairment charge in the Europe reporting unit was due to the announced reorganization of certain operations which resulted in a reduction in the estimated fair value of the reporting unit based on lower expectations of future revenue, profitability and cash flows as compared to the expectations as of the

October 31, 2014 annual goodwill impairment test. The Company also recorded non-cash charges of $11.9 million for the impairment of intangible assets, including $9.2 million and $2.2 million related to the impairment of certain acquired customer relationship intangible assets in the labels reporting unit within the Variable Print segment and the Latin America reporting unit within the International segment, respectively, for the year ended December 31, 2015. The impairment of the customer relationship intangible assets resulted from lower expectations of future revenue to be derived from those relationships. In addition, the Company recorded $6.2 million of impairment charges for other long-lived assets, primarily related to buildings and machinery and equipment associated with facility closures.

For the year ended December 31, 2014, the Company recorded net restructuring, impairment and other charges of $133.7 million compared to $133.5 million in the same period in 2013. In 2014, these charges included $35.5 million of other charges as a result of its decision to withdraw from certain multi-employer pension plans serving facilities that are currently operating. Additionally, the Company incurred $30.3 million of employee termination costs for 654 employees, substantially all of whom were terminated as of December 31, 2015. These charges were the result of the integration of Consolidated Graphics, including the closure of seven Consolidated Graphics facilities as well as one additional facility closure within the Variable Print segment, one facility closure in the Publishing and Retail Services segment and the reorganization of certain operations. The Company also recorded lease termination and other restructuring charges of $20.8 million for the year ended December 31, 2014, including charges related to multi-employer pension plan withdrawal obligations as a result of facility closures. In addition, the Company recorded $18.1 million of non-cash charges for the impairment of goodwill in the magazines, catalogs and retail inserts reporting unit within the Publishing and Retail Services segment. The goodwill impairment charge resulted from reductions in the estimated fair value of the reporting unit based on lower expectations for future revenue, profitability and cash flows as compared to expectations as of the last annual goodwill impairment test. The lower expectations were due to an expected increase in volume declines and increasing price pressures resulting from declining demand, primarily in catalogs and magazines. Revenue and income from operations in the magazines, catalogs and retail inserts reporting unit for the year ended December 31, 2014 were lower than previous expectations due to volume declines and price pressures. The Company also recorded non-cash charges of $7.8 million, $4.1 million and $1.7 million related to the impairment of acquired customer relationship intangible assets in the Canada reporting unit within the International segment, the commercial and digital print reporting unit within the Variable Print segment and the financial reporting unit within the Strategic Services segment, respectively, for the year ended December 31, 2014. Additionally, the Company recorded $1.4 million of impairment charges related to acquired tradenames in the commercial and digital print reporting unit within the Variable Print segment and $14.0 million of impairment charges primarily related to buildings, machinery and equipment as a result of facility closures for the year ended December 31, 2014.

Depreciation and amortization decreased $20.0 million to $454.0 million for the year ended December 31, 2015 compared to the same period in 2014 due to the impact of changes in foreign exchange rates and lower capital spending in recent years compared to historical levels, partially offset by increases due to the acquisitions of Courier, Consolidated Graphics and Esselte. Depreciation and amortization included $78.5 million and $78.1 million of amortization of other intangible assets related to customer relationships, trade names, trademarks, licenses and agreements for the year ended December 31, 2015 and 2014, respectively.

Income from operations for the year ended December 31, 2015 was $587.4 million, an increase of $71.5 million, or 13.9%, compared to the year ended December 31, 2014. The increase was due to the favorable impact of the prior year pension settlement charges of $95.7 million, lower incentive compensation expense, the acquisition of Courier, lower depreciation and amortization expense, lower restructuring, impairment and other charges, cost control initiatives resulting from the integration of Consolidated Graphics and Esselte and the reorganization of certain operations, and an increase in volume due to the acquisitions of Consolidated Graphics and Esselte, partially offset by volume declines in the Publishing and Retail Services and Variable Print segments, price pressures and wage and other inflation in the International segment.

