RR Donnelley & Sons Co
Form 10-Q
May 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 1-4694

R.R. DONNELLEY & SONS COMPANY

(Exact name of registrant as specified in its charter)

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

(312) 326-8000

(Registrant’s telephone number, including area code)

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

Yes x No ¨

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

Yes x No ¨

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

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

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

Yes ¨ No x

As of April 29, 2016, 209.4 million shares of common stock were outstanding.

R.R. DONNELLEY & SONS COMPANY

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

(UNAUDITED)

	March 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$263.7	$389.6
Receivables, less allowances for doubtful accounts of $43.8 in 2016 (2015 - $41.5)	1,948.6	2,000.4
Inventories (Note 3)	607.3	592.0
Prepaid expenses and other current assets	117.4	119.7
Total current assets	2,937.0	3,101.7
Property, plant and equipment-net (Note 4)	1,412.4	1,448.1
Goodwill (Note 5)	1,747.1	1,743.6
Other intangible assets-net (Note 5)	420.4	438.0
Deferred income taxes	177.0	178.2
Other noncurrent assets	392.2	369.7
Total assets	$7,086.1	$7,279.3
LIABILITIES		
Accounts payable	$1,009.2	$1,322.3
Accrued liabilities	779.5	780.4
Short-term and current portion of long-term debt (Note 14)	634.4	234.6
Total current liabilities	2,423.1	2,337.3
Long-term debt (Note 14)	2,942.9	3,188.3
Pension liabilities	489.6	514.4
Other postretirement benefits plan liabilities	169.4	168.8
Other noncurrent liabilities	363.6	373.9
Total liabilities	6,388.6	6,582.7
Commitments and Contingencies (Note 13)		
EQUITY (Note 9)		
RR Donnelley shareholders' equity		
Preferred stock, $1.00 par value		
Authorized: 2.0 shares; Issued: None	—	—
Common stock, $1.25 par value		
Authorized: 500.0 shares;		
Issued: 267.0 shares in 2016 and 2015	333.7	333.7
Additional paid-in-capital	3,135.2	3,164.3
Accumulated deficit	(635.1)	(620.6)

Accumulated other comprehensive loss	(776.1)	(793.2)
Treasury stock, at cost, 57.6 shares in 2016 (2015 – 58.2 shares)	(1,373.9)	(1,401.5)
Total RR Donnelley shareholders' equity	683.8	682.7
Noncontrolling interests	13.7	13.9
Total equity	697.5	696.6
Total liabilities and equity	$7,086.1	$7,279.3

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(UNAUDITED)

	Three Months Ended March 31,	
	2016	2015
Products net sales	$2,172.2	$2,260.3
Services net sales	479.2	485.8
Total net sales	2,651.4	2,746.1
Products cost of sales (exclusive of depreciation and amortization)	1,701.2	1,780.3
Services cost of sales (exclusive of depreciation and amortization)	380.9	386.1
Total cost of sales	2,082.1	2,166.4
Products gross profit	471.0	480.0
Services gross profit	98.3	99.7
Total gross profit	569.3	579.7
Selling, general and administrative expenses (exclusive of depreciation and amortization)	331.6	330.9
Restructuring, impairment and other charges-net (Note 6)	9.7	19.8
Depreciation and amortization	107.0	113.4
Other operating income	(12.3)	—
Income from operations	133.3	115.6
Interest expense-net	68.2	69.0
Investment and other expense-net	—	28.3
Earnings before income taxes	65.1	18.3
Income tax expense	25.0	6.4
Net earnings	40.1	11.9
Less: Income (loss) attributable to noncontrolling interests	0.3	(10.4)
Net earnings attributable to RR Donnelley common shareholders	$39.8	$22.3
Net earnings per share attributable to RR Donnelley common shareholders (Note 10):		
Basic net earnings per share	$0.19	$0.11
Diluted net earnings per share	$0.19	$0.11
Dividends declared per common share	$0.26	$0.26
Weighted average number of common shares outstanding:		
Basic	209.6	200.6
Diluted	210.8	202.1

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(UNAUDITED)

