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

(312) 326-8000

(Registrant's telephone number, including area code)

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

Yes 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

TABLE OF CONTENTS

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)

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

8

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.

13

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,		Classification in the Condensed Consolidated Statements of Operations
	2016	2015	
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	(38.8)	634.6	43.7	1,428.3	15.2	11.3
International	544.5	(25.8)	518.7	37.6	1,546.4	18.3	8.9
Total operating segments	2,745.3	(93.9)	2,651.4	166.6	6,744.2	105.6	41.6
Corporate	—	—	—	(33.3)	341.9	1.4	6.5
Total operations	$2,745.3	$ (93.9)	$2,651.4	$ 133.3	$ 7,086.1	$ 107.0	$ 48.1

Three Months Ended	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Assets of Operations	Depreciation and Amortization	Capital Expenditures
March 31, 2015							
Publishing and Retail Services	$577.8	$ (4.0)	$573.8	$ 11.8	$ 1,153.9	$ 34.3	$ 12.5
Variable Print	964.2	(15.4)	948.8	66.2	2,585.7	39.0	9.5
Strategic Services	694.8	(27.5)	667.3	55.0	1,419.5	17.4	11.9
International	581.2	(25.0)	556.2	12.1	1,586.8	21.7	12.2
Total operating segments	2,818.0	(71.9)	2,746.1	145.1	6,745.9	112.4	46.1
Corporate	—	—	—	(29.5)	459.4	1.0	2.4
Total operations	$2,818.0	$ (71.9)	$2,746.1	$ 115.6	$ 7,205.3	$ 113.4	$ 48.5

Restructuring, impairment and other charges by segment for the three months ended March 31, 2016 and 2015 are described in Note 6, Restructuring, Impairment and Other Charges.

13. Commitments and Contingencies

The Company is subject to laws and regulations relating to the protection of the environment. The Company provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. Such accruals are adjusted as new information develops or circumstances change and are generally not discounted. The Company has been designated as a potentially responsible party or has received claims in thirteen active federal and state Superfund and other multiparty remediation sites. In addition to these sites, the Company may also have the obligation to remediate ten other previously and currently owned facilities. At the Superfund sites, the Comprehensive Environmental Response, Compensation and Liability Act provides that the Company's liability could be joint and several, meaning that the Company could be required to pay an amount in excess of its proportionate share of the remediation costs.

The Company's understanding of the financial strength of other potentially responsible parties at the multiparty sites and of other liable parties at the previously owned facilities has been considered, where appropriate, in the determination of the Company's estimated liability. The Company established reserves, recorded in accrued liabilities and other noncurrent liabilities, that it believes are adequate to cover its share of the potential costs of remediation at each of the multiparty sites and the previously and currently owned facilities. It is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly remediation and other compliance efforts that the Company may undertake in the future. However, in the opinion of management, compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, will not have a material effect on the Company's consolidated results of operations, financial position or cash flows.

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

14. Debt

The Company’s debt at March 31, 2016 and December 31, 2015 consisted of the following:

	March 31, 2016	December 31, 2015
Borrowings under the Credit Agreement	$145.0	$—
8.60% senior notes due August 15, 2016	219.7	219.6
6.125% senior notes due January 15, 2017	251.3	251.2
7.25% senior notes due May 15, 2018	250.0	250.0
11.25% senior notes due February 1, 2019 (a)	172.2	172.2
8.25% senior notes due March 15, 2019	238.9	238.9
7.625% senior notes due June 15, 2020	350.0	350.0
7.875% senior notes due March 15, 2021	448.6	448.5
8.875% debentures due April 15, 2021	80.9	80.9
7.00% senior notes due February 15, 2022	400.0	400.0
6.50% senior notes due November 15, 2023	350.0	350.0
6.00% senior notes due April 1, 2024	400.0	400.0
6.625% debentures due April 15, 2029	199.5	199.5
8.820% debentures due April 15, 2031	69.0	69.0
Other (b)	26.7	18.7
Unamortized debt issuance costs	(24.5)	(25.6)
Total debt	3,577.3	3,422.9
Less: current portion	(634.4)	(234.6)
Long-term debt	$2,942.9	$3,188.3

(a) As of March 31, 2016 and December 31, 2015, the interest rate on the 11.25% senior notes due February 1, 2019 was 13.0% and 12.75%, respectively, as a result of downgrades in the ratings of the notes by the rating agencies.
(b) Includes fair value adjustments to the 8.25% senior notes due March 15, 2019 related to the Company’s fair value hedges, miscellaneous debt obligations and capital leases.