	2015	2014	$ Change	% Change
	(in millions, except percentages)			
Interest expense-net	$276.0	$282.1	$(6.1)	(2.2%)
Investment and other expense-net	43.6	9.6	34.0	354.2%

Loss on debt extinguishment	-	77.1	(77.1)	(100.0 %)

Net interest expense decreased by $6.1 million for the year ended December 31, 2015 versus the same period in 2014, primarily due to a decrease in average outstanding debt.

Net investment and other expense for the year ended December 31, 2015 and 2014 was $43.6 million and $9.6 million, respectively. For the year ended December 31, 2015, the Company recorded a loss of $30.3 million related to the currency remeasurement in Venezuela and the related impact of the devaluation and a $14.7 million net loss on the sale of its Venezuelan operating entity. For the year ended December 31, 2014, the Company recorded a loss of $18.4 million, net of foreign exchange gains, related to the Venezuelan currency remeasurement, and a loss on the bankruptcy liquidation of RRDA of $16.4 million. This was partially offset by a gain on the sale of Journalism Online of $11.2 million, a $9.5 million bargain purchase gain related to the Esselte acquisition and a gain of $3.0 million resulting from the sale of the Company's shares of a previously impaired equity investment.

	2015	2014	$ Change	% Change
	(in millions, except percentages)			
Income before income taxes	$267.8	$147.1	$120.7	82.1 %
Income tax expense	129.4	26.3	103.1	392.0 %
Effective income tax rate	48.3 %	17.9 %		

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The effective income tax rate for the year ended December 31, 2015 was 48.3% compared to 17.9% in the same period in 2014. Income tax expense for the period ended December 31, 2015 reflects a lower tax benefit than the statutory rate on the Venezuelan currency devaluation, the impact of the non-deductible goodwill impairment charges, charges for unrecognized tax positions of $6.0 million due to the receipt of an unfavorable court decision relating to payment of prior year taxes in the International segment and the loss on the sale of the Company's Venezuelan operating entity. The tax rate in 2014 was impacted by a $15.2 million tax benefit related to the decline in value of an entity within the Strategic Services segment.

The loss attributable to noncontrolling interests was $12.7 million for the year ended December 31, 2015 versus income of $3.4 million for the year ended December 31, 2014. For the year ended December 31, 2015 and 2014, the Venezuelan currency remeasurement, net of foreign exchange gains, resulted in losses attributable to noncontrolling interests of $10.5 million and $5.6 million, respectively. The impact of the remeasurement was more than offset for the year ended December 31, 2014 by the Company's operating earnings in Venezuela.

Net earnings attributable to RR Donnelley common shareholders for the year ended December 31, 2015 was $151.1 million, or $0.73 per diluted share, compared to $117.4 million, or $0.59 per diluted share, for the year ended December 31, 2014. In addition to the factors described above, the per share results reflect an increase in weighted average diluted shares outstanding of 6.8 million, primarily as a result of the acquisitions of Consolidated Graphics, Esselte and Courier.

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 descriptions of the reporting units 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,			
	2015		2014	
	(in millions, except percentages)			
Net sales	$2,521.7		$2,632.3	
Income from operations	77.3		86.1	
Operating margin	3.1	%	3.3	%
Restructuring and impairment and other charges-net	31.5		50.7	
Purchase accounting inventory adjustment	8.5		—	

Reporting unit	Net Sales for the Year Ended December 31, 2015	2014	$ Change	% Change
	(in millions, except percentages)			
Magazines, catalogs and retail inserts	$1,439.3	$1,646.0	$(206.7)	(12.6%)
Books	942.1	841.9	100.2	11.9%
Directories	140.3	144.4	(4.1)	(2.8%)
Total Publishing & Retail Services	$2,521.7	$2,632.3	$(110.6)	(4.2%)

Net sales for the Publishing and Retail Services segment for the year ended December 31, 2015 were $2,521.7 million, a decrease of $110.6 million, or 4.2%, compared to 2014. Net sales decreased due to lower volume in magazines, catalogs and retail inserts, an $83.2 million decrease in pass through paper sales, lower volume in consumer and educational books and price pressures, partially offset by the acquisition of Courier. An analysis of net sales by reporting unit follows:

- Magazines, catalogs and retail inserts: Sales decreased due to reduced volume, decreases in pass-through paper sales and price pressures.
- Books: Sales increased as a result of the acquisition of Courier, partially offset by reduced volume in educational and consumer books.
- Directories: Sales decreased primarily as a result of a decline in pass-through paper sales and lower volume resulting from electronic substitution.