	Three Months Ended March 31,	
	2016	2015
Net earnings	$40.1	$11.9
Other comprehensive income (loss), net of tax (Note 11):		
Translation adjustments	17.9	(22.6)
Adjustment for net periodic pension and postretirement benefits plan cost	(0.6)	2.2
Other comprehensive income (loss)	17.3	(20.4)
Comprehensive income (loss)	57.4	(8.5)
Less: comprehensive income (loss) attributable to noncontrolling interests	0.5	(10.2)
Comprehensive income attributable to RR Donnelley common shareholders	$56.9	$1.7

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(UNAUDITED)

	Three Months Ended March 31, 2016	2015
OPERATING ACTIVITIES		
Net earnings	$40.1	$11.9
Adjustments to reconcile net earnings to net cash used in operating activities:		
Impairment (income) charges – net	(0.8)	0.8
Depreciation and amortization	107.0	113.4
Provision for doubtful accounts receivable	4.1	5.9
Share-based compensation	3.5	3.5
Deferred income taxes	1.8	(8.0)
Changes in uncertain tax positions	(1.3)	(1.5)
Gain on investments and other assets - net	(12.2)	(0.2)
Loss related to Venezuela currency remeasurement - net	—	29.9
Net pension and other postretirement benefits plan income	(18.9)	(10.8)
Other	0.2	11.8
Changes in operating assets and liabilities - net of acquisitions:		
Accounts receivable - net	55.0	9.8
Inventories	(11.0)	(1.0)
Prepaid expenses and other current assets	(9.0)	(3.4)
Accounts payable	(316.0)	(173.7)
Income taxes payable and receivable	8.6	4.1
Accrued liabilities and other	(35.9)	(128.5)
Pension and other postretirement benefits plan contributions	(8.0)	(8.3)
Net cash used in operating activities	(192.8)	(144.3)
INVESTING ACTIVITIES		
Capital expenditures	(48.1)	(48.5)
Acquisitions of businesses, net of cash acquired	—	(2.0)
Disposition of businesses	13.4	(0.2)
Proceeds from sales of investments and other assets	2.3	5.4
Transfers from restricted cash	5.0	—
Other investing activities	(2.1)	(0.4)
Net cash used in investing activities	(29.5)	(45.7)
FINANCING ACTIVITIES		
Net change in short-term debt	1.0	1.7
Payments of current maturities and long-term debt	(1.4)	(0.3)
Net proceeds from credit facility borrowings	145.0	—
Dividends paid	(54.3)	(52.0)
Other financing activities	1.7	3.0
Net cash provided by (used in) financing activities	92.0	(47.6)

Effect of exchange rate on cash and cash equivalents	4.4	(21.6)
Net decrease in cash and cash equivalents	(125.9)	(259.2)
Cash and cash equivalents at beginning of year	389.6	527.9
Cash and cash equivalents at end of period	$263.7	$268.7
Supplemental non-cash disclosure:		
Assumption of warehousing equipment related to customer contract	$8.8	$—

(See Notes to Condensed Consolidated Financial Statements)

1. Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements include the accounts of R.R. Donnelley & Sons Company and its subsidiaries (the “Company” or “RR Donnelley”) and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in accordance with the rules and regulations of the United States Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These unaudited condensed consolidated interim financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods and should be read in conjunction with the consolidated financial statements and the related notes thereto included in the Company’s latest Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on February 25, 2016. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2016. All significant intercompany transactions have been eliminated in consolidation. These unaudited condensed consolidated interim financial statements include estimates and assumptions of management that affect the amounts reported in the condensed consolidated financial statements. Actual results could differ from these estimates.

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 (“Donnelley Financial Solutions”), (ii) a publishing and retail-centric print services company (“LSC Communications”), and (iii) a multichannel communications management company (“RR Donnelley & Sons Company”). Donnelley Financial Solutions is expected to consist of the 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 current office products reporting unit of 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 Company’s current Variable Print segment (except for the office products reporting unit that will become part of LSC Communications), the current logistics reporting unit of the Company’s Strategic Services segment (except for the operations that will become part of LSC Communications), the current sourcing and digital and creative solutions reporting units of the Company’s Strategic Services segment, and the Company’s current International segment (except for substantially all of the Europe reporting unit and certain Mexican operations that will become part of LSC Communications). The transactions are expected to take the form of a tax-free distribution to RR Donnelley shareholders of at least 80% of the shares of common stock in Donnelley Financial Solutions and LSC Communications. Immediately following the completion of the transactions, existing RR Donnelley shareholders will own shares in all three companies.