The fair values of the senior notes and debentures, which were determined using the market approach based upon interest rates available to the Company for borrowings with similar terms and maturities, were determined to be Level 2 under the fair value hierarchy. The fair value of the Company’s debt was less than its book value by approximately $159.4 million and $39.7 million at March 31, 2016 and December 31, 2015, respectively.

The Company’s $1.5 billion senior secured revolving credit facility (the “Credit Agreement”) is subject to a number of covenants, including a minimum Interest Coverage Ratio and a maximum Leverage Ratio, as defined in and calculated pursuant to the Credit Agreement, that, in part, restrict the Company’s ability to incur additional indebtedness, create liens, engage in mergers and consolidations, make restricted payments and dispose of certain assets. The Credit Agreement generally allows annual dividend payments of up to $225.0 million in aggregate, though additional dividends may be allowed subject to certain conditions.

The weighted average interest rate on borrowings under the Credit Agreement was 2.3% and 2.1% during the three months ended March 31, 2016 and 2015, respectively.

Interest income was $1.3 million and $1.7 million for the three months ended March 31, 2016 and 2015, respectively.

15. Derivatives

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

The Company is exposed to the impact of foreign currency fluctuations in certain countries in which it operates. The exposure to foreign currency movements is limited in many countries because the operating revenues and expenses of its various subsidiaries and business units are substantially in the local currency of the country in which they operate. To the extent borrowings, sales, purchases, revenues, expenses or other transactions are not in the local currency of the subsidiary or operating unit, the Company is exposed to currency risk. Periodically, the Company uses foreign exchange forward contracts to hedge exposures resulting from foreign exchange fluctuations. Accordingly, the gains and losses associated with the fair values of foreign currency exchange contracts are recognized currently in the Condensed Consolidated Statements of Operations and are generally offset by gains and losses on underlying payables, receivables and net investments in foreign subsidiaries. The Company does not use derivative financial instruments for trading or speculative purposes. The aggregate notional value of the forward contracts at March 31, 2016 and December 31, 2015 was $264.7 million and $268.4 million, respectively. The fair values of foreign exchange forward contracts were determined to be Level 2 under the fair value hierarchy and are valued using market exchange rates.

On March 13, 2012, the Company entered into interest rate swap agreements to manage interest rate risk exposure, effectively changing the interest rate on $400.0 million of its fixed-rate senior notes to a floating-rate based on LIBOR plus a basis point spread. The interest rate swaps, with a notional value of $400.0 million at inception, were designated as fair value hedges against changes in the value of the Company’s $450.0 million 8.25% senior notes due March 15, 2019, which were attributable to changes in the benchmark interest rate. During the three months ended March 31, 2014, the Company repurchased $211.0 million of the 8.25% senior notes due March 15, 2019, and related interest rate swaps with a notional amount of $210.0 million were terminated, resulting in payments of $4.2 million for the fair value of the interest rate swaps. As a result of the termination, the remaining notional value of the interest rate swap agreements as of March 31, 2016 was $190.0 million. The interest rate swaps were designated as fair value hedges against changes in the value of $239.0 million of the Company’s 8.25% senior notes due March 15, 2019.

The fair values of interest rate swaps were determined to be Level 2 under the fair value hierarchy and were developed using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on the expectation of future interest rates derived from observed market interest rate curves. In addition, credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, are incorporated in the fair values to account for potential nonperformance risk.

On at least a quarterly basis, the Company evaluates the credit value adjustments of the interest rate swap agreements, which take into account the possibility of counterparty and the Company’s own default.