Publishing and Retail Services segment income from operations decreased $8.8 million for the year ended December 31, 2015 due to volume declines and price pressures primarily in magazines, catalogs and retail inserts, partially offset by lower restructuring, impairment and other charges, the acquisition of Courier and lower incentive compensation expense. Operating margins decreased from 3.3% for the year ended December 31, 2014 to 3.1% for the year ended December 31, 2015. The purchase accounting inventory adjustment impacted margins unfavorably by 0.3 percentage points. Operating margins also decreased due to price pressures and unfavorable mix, partially offset by lower restructuring, impairment and other charges which favorably impacted margins by 0.7 percentage points.

Variable Print

	Year Ended December 31,	
	2015	2014
Net sales	$3,762.4	$3,767.9
Income from operations	250.7	240.8
Operating margin	6.7 %	6.4 %
Restructuring and impairment and other charges-net	21.4	44.8
Purchase accounting inventory adjustment	—	14.3
Acquisition-related expenses	—	0.1

	Net Sales for the Year Ended 2015			
Reporting unit	2015	2014	$ Change	% Change
	(in millions, except percentages)			
Commercial and digital print (a)	$1,665.7	$1,696.0	$ (30.3)	(1.8%)
Office products	560.2	496.3	63.9	12.9%
Direct mail (a)	516.3	519.9	(3.6)	(0.7%)
Labels	428.0	436.4	(8.4)	(1.9%)
Statement printing	392.9	390.4	2.5	0.6%
Forms	199.3	228.9	(29.6)	(12.9%)
Total Variable Print	$3,762.4	$3,767.9	$ (5.5)	(0.1%)

(a) Certain prior year amounts were restated to conform to the Company's current reporting unit structure.

Net sales for the Variable Print segment for the year ended December 31, 2015 were $3,762.4 million, a decrease of $5.5 million, or 0.1%, compared to 2014, including a $13.3 million, or 0.4% decrease due to changes in foreign exchange rates. In addition, net sales decreased due to lower transactional commercial print and forms volume, partially offset by the acquisitions of Consolidated Graphics and Esselte and higher volume in office products. An analysis of net sales by reporting unit follows:

- Commercial and digital print: Sales decreased primarily as a result of lower transactional commercial print and print and fulfillment volume and the unfavorable impact of U.S election cycles on current year

spending, partially offset by the acquisition of Consolidated Graphics and higher volume in in-store marketing materials.

- Office products: Sales increased as a result of the acquisition of Esselte and higher volume in filing and binder products primarily related to new customers, partially offset by changes in foreign exchange rates and price pressures.
- Direct mail: Sales decreased as a result of lower pass-through postage sales, partially offset by higher volume and an increase in pass-through paper sales.
- Labels: Sales decreased due to lower volume and price pressures.
- Statement printing: Sales increased slightly primarily as a result of higher pass-through postage sales and an increase in volume, partially offset by price pressures.
- Forms: Sales decreased due to lower volume.

Variable Print segment income from operations increased $9.9 million for the year ended December 31, 2015 mainly due to lower restructuring, impairment and other charges, the impact of the prior year purchase accounting inventory adjustment, cost control initiatives resulting from the integration of Consolidated Graphics and Esselte, favorable mix within labels and direct mail, lower incentive compensation expense and higher volume resulting from the acquisitions of Esselte and Consolidated Graphics, partially offset by lower volume in transactional commercial print and price pressures. Operating margins increased from 6.4% for the year ended December 31, 2014 to 6.7% for the year ended December 31, 2015. Margins improved 0.6 percentage points due to lower restructuring, impairment and other charges and 0.4 percentage points due to the favorable impact of the prior year purchase accounting inventory adjustment. Additionally, operating margins reflected price pressures, partially offset by cost control initiatives resulting from the integration of Consolidated Graphics and Esselte.