Donnelley Financial Solutions and LSC Communications each filed a Form 10 on March 31, 2016. Additionally, the expected leadership of the three companies was announced in the Company’s Form 8-K filed on April 13, 2016. 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.

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

2. Acquisitions and Dispositions

For the three months ended March 31, 2016, the Company recorded $0.6 million of acquisition-related expenses associated with contemplated acquisitions within selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

2016 Disposition

On January 11, 2016, the Company sold two entities within the business process outsourcing reporting unit for net proceeds of $13.4 million, all of which was received as of March 31, 2016, resulting in a gain of $12.3 million during the three months ended March 31, 2016. The gain was recorded in other operating income in the Condensed Consolidated Statements of Operations. The operations of these entities were included in the International segment.

2015 Acquisitions

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. The acquisition expanded the Company's digital printing and content management capabilities. The purchase price for Courier was $137.3 million in cash and 8.0 million shares of RR Donnelley common stock, or a total transaction value of $291.5 million based on the Company's closing share price on June 5, 2015, plus the assumption of Courier's debt of $78.2 million. Courier had $20.9 million of cash as of the date of acquisition. Immediately following the acquisition, the Company repaid substantially all of the debt assumed. Courier's book manufacturing operations are included in the Publishing and Retail Services segment, publishing operations are included in the Strategic Services segment and Brazilian operations are included in the International segment.

For the three months ended March 31, 2015, the Company recorded $10.5 million of acquisition-related expenses associated with acquisitions completed or contemplated, within selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

The Courier acquisition was recorded by allocating the cost of the acquisition to the assets acquired, including other intangible assets, based on their estimated fair values at the acquisition date. The excess of the cost over the net amounts assigned to the fair value of the assets acquired was recorded as goodwill. The goodwill associated with this acquisition is primarily attributable to the synergies expected to arise as a result of the acquisition.

In addition to the acquisition of Courier, the Company completed three insignificant acquisitions in 2015, one of which included the settlement of accounts receivable in exchange for the acquisition of the business.

The tax deductible goodwill related to acquisitions was $15.0 million.

Based on the valuations, the final purchase price allocation for the Courier acquisition as well as the purchase price allocation for three insignificant acquisitions was as follows:

Accounts receivable	$36.2
Inventories	59.0
Prepaid expenses and other current assets	38.8

Property, plant and equipment	163.8
Other intangible assets	108.8
Other noncurrent assets	7.9
Goodwill	66.3
Accounts payable and accrued liabilities	(24.6)
Other noncurrent liabilities	(10.5)
Deferred taxes—net	(83.7)
Total purchase price-net of cash acquired	362.0
Less: debt assumed	80.2
Less: settlement of accounts receivable for acquisition of a business	8.6
Less: value of common stock issued	155.2
Net cash paid	$118.0

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

	Fair Value	Valuation Technique	Unobservable Input	Range
Customer relationships	$ 98.4	Excess earnings	Discount rate	14.0% - 17.0%
			Attrition rate	0.0% - 7.5%
Trade names	10.1	Relief-from-royalty method	Discount rate	12.0%
			Royalty rate (pre-tax)	0.3% - 1.0%
Technology	1.6	Relief-from-royalty method	Discount rate	11.0%
			Royalty rate (pre-tax)	15.0%
Non-compete agreement	0.3	Excess earnings	Discount rate	17.0%

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

2015 Disposition

On April 29, 2015, the Company sold its 50.1% interest in its Venezuelan operating entity. The proceeds were de minimis, and the sale resulted in a net loss of $14.7 million, which was recognized in net investment and other expense in the Consolidated Statement of Operations for the year ended December 31, 2015. The Company's Venezuelan operations had net sales of $15.6 million and a loss before income taxes of $23.4 million for the three months ended March 31, 2015.