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

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

At March 31, 2016 and December 31, 2015, the total fair value of the Company's foreign exchange forward contracts, which were the only derivatives not designated as hedges, and fair value hedges, along with the accounts in the Condensed Consolidated Balance Sheets in which the fair value amounts were included, were as follows:

	March 31, 2016	December 31, 2015
Derivatives not designated as hedges		
Prepaid expenses and other current assets	$ 0.5	$ 1.8
Accrued liabilities	4.4	1.5
Derivatives designated as fair value hedges		
Other noncurrent assets	$ 3.0	$ 0.4

The pre-tax (gains) losses related to derivatives not designated as hedges recognized in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2016 and 2015 were as follows:

	Classification of (Gain) Loss Recognized in the Condensed Consolidated Statements of Operations	Three Months Ended March 31, 2016	2015
Derivatives not designated as hedges			
Foreign exchange forward contracts	Selling, general and administrative expenses	$5.2	$(31.7)

For derivatives designated as fair value hedges, the pre-tax (gains) losses related to the hedged items, attributable to changes in the hedged benchmark interest rate and the offsetting (gain) loss on the related interest rate swaps for the three months ended March 31, 2016 and 2015 were as follows:

	Classification of (Gain) Loss Recognized in the Condensed Consolidated Statements of Operations	Three Months Ended March 31, 2016	2015
Fair Value Hedges			
Interest rate swaps	Investment and other expense-net	$(2.6)	$(2.3)
Hedged items	Investment and other expense-net	2.8	2.1
Total (gain) loss recognized as ineffectiveness in the Condensed Consolidated Statements of Operations	Investment and other expense-net	$0.2	$(0.2)

The Company also recognized a net reduction to interest expense of $0.4 million and $0.6 million for the three months ended March 31, 2016 and 2015, respectively, related to the Company's fair value hedges, which included interest accruals on the derivatives and amortization of the basis in the hedged items.

16. Venezuela Currency Remeasurement

As described in Note 2, Acquisitions and Dispositions, on April 29, 2015 the Company sold its 50.1% interest in its Venezuelan operating entity.

Since January 1, 2010, the three-year cumulative inflation for Venezuela using the blended Consumer Price Index and National Consumer Price Index has exceeded 100%. As a result, Venezuela's economy is considered highly inflationary and the financial statements of the Company's Venezuelan subsidiaries were remeasured as if the functional currency were the U.S. Dollar. Prior to March 31, 2014, the financial statements were remeasured based on the official rate determined by the government of Venezuela.

During the first quarter of 2014, the Venezuelan government expanded the operation of the Supplementary System for the Administration of Foreign Currency ("SICAD 1") currency exchange mechanism for use with certain transactions. In addition, the Venezuelan government also began operating the SICAD 2 exchange which the government indicated was available to all entities for all transactions. The Venezuelan government indicated that the official rate of 6.3 Bolivars per U.S. Dollar would be reserved only for settlement of U.S. Dollar denominated purchases of "essential goods and services." As of December 31, 2014, the SICAD 1 and SICAD 2 exchange rates were 12.0 and 50.0 Bolivars per U.S. Dollar, respectively. Beginning March 31, 2014, certain assets of the Company's Venezuelan subsidiaries were remeasured at the SICAD 2 rate as the Company believed those assets would ultimately be utilized to settle U.S. Dollar denominated liabilities using SICAD 2. Remaining net monetary assets were remeasured at the SICAD 1 rate, as the Company believed SICAD 1 would be applicable for future transactions, and dividend remittances, if any, from the Company's Venezuelan subsidiaries. During the three months ended June 30, 2014, certain transactions pending approval at the official rate of 6.3 Bolivars per U.S. Dollar were approved, resulting in foreign exchange gains.

In February 2015, the Venezuelan government discontinued the SICAD 2 rate and introduced a new currency exchange rate mechanism ("SIMADI"). As of February 28, 2015, monetary assets and liabilities of the Company's Venezuelan subsidiaries were remeasured at the SIMADI rate as the Company believed the SIMADI was the exchange rate mechanism most likely to be available to the Company's Venezuelan subsidiaries to settle U.S. Dollar denominated transactions. As of March 31, 2015, the SIMADI rate was 193 Bolivars per U.S. Dollar.

As a result of the remeasurement at the SIMADI rate and the related impact of the devaluation, during the three months ended March 31, 2015, a pre-tax loss of $29.9 million ($26.3 million after-tax) was recognized in net investment and other expense, of which $10.3 million was included in loss attributable to noncontrolling interests.