Strategic Services

	Year Ended December 31,	
	2015	2014
Net sales	$2,677.9	$2,607.5
Income from operations	257.5	257.4
Operating margin	9.6 %	9.9 %
Restructuring and impairment and other charges-net	13.1	11.6
Purchase accounting inventory adjustment	2.3	—

	Net Sales for the Year Ended Year Ended			
Reporting unit	2015	2014	$ Change	% Change
	(in millions, except percentages)			
Logistics	$1,257.1	$1,193.3	$ 63.8	5.3 %
Financial	990.7	1,014.5	(23.8)	(2.3 %)
Sourcing	233.6	214.9	18.7	8.7 %
Digital and creative solutions	196.5	184.8	11.7	6.3 %
Total Strategic Services	$2,677.9	$2,607.5	$ 70.4	2.7 %

Net sales for the Strategic Services segment for the year ended December 31, 2015 were $2,677.9 million, an increase of $70.4 million, or 2.7%, compared to the year ended December 31, 2014, including a $15.0 million, or 0.6%, decrease due to changes in foreign exchange rates. Net sales increased primarily due to higher volume in logistics, the acquisition of Courier, and an increase in volume in pass-through postage sales, sourcing and translation services, partially offset by a decrease in fuel surcharges and reduced capital markets transactions activity. An analysis of net sales by reporting unit follows:

- Logistics: Sales increased primarily due to higher volume in freight brokerage services, pass-through postage sales and international mail services, partially offset by a decrease in fuel surcharges and lower volume in print logistics.
- Financial: Sales decreased due to a reduction in capital markets transactions activity, changes in foreign exchange rates and price pressures in investment management products, partially offset by higher translation services.
- Sourcing: Sales increased primarily due to higher volume in variable print, forms and commercial print-management for healthcare customers.

- Digital and creative solutions: Sales increased primarily due to the acquisition of Courier, partially offset by the bankruptcy of two customers and lower volume in prepress and photo services.

Strategic Services segment income from operations increased $0.1 million for the year ended December 31, 2015 mainly due to higher volume in logistics and cost control initiatives, partially offset by increased costs of transportation and unfavorable revenue mix. Operating margins decreased from 9.9% to 9.6% of which 0.1 percentage points were due to higher restructuring, impairment and other charges. Operating margins were also impacted by increased costs of transportation and unfavorable revenue mix.

International

	Year Ended December 31,	
	2015	2014
Net sales	$2,294.8	$2,595.7
Income from operations	71.4	106.7
Operating margin	3.1 %	4.1 %
Restructuring and impairment and other charges-net	52.2	22.3
Acquisition related expenses	—	0.4

	Net Sales for the Year Ended December 31,			
Reporting unit	2015	2014	$ Change	% Change
	(in millions, except percentages)			
Asia	$737.5	$743.7	$(6.2)	(0.8%)
Business process outsourcing	433.9	467.0	(33.1)	(7.1%)
Global Turnkey Solutions	345.8	341.7	4.1	1.2%
Europe	309.2	383.7	(74.5)	(19.4%)
Latin America	271.3	440.6	(169.3)	(38.4%)
Canada	197.1	219.0	(21.9)	(10.0%)
Total International	$2,294.8	$2,595.7	$(300.9)	(11.6%)

Net sales in the International segment for the year ended December 31, 2015 were $2,294.8 million, a decrease of $300.9 million, or 11.6%, compared to the same period in 2014, including a $222.7 million, or 8.8%, decrease due to changes in foreign exchange rates. The net sales decrease was also due to an $85.2 million, or 3.3%, decrease as a result of the impact of the Venezuelan currency devaluation and sale of the Company's Venezuelan operating entity during the second quarter of 2015, the bankruptcy liquidation of RRDA in the third quarter of 2014, which had net sales of $22.1 million for the year ended December 31, 2014, and lower volume in Europe, partially offset by higher volume in Global Turnkey Solutions, Canada and business process outsourcing. An analysis of net sales by reporting unit follows:

- Asia: Sales decreased due to price pressures and lower volume in labels and book exports, partially offset by higher volume in packaging products.
- Business process outsourcing: Sales decreased due to changes in foreign exchanges rates, lower pass-through print management volume and the sale of GRES in the first quarter of 2014, partially offset by an increase in volume due to new customers and higher outsourcing volume.
- Global Turnkey Solutions: Sales increased due to higher volume primarily related to a new customer, partially offset by changes in foreign exchange rates.
- Europe: Sales decreased primarily due to changes in foreign exchange rates, reduced volume and price pressures.
- Latin America: Sales decreased due to the impact of the Venezuelan currency devaluation and sale of the Company's Venezuelan operating entity, changes in foreign exchange rates across the region and the 2014 bankruptcy liquidation of RRDA.
- Canada: Sales decreased due to changes in foreign exchange rates, partially offset by higher labels and statement printing volume.

International segment income from operations decreased $35.3 million primarily due to higher restructuring, impairment and other charges and the impact of the currency devaluation in Venezuela and sale of the Company's Venezuelan operating entity. Wage inflation in Latin America, Asia and business process outsourcing, price pressures in Asia and Europe and changes in foreign exchange rates were offset by lower depreciation and amortization expense, cost control initiatives and lower incentive compensation expense. Operating margins decreased from 4.1% to 3.1%, of which 1.4 percentage points was due to higher restructuring, impairment and other charges, which was partially offset by cost control initiatives.

Corporate

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

	Year Ended December 31, 2015	2014
	(in millions)	
Operating expenses	$69.5	$175.1
Spinoff-related transaction expenses	13.6	—
Restructuring and impairment charges	4.4	4.3
Acquisition-related expenses	14.3	8.1
Pension settlement charges	—	95.7

Corporate operating expenses in the year ended December 31, 2015 were $69.5 million, a decrease of $105.6 million compared to the same period in 2014. The decrease was driven by the favorable impact of the prior year pension settlement charges, lower incentive compensation expense, a $7.1 million LIFO inventory benefit and lower bad debt and workers' compensation expense, partially offset by an increase in healthcare costs, spinoff-related transaction expenses and acquisition-related expenses.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2014 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2013

	Income from Operations	Operating Margin	Net Earnings Attributable to RR Donnelley Common Shareholders	Net Earnings Attributable to RR Donnelley Shareholders Per Diluted Share
	(in millions, except margin and per share data)			
For the year ended December 31, 2013	$579.7	5.5 %	$ 211.2	$ 1.15
2014 restructuring, impairment and other charges--net	(133.7)	(1.2 %)	(97.0)	(0.49)
2013 restructuring, impairment and other charges--net	133.5	1.3 %	88.2	0.48
Acquisition-related expenses	(2.7)	0.0 %	(1.7)	—
Pension settlement charges	(95.7)	(0.8 %)	(58.4)	(0.29)
Purchase accounting inventory adjustments	(14.3)	(0.1 %)	(9.1)	(0.05)
Net gain on disposal of businesses	—	—	18.7	0.10
Loss on bankruptcy of subsidiary	—	—	(14.2)	(0.07)
Gain on bargain purchase	—	—	9.5	0.05
Venezuela currency remeasurement	—	—	(7.2)	(0.03)
Net gain on investments	—	—	4.7	0.03
Loss on debt extinguishment	—	—	4.1	0.04

Income tax adjustments	—	—		(50.5)	(0.28)
Operations	49.1	(0.3	%)	19.1	(0.05)
For the year ended December 31, 2014	$515.9	4.4	%	$ 117.4	$ 0.59

2014 restructuring, impairment and other charges - net: included $35.5 million for other estimated charges related to the decision to withdraw from certain multi-employer pension plans serving facilities that are currently operating; $30.3 million for employee termination costs; $20.8 million of lease termination and other restructuring costs, including charges related to multi-employer pension plan withdrawal obligations as a result of facility closures; $18.1 million for the impairment of goodwill in the magazines, catalogs and retail inserts reporting unit; $14.0 million for impairment of other long-lived assets, primarily for buildings and machinery and equipment associated with facility closures; $13.6 million for the impairment of acquired customer relationship intangible assets; and $1.4 million for the impairment of acquired tradenames.