Pro forma results

The following unaudited pro forma financial information for the three months ended March 31, 2015 presents the combined results of operations of the Company and the 2015 acquisitions described above, as if the acquisitions had occurred as of January 1 of the year prior to acquisition.

The unaudited pro forma financial information is not intended to represent or be indicative of the Company's consolidated results of operations or financial condition that would have been reported had these acquisitions been completed as of the beginning of the period presented and should not be taken as indicative of the Company's future consolidated results of operations or financial condition. Pro forma adjustments are tax-effected at the applicable statutory tax rates.

	Three Months Ended March 31, 2015
Net sales	$2,806.7
Net earnings attributable to RR Donnelley common shareholders	33.4
Net earnings per share attributable to RR Donnelley common shareholders:	
Basic	$0.16
Diluted	$0.16

The following table outlines unaudited pro forma financial information for the three months ended March 31, 2015:

	Three Months Ended March 31, 2015
Amortization of purchased intangibles	$ 21.4
Restructuring, impairment and other charges	17.2

Additionally, the pro forma adjustments affecting net earnings attributable to RR Donnelley common shareholders for the three months ended March 31, 2015 were as follows:

	Three Months Ended March 31, 2015
Depreciation and amortization of purchased assets, pre-tax	$ 2.4
Acquisition-related expenses, pre-tax	23.3
Restructuring, impairment and other charges, pre-tax	3.0
Other pro forma adjustments, pre-tax	0.8
Income taxes	(0.9)

3. Inventories

The components of the Company's inventories, net of excess and obsolescence reserves for raw materials and finished goods, at March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016	December 31, 2015
Raw materials and manufacturing supplies	$251.8	$ 247.2
Work in process	166.6	156.1
Finished goods	275.5	275.2
LIFO reserve	(86.6)	(86.5)
Total	$607.3	$ 592.0

4. Property, Plant and Equipment

The components of the Company's property, plant and equipment at March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016	December 31, 2015
Land	$112.5	$113.6
Buildings	1,221.7	1,224.7
Machinery and equipment	6,158.6	6,160.3
	7,492.8	7,498.6
Less: Accumulated depreciation	(6,080.4)	(6,050.5)
Total	$1,412.4	$1,448.1

During the three months ended March 31, 2016 and 2015, depreciation expense was $78.3 million and $82.9 million, respectively.

5. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill by segment for the three months ended March 31, 2016 were as follows:

	Publishing and Retail Services	Variable Print	Strategic Services	International Services	Total
Net book value as of December 31, 2015					
Goodwill	$ 739.2	$ 1,914.0	$ 991.5	$ 1,123.6	$ 4,768.3
Accumulated impairment losses	(688.0)	(1,105.2)	(219.7)	(1,011.8)	(3,024.7)
Total	51.2	808.8	771.8	111.8	1,743.6
Foreign exchange and other adjustments	—	0.9	0.4	2.2	3.5
Net book value as of March 31, 2016					
Goodwill	739.2	1,914.9	992.0	1,133.1	4,779.2
Accumulated impairment losses	(688.0)	(1,105.2)	(219.8)	(1,019.1)	(3,032.1)
Total	$ 51.2	$ 809.7	$ 772.2	$ 114.0	$ 1,747.1

The components of other intangible assets at March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationships	$ 933.7	$ (573.5)	$ 360.2	$ 932.1	$ (555.3)	$ 376.8
Patents	2.0	(2.0)	—	98.3	(98.3)	—
Trademarks, licenses and agreements	30.7	(30.1)	0.6	30.6	(29.9)	0.7
Trade names	47.5	(20.0)	27.5	47.5	(19.1)	28.4
Total amortizable other intangible assets	1,013.9	(625.6)	388.3	1,108.5	(702.6)	405.9
Indefinite-lived trade names	32.1	—	32.1	32.1	—	32.1
Total other intangible assets	$ 1,046.0	$ (625.6)	$ 420.4	$ 1,140.6	$ (702.6)	$ 438.0

Amortization expense for other intangible assets was $18.3 million and $19.0 million for the three months ended March 31, 2016 and 2015, respectively.