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.

Acquisition-related expenses: included pre-tax charges of $8.6 million ($6.9 million after-tax) related to legal, accounting and other expenses for the year ended December 31, 2014 associated with completed or contemplated acquisitions. For the year ended December 31, 2013, these pre-tax charges were $5.9 million ($5.2 million after-tax).

Pension settlement charges: included pre-tax charges of $95.7 million ($58.4 million after-tax) for the year ended December 31, 2014, related to lump-sum pension settlement payments.

Purchase accounting inventory adjustments: included pre-tax charges of $14.3 million ($9.1 million after-tax) for the year ended December 31, 2014 as a result of inventory purchase accounting adjustments for Consolidated Graphics and Esselte.

Net gain on disposal of businesses: included a pre-tax gain on the sale of Journalism Online of $11.2 million ($6.9 million after-tax) offset by a pre-tax loss on the sale of GRES of $0.8 million ($0.5 million after-tax) for the year ended December 31, 2014. The year ended December 31, 2013 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 bankruptcy of subsidiary: included a pre-tax loss of $16.4 million ($14.2 million after-tax) for the year ended December 31, 2014 as a result of the bankruptcy liquidation of RRDA, a subsidiary of RR Donnelley.

Gain on bargain purchase: acquisition of Esselte resulted in a pre-tax gain of $9.5 million ($9.5 million after-tax) for the year ended December 31, 2014.

Venezuela currency remeasurement: currency remeasurement in Venezuela resulted in a pre-tax loss, net of foreign exchange gains, of $18.4 million ($13.8 million after-tax), of which $5.6 million was included in loss attributable to noncontrolling interests for the year ended December 31, 2014. For the year ended December 31, 2013, the 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.

Net gain on investments: pre-tax gain of $3.0 million ($1.9 million after-tax) resulting from the sale of the Company’s shares of a previously impaired equity investment offset by a pre-tax loss of $1.3 million ($0.8 million after-tax) from the impairment of an equity investment for the year ended December 31, 2014 and impairment losses on equity investments of $5.5 million ($3.6 million after-tax) for the year ended December 31, 2013.

Loss on debt extinguishment: included a pre-tax loss of $77.1 million ($49.8 million after-tax) for the year ended December 31, 2014, related to the premiums paid, unamortized debt issuance costs and other expenses due to the repurchase of $211.1 million of the 8.25% senior notes due March 15, 2019, $100.0 million of the 7.25% senior notes due May 15, 2018 and $50.0 million of the 7.625% senior notes due June 15, 2020. For the year ended December 31, 2013, a pre-tax loss of $81.9 million ($53.9 million after-tax) was recognized 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.

Income tax adjustments: for the year ended December 31, 2014, income tax adjustments include a tax benefit related to the decline in value of an entity within the Strategic Services segment, of $15.2 million. For the year ended December 31, 2013, 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.

Operations: reflected price pressures primarily in the International, Publishing and Retail Services and Variable Print segments, wage and other inflation in the International segment, an increase in depreciation and amortization expense and volume declines in the Publishing and Retail Services and Variable Print segments, partially offset by increases due to the acquisitions of Consolidated Graphics and Esselte, cost control initiatives, lower healthcare costs and increased volume in the Strategic Services segment. 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, 2014 and 2013, which reflects the results of acquired businesses from the relevant acquisition dates:

	2014	2013	$ Change	% Change
	(in millions, except percentages)			
Products net sales	$9,715.2	$8,765.8	$949.4	10.8 %
Services net sales	1,888.2	1,714.5	173.7	10.1 %
Total net sales	11,603.4	10,480.3	1,123.1	10.7 %
Products cost of sales (exclusive of depreciation and amortization)	7,581.6	6,816.9	764.7	11.2 %
Services cost of sales (exclusive of depreciation and amortization)	1,471.2	1,332.9	138.3	10.4 %
Total cost of sales	9,052.8	8,149.8	903.0	11.1 %
Products gross profit	2,133.6	1,948.9	184.7	9.5 %
Services gross profit	417.0	381.6	35.4	9.3 %
Total gross profit	2,550.6	2,330.5	220.1	9.4 %
Selling, general and administrative expenses (exclusive of depreciation and amortization)	1,427.0	1,181.5	245.5	20.8 %
Restructuring, impairment and other charges-net	133.7	133.5	0.2	0.1 %
Depreciation and amortization	474.0	435.8	38.2	8.8 %
Income from operations	$515.9	$579.7	$(63.8)	(11.0 %)