The following table outlines the estimated annual amortization expense related to other intangible assets as of March 31, 2016:

For the year ending December 31,	Amount

2016	$ 64.7
2017	58.8
2018	52.9
2019	48.7
2020	45.2
2021 and thereafter	136.3
Total	$ 406.6

6. Restructuring, Impairment and Other Charges

Restructuring, Impairment and Other Charges Recognized in Results of Operations

For the three months ended March 31, 2016 and 2015, the Company recorded the following net restructuring, impairment and other charges:

Three Months Ended March 31, 2016	Employee Terminations	Other Restructuring Charges	Total Restructuring Charges	Impairment	Other Charges	Total
Publishing and Retail Services	$ 0.6	$ 1.0	$ 1.6	$ 1.0	$ 0.8	$ 3.4
Variable Print	0.2	0.9	1.1	(0.3)	0.4	1.2
Strategic Services	0.3	0.5	0.8	—	0.2	1.0
International	3.7	1.5	5.2	(2.7)	—	2.5
Corporate	0.2	0.2	0.4	1.2	—	1.6
Total	$ 5.0	$ 4.1	$ 9.1	$ (0.8)	$ 1.4	$ 9.7

Three Months Ended March 31, 2015	Employee Terminations	Other Restructuring Charges	Total Restructuring Charges	Impairment	Other Charges	Total
Publishing and Retail Services	$ 2.8	$ 1.1	$ 3.9	$ (0.4)	$ 0.8	$4.3
Variable Print	2.0	1.3	3.3	1.3	0.4	5.0
Strategic Services	1.6	0.5	2.1	—	0.1	2.2
International	7.7	0.2	7.9	(0.2)	—	7.7
Corporate	0.1	0.5	0.6	—	—	0.6
Total	$ 14.2	$ 3.6	$ 17.8	$ 0.7	$ 1.3	$19.8

Restructuring and Impairment Charges

For the three months ended March 31, 2016, the Company recorded net restructuring charges of $5.0 million for employee termination costs for 353 employees, of whom 350 were terminated as of March 31, 2016. These charges primarily related to the announcement of two facility closures in the International segment and the reorganization of certain operations. Additionally, for the three months ended March 31, 2016, the Company recorded $4.1 million of lease termination and other restructuring charges and $0.8 million of income primarily related to the gains on sales of previously impaired long-lived assets.

For the three months ended March 31, 2015, the Company recorded net restructuring charges of $14.2 million for employee termination costs for 894 employees, all of whom were terminated as of March 31, 2016. These charges primarily related to one facility closure in the International segment, one facility closure in the Variable Print segment and the reorganization of certain operations. Additionally, for the three months ended March 31, 2015, the Company recorded lease termination and other restructuring charges of $3.6 million and net impairment charges of $0.7 million primarily related to buildings and machinery and equipment associated with facility closures.

Other Charges

For the three months ended March 31, 2016 and 2015, the Company recorded other charges of $1.4 million and $1.3 million, respectively, for multi-employer pension plan withdrawal obligations unrelated to facility closures. The total liabilities for the withdrawal obligations associated with the Company's decision to withdraw from certain multi-employer pension plans included in accrued liabilities and other noncurrent liabilities are $10.9 million and $81.1 million, respectively, as of March 31, 2016.

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

As a result of the acquisition of Courier, the Company participates in two multi-employer pension plans, for one of which the Company's contributions are approximately 85% of the total plan contributions. Both plans are estimated to be underfunded and have a Pension Protection Act zone status of critical ("red"). Red status identifies plans that are less than 65% funded.

Restructuring Reserve

The restructuring reserve as of December 31, 2015 and March 31, 2016, and changes during the three months ended March 31, 2016, were as follows:

	December 31, 2015	Restructuring Charges	Foreign Exchange and Other	Cash Paid	March 31, 2016
Employee terminations	$ 20.2	$ 5.0	$ (0.1)	$ (16.8)	$ 8.3
Multi-employer pension withdrawal obligations	32.9	0.5	—	(1.2)	32.2
Lease terminations and other	10.6	3.6	—	(4.6)	9.6
Total	$ 63.7	$ 9.1	$ (0.1)	$ (22.6)	$ 50.1

The current portion of restructuring reserves of $16.3 million at March 31, 2016 was included in accrued liabilities, while the long-term portion of $33.8 million, primarily related to multi-employer pension plan withdrawal obligations related to facility closures and lease termination costs, was included in other noncurrent liabilities at March 31, 2016.

The Company anticipates that payments associated with the employee terminations reflected in the above table will be substantially completed by March 2017.

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

The restructuring liabilities classified as "lease terminations and other" consisted of lease terminations and other facility closing costs. Payments on certain of the lease obligations are scheduled to continue until 2026. Market conditions and the Company's ability to sublease these properties could affect the ultimate charges related to the lease obligations. Any potential recoveries or additional charges could affect amounts reported in the Company's financial statements.

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7. Employee Benefits

The components of the estimated net pension and other postretirement benefits plan income for the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31, 2016	2015
Pension expense (income)		
Service cost	$0.3	$0.6
Interest cost	36.9	44.8
Expected return on assets	(60.5)	(61.6)
Amortization, net	7.8	10.2
Net pension income	$(15.5)	$(6.0)
Other postretirement benefits plan expense (income)		
Service cost	$1.0	$1.2
Interest cost	3.0	4.0
Expected return on plan assets	(3.4)	(3.3)
Amortization, net	(4.0)	(6.7)
Net other postretirement benefits plan income	$(3.4)	$(4.8)

During the fourth quarter of 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. Beginning in the first quarter of 2016, 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 prospectively as a change in estimate.

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 the second quarter of 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 a settlement charge of approximately $90.0 million to $100.0 million assuming 30% to 35% of individuals elect the option to receive a lump sum pension payment or annuity.

8. Share-Based Compensation

The Company recognizes compensation expense based on estimated grant date fair values for all share-based awards issued to employees and directors, including stock options, restricted stock units and performance share units. The total compensation expense related to all share-based compensation plans was $3.5 million for both the three months ended March 31, 2016 and 2015.

Stock Options

There were no options granted during the three months ended March 31, 2016 or 2015.

Stock option awards as of December 31, 2015 and March 31, 2016, and changes during the three months ended March 31, 2016, were as follows:

	Shares Under Option (thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (millions)
Outstanding at December 31, 2015	3,707	$ 19.66	3.6	$ 8.4
Exercised	(22)	13.23		
Cancelled/forfeited/expired	(1)	13.23		
Outstanding at March 31, 2016	3,684	19.70	3.4	11.3
Vested and expected to vest at March 31, 2016	3,684	19.70	3.4	11.3
Exercisable at March 31, 2016	1,720	$ 9.84	4.3	$ 11.3

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on March 31, 2016 and December 31, 2015, respectively, and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their in-the-money options on March 31, 2016 and December 31, 2015. This amount will change in future periods based on the fair market value of the Company's stock and the number of options outstanding. Total intrinsic value of options exercised for the three months ended March 31, 2016 and 2015 was $0.1 million and $0.5 million, respectively. There were no excess tax benefits on stock option exercises for the three months ended March 31, 2016. Excess tax benefits on stock option exercises, shown as financing cash inflows in the Condensed Consolidated Statements of Cash Flows, were $0.1 million for the three months ended March 31, 2015.

Compensation expense related to stock options for the three months ended March 31, 2016 and 2015 was $0.1 million and $0.2 million, respectively. As of March 31, 2016, all stock options are fully vested and there is no remaining unrecognized compensation expense.

Restricted Stock Units

Nonvested restricted stock unit awards as of December 31, 2015 and March 31, 2016, and changes during the three months ended March 31, 2016, were as follows:

	Shares (Thousands)	Grant Date Fair Value
Nonvested at December 31, 2015	1,670	$13.72
Granted	1,257	12.88
Vested	(570)	11.40
Nonvested at March 31, 2016	2,357	$13.82

Compensation expense related to restricted stock units for the three months ended March 31, 2016 and 2015 was $2.3 million and $2.6 million, respectively. As of March 31, 2016, there was $26.2 million of unrecognized share-based compensation expense related to approximately 2.3 million of restricted stock unit awards, with a weighted average grant date fair market value of $13.83, that are expected to vest over a weighted average period of 2.5 years. The fair value of these awards was determined based on the Company’s stock price on the grant date reduced by the present value of expected dividends through the vesting period.