Net sales of products for the year ended December 31, 2014 increased $949.4 million, or 10.8%, to $9,715.2 million versus the same period in the prior year, including a $51.0 million, or 0.6%, decrease due to changes in foreign exchange rates. Net sales of products increased due to the acquisitions of Consolidated Graphics and Esselte and price increases driven by inflation in Latin America within the International segment, partially offset by lower volume in the Publishing and Retail Services segment, price pressures in the International, Publishing and Retail Services and Variable Print segments and a $12.2 million, or 0.1%, decrease due to a decline in pass-through paper sales.

Net sales from services for the year ended December 31, 2014 increased $173.7 million, or 10.1%, to $1,888.2 million versus the same period in the prior year, including a $3.2 million, or 0.2%, increase due to changes in foreign exchange rates. The increase in net sales from services was primarily due to higher volume in the Strategic Services segment, driven by the logistics and financial reporting units. These increases were partially offset by the disposition of GRES, previously included in the International segment, in the first quarter of 2014.

Products cost of sales increased $764.7 million, or 0.2% as a percentage of net sales of products for the year ended December 31, 2014 versus the same period in the prior year. Products cost of sales increased primarily due to the acquisitions of Consolidated Graphics and Esselte, wage and other inflation in the International segment and the impact of inventory purchase accounting adjustments of $14.3 million, partially offset by cost control initiatives.

Services cost of sales increased $138.3 million, or 0.2% as a percentage of net sales from services for the year ended December 31, 2014 versus the same period in the prior year. Services cost of sales increased primarily due to increased transportation costs driven by the growth in logistics volume.

Products gross profit increased $184.7 million to $2,133.6 million for the year ended December 31, 2014 versus the same period in the prior year due to the acquisitions of Consolidated Graphics and Esselte and cost control initiatives,

partially offset by price pressures, volume declines in the Publishing and Retail Services segment and wage and other inflation in the International segment. Products gross margin decreased slightly from 22.2% to 22.0% reflecting price pressures, wage and other inflation in the International segment and the impact of inventory purchase accounting adjustments, mostly offset by cost control initiatives.

Services gross profit increased $35.4 million to $417.0 million for the year ended December 31, 2014 versus the same period in the prior year due to higher volume in the Strategic Services segment driven by the logistics and financial reporting units. These increases were partially offset by increased transportation costs. Services gross margin decreased slightly from 22.3% to 22.1%, reflecting increased transportation costs, mostly offset by favorable mix in the Strategic Services segment.

Selling, general and administrative expenses increased $245.5 million to $1,427.0 million, and from 11.3% to 12.3% as a percentage of net sales, for the year ended December 31, 2014 versus the same period in the prior year reflecting increased costs as a result of the Consolidated Graphics and Esselte acquisitions, pension settlement charges of $95.7 million and wage and other inflation in the International segment, partially offset by cost control initiatives.