Excess tax benefits on restricted stock units that vested, shown as financing cash inflows in the Condensed Consolidated Statements of Cash Flows, were $0.9 million and $2.1 million for the three months ended March 31, 2016 and 2015, respectively.

Performance Share Units

There were no grants or changes to nonvested performance share unit awards during the three months ended March 31, 2016.

Distributions under performance share unit awards are payable at the end of the performance period in common stock or cash, at the Company's discretion. The fair value of these awards was determined based on the Company's stock price on the grant date reduced by the present value of expected dividends through the vesting period. These awards are subject to forfeiture upon termination of employment prior to vesting, subject in some cases to early vesting upon specified events, including death, permanent disability or retirement of the grantee or a change in control of the Company. If the proposed spinoff transactions are completed, the terms of the performance share unit awards may be modified. Refer to Note 1, Basis of Presentation, for further details regarding the proposed spinoff transactions.

Compensation expense for the performance share unit awards granted in 2015 and 2014 is being recognized based on 100% estimated payout of 418,000 and 319,000 shares, for each respective period. Compensation expense related to performance share unit awards for the three months ended March 31, 2016 and 2015 was $1.1 million and $0.7 million, respectively. As of March 31, 2016, there was $5.7 million of unrecognized compensation expense related to performance share unit awards, which is expected to be recognized over a weighted average period of 1.5 years.

9. Equity

The Company's equity as of December 31, 2015 and March 31, 2016, and changes during the three months ended March 31, 2016, were as follows:

	RR Donnelley Shareholders' Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2015	$ 682.7	$ 13.9	$ 696.6
Net earnings	39.8	0.3	40.1
Other comprehensive income	17.1	0.2	17.3
Share-based compensation	3.5	—	3.5
Issuance of share-based awards, net of withholdings and other	(5.0)	—	(5.0)
Cash dividends paid	(54.3)	—	(54.3)
Distributions to noncontrolling interests	—	(0.7)	(0.7)
Balance at March 31, 2016	$ 683.8	$ 13.7	$ 697.5

The Company's equity as of December 31, 2014 and March 31, 2015, and changes during the three months ended March 31, 2015, were as follows:

	RR Donnelley Shareholders' Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2014	$ 593.8	$ 26.6	$ 620.4
Net earnings (loss)	22.3	(10.4)	11.9
Other comprehensive (loss) income	(20.6)	0.2	(20.4)
Share-based compensation	3.5	—	3.5
Issuance of share-based awards, net of withholdings and other	(4.1)	—	(4.1)
Cash dividends paid	(52.0)	—	(52.0)
Distributions to noncontrolling interests	—	(0.7)	(0.7)
Balance at March 31, 2015	$ 542.9	$ 15.7	$ 558.6

10. Earnings per Share

Basic earnings per share is calculated by dividing net earnings attributable to RR Donnelley common shareholders by the weighted average number of common shares outstanding for the period. In computing diluted earnings per share, basic earnings per share is adjusted for the assumed issuance of all potentially dilutive share-based awards, including stock options, restricted stock units and performance share units. Performance share units are considered anti-dilutive and excluded if the performance targets upon which the issuance of the shares is contingent have not been achieved and the respective performance period has not been completed as of the end of the current period. Additionally, stock options are considered anti-dilutive when the exercise price exceeds the average of the Company's stock price during the applicable period.

During the three months ended March 31, 2016 and 2015, no shares of common stock were purchased by the Company; however, shares were withheld for tax liabilities upon the vesting of equity awards.

The reconciliation of the numerator and denominator of the basic and diluted earnings per share calculation and the anti-dilutive share-based awards for the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31,	
	2016	2015
Net earnings per share attributable to RR Donnelley common shareholders:		
Basic	$0.19	$0.11
Diluted	$0.19	$0.11
Dividends declared per common share	$0.26	$0.26
Numerator:		
Net earnings attributable to RR Donnelley common shareholders	$39.8	$22.3
Denominator:		
Weighted average number of common shares outstanding	209.6	200.6
Dilutive options and awards	1.2	1.5
Diluted weighted average number of common shares outstanding	210.8	202.1
Weighted average number of anti-dilutive share-based awards:		
Stock options	2.0	2.0
Performance share units	0.7	0.9
Restricted stock units	—	—
Total	2.7	2.9

11. Comprehensive Income

The components of other comprehensive income (loss) and income tax expense allocated to each component for the three months ended March 31, 2016 and 2015 were as follows:

Three Months Ended
March 31, 2016

	Before Tax Amount	Income Tax Expense	Net of Tax Amount
Translation adjustments	$17.9	$ —	$ 17.9
Adjustment for net periodic pension and other postretirement benefits plan cost	5.2	5.8	(0.6)
Other comprehensive income	$23.1	$ 5.8	$ 17.3

During the three months ended March 31, 2016, translation adjustments and income tax expense on pension and other postretirement benefits plan cost were adjusted to reflect previously recorded deferred taxes at their historical exchange rates.

	Three Months Ended March 31, 2015		
	Before Tax Amount	Income Tax Expense	Net of Tax Amount
Translation adjustments	$(22.6)	$ —	$ (22.6)
Adjustment for net periodic pension and other postretirement benefits plan cost	3.5	1.3	2.2
Change in fair value of derivatives	0.1	0.1	—
Other comprehensive (loss) income	$(19.0)	$ 1.4	$ (20.4)

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

	Pension and Other Postretirement Benefits Plan Cost	Translation Adjustments	Total
Balance at December 31, 2015	$ (727.5)	$ (65.7)	$(793.2)
Other comprehensive income before reclassifications	—	18.8	18.8
Amounts reclassified from accumulated other comprehensive loss	(1.8)	—	(1.8)
Amounts reclassified due to the disposition of businesses	1.2	(1.1)	0.1
Net change in accumulated other comprehensive loss	(0.6)	17.7	17.1
Balance at March 31, 2016	$ (728.1)	$ (48.0)	$(776.1)

Accumulated other comprehensive loss by component as of December 31, 2014 and March 31, 2015, and changes during the three months ended March 31, 2015, were as follows:

	Changes in the Fair Value of Derivatives	Pension and Other Postretirement Benefits Plan Cost	Translation Adjustments	Total
Balance at December 31, 2014	$ (0.1)	$ (762.3)	$ (11.2)	$(773.6)
Other comprehensive loss before reclassifications	—	—	(22.8)	(22.8)
Amounts reclassified from accumulated other comprehensive loss	—	2.2	—	2.2

Net change in accumulated other comprehensive loss	—	2.2	(22.8)	(20.6)
Balance at March 31, 2015	$ (0.1)	$ (760.1)	$ (34.0)	$(794.2)

Reclassifications from accumulated other comprehensive loss for the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31, 2016	2015	Classification in the Condensed Consolidated Statements of Operations
Amortization of pension and other postretirement benefits plan cost:			
Net actuarial loss	$7.8	$10.2	(a)
Net prior service credit	(4.0)	(6.7)	(a)
Reclassifications before tax	3.8	3.5	
Income tax expense	5.6	1.3	
Reclassifications, net of tax	$(1.8)	$2.2	

(a) These accumulated other comprehensive income (loss) components are included in the calculation of net periodic pension and other postretirement benefits plan income recognized in cost of sales and selling, general and administrative expenses in the Condensed Consolidated Statements of Operations (see Note 7, Employee Benefits).

12. Segment Information

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.

Variable Print

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

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.

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.

Corporate

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

Information by Segment

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

Three Months Ended	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Assets of Operations	Depreciation and Amortization	Capital Expenditures
March 31, 2016							
Publishing and Retail Services	$607.5	$ (11.2)	$596.3	$ 15.8	$ 1,289.5	$ 37.9	$ 5.9
Variable Print	919.9	(18.1)	901.8	69.5	2,480.0	34.2	15.5
Strategic Services	673.4						