For the year ended December 31, 2014, the Company recorded net restructuring, impairment and other charges of $133.7 million compared to $133.5 million in the same period in 2013. In 2014, these charges included $35.5 million of other charges as a result of its decision to withdraw from certain multi-employer pension plans serving facilities that are currently operating. Additionally, the Company incurred $30.3 million of employee termination costs for 654 employees, substantially all of whom were terminated as of December 31, 2015. These charges were the result of the integration of Consolidated Graphics, including the closure of seven Consolidated Graphics facilities as well as one additional facility closure within the Variable Print segment, one facility closure in the Publishing and Retail Services segment and the reorganization of certain operations. The Company also recorded lease termination and other restructuring charges of $20.8 million for the year ended December 31, 2014, including charges related to multi-employer pension plan withdrawal obligations as a result of facility closures. In addition, the Company recorded $18.1 million of non-cash charges for the impairment of goodwill in the magazines, catalogs and retail inserts reporting unit within the Publishing and Retail Services segment. The goodwill impairment charge resulted from reductions in the estimated fair value of the reporting unit based on lower expectations for future revenue, profitability and cash flows as compared to expectations as of the last annual goodwill impairment test. The lower expectations were due to an expected increase in volume declines and increasing price pressures resulting from declining demand, primarily in catalogs and magazines. Revenue and income from operations in the magazines, catalogs and retail inserts reporting unit for the year ended December 31, 2014 were lower than previous expectations due to volume declines and price pressures. The negative trends experienced in 2014 are expected to continue in future years. The Company also recorded non-cash charges of $7.8 million, $4.1 million and $1.7 million related to the impairment of acquired customer relationship intangible assets in the Canada reporting unit within the International segment, the commercial and digital print reporting unit within the Variable Print segment and the financial reporting unit within the Strategic Services segment, respectively, for the year ended December 31, 2014. Additionally, the Company recorded $1.4 million of impairment charges related to acquired tradenames in the commercial and digital print reporting unit within the Variable Print segment and $14.0 million of impairment charges primarily related to buildings, machinery and equipment as a result of facility closures for the year ended December 31, 2014.

For the year ended December 31, 2013, the Company recorded net restructuring, impairment and other charges of $133.5 million. These charges included $40.4 million of employee termination costs for 1,382 employees, all of whom were terminated as of December 31, 2015. These charges were the result of the closure 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 closures. In addition, the Company recorded 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.

Depreciation and amortization increased $38.2 million to $474.0 million for the year ended December 31, 2014 compared to the same period in 2013, primarily due to the acquisitions of Consolidated Graphics and Esselte, partially offset by the impact of lower capital spending in recent years compared to historical levels. Depreciation and amortization included $78.1 million and $64.0 million of amortization of other intangible assets related to customer relationships, trade names, trademarks, licenses and agreements for the year ended December 31, 2014 and 2013, respectively.

Income from operations for the year ended December 31, 2014 was $515.9 million, a decrease of $63.8 million, compared to the year ended December 31, 2013. The decrease was due to pension settlement charges, price pressures primarily in the International, Publishing and Retail Services and Variable Print segments, wage and other inflation in

the International segment, an increase in depreciation and amortization expense and volume declines in the Publishing and Retail Services and Variable Print segments, partially offset by increases due to the acquisitions of Consolidated Graphics and Esselte, cost control initiatives, lower healthcare costs and increased volume in the Strategic Services segment.

	2014	2013	$ Change	% Change
	(in millions, except percentages)			
Interest expense-net	$282.1	$261.4	$20.7	7.9%
Investment and other expense-net	9.6	27.4	(17.8)	(65.0%)
Loss on debt extinguishment	77.1	81.9	(4.8)	(5.9%)

Net interest expense increased by $20.7 million for the year ended December 31, 2014 versus the same period in 2013, primarily due to an increase in average outstanding debt, including higher average credit facility borrowings, and an increase in fixed rate debt, including the effect of fixed to floating interest rate swaps.

Net investment and other expense for the year ended December 31, 2014 and 2013 was $9.6 million and $27.4 million, respectively. The loss related to the Venezuelan currency remeasurement, net of foreign exchange gains, for the year ended December 31, 2014, of $18.4 million and the loss on the bankruptcy liquidation of RRDA of $16.4 million were partially offset by a gain on the sale of Journalism Online of $11.2 million, a $9.5 million bargain purchase gain related to the Esselte acquisition and a gain of $3.0 million resulting from the sale of the Company's shares of a previously impaired equity investment. 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.

Loss on debt extinguishment, related to the premiums paid, unamortized debt issuance costs and other expenses for year ended December 31, 2014 was $77.1 million due to the repurchase of $361.1 million of senior notes. 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.

	2014	2013	$ Change	% Change
	(in millions, except percentages)			
Income before income taxes	$147.1	$209.0		