17. New Accounting Pronouncements

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

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), which outlines a single comprehensive model for entities to use in accounting for revenue using a five-step process that supersedes virtually all existing revenue guidance. ASU 2014-09 also requires additional quantitative and qualitative disclosures. In August 2015, the FASB issued Accounting Standards Update No. 2015-14 "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which defers the effective date of ASU 2014-09 to January 1, 2018. Early adoption of ASU 2014-09 is permitted in the first quarter of 2017; however the Company plans to adopt the standard in the first quarter of 2018. The standard allows the option of either a full retrospective adoption, meaning the standard is applied to all periods presented, or a modified retrospective adoption, meaning the standard is applied only to the most current period. The Company is evaluating the impact of the provisions of ASU 2014-09 and currently anticipates applying the modified retrospective approach when adopting the standard.

The following recently issued standards are not expected to have a material impact on the Company's Consolidated Financial Statements:

- Accounting Standards Update No. 2016-09 "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting"
- Accounting Standards Update No. 2016-07 "Investments—Equity Method and Joint Ventures (Topic 323); Simplifying the transition to the Equity Method of Accounting"
- Accounting Standards Update No. 2016-06 "Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments"
- Accounting Standards Update No. 2016-05 "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships"
- Accounting Standards Update No. 2016-01 "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities"
- Accounting Standards Update No. 2015-12 "Plan Accounting (Topics 960, 962, and 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient"
- Accounting Standards Update No. 2015-11 "Inventory (Topic 330): Simplifying the Measurement of Inventory"
- Accounting Standards Update No. 2014-15 "Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern"

The following standards were effective for and adopted by the Company in the first quarter of 2016. The adoption of these standards did not have a material impact on the Company's consolidated financial position, results of operations or cash flows:

- Accounting Standards Update No. 2015-16 "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments"
- Accounting Standards Update No. 2015-07 "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)"
- Accounting Standards Update No. 2015-05 "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement"
- Accounting Standards Update No. 2015-04 "Compensation—Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets"
- Accounting Standards Update No. 2015-02 "Consolidation (Topic 810): Amendments to the Consolidation Analysis"
- Accounting Standards Update No. 2015-01 "Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items"
- Accounting Standards Update No. 2014-16 "Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity"
- Accounting Standards Update No. 2014-12 "Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period"

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

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.

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.

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 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.

Products and Services

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, office products, direct mail, labels, 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.

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 2015 net sales of $1.0 billion ("Donnelley Financial Solutions"), (ii) a publishing and retail-centric print services company with 2015 net sales of $3.7 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 RR Donnelley & Sons Company reflects the elimination of intercompany transactions; as a result net sales for RR Donnelley & Sons Company may differ on a standalone basis. 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.

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. See Item 1A, Risk Factors, of Part I of the Company's 2015 Form 10-K filed on February 25, 2016 for certain risk factors relating to the proposed transactions. The disclosures within this Management Discussion and Analysis of Financial Condition and Results of Operations 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

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

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.

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

Executive Overview

First Quarter Overview

Net sales decreased by 3.4% in the first quarter of 2016 compared to the same period in the prior year. On a proforma basis, the Company's net sales decreased by approximately 5.5% (see Note 2, Acquisitions and Dispositions, to the Condensed Consolidated Financial Statements). There was a $35.6 million, or 1.3%, decrease due to foreign exchange rates. In addition to the impact of foreign exchange rates, the net sales decrease was due to lower volume in the Variable Print segment and a decline in capital markets transactions in the Strategic Services segment, price pressures and a $13.2 million, or 0.5%, decrease due to a decline in pass-through paper sales, partially offset by higher volume in the Publishing and Retail Services segment as a result of the acquisition of Courier.

The Company continues to take actions across all platforms to reduce its cost structure and enhance productivity. During the three months ended March 31, 2016, 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 integration of Courier.

Net cash used in operating activities for the three months ended March 31, 2016 was $192.8 million as compared to $144.3 million for the three months ended March 31, 2015. The increase in net cash used in operating activities reflected timing of supplier payments and higher payments for spinoff-related transaction expenses, partially offset by timing of customer payments and lower payments for incentive compensation costs.

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 estimates a settlement charge of approximately $90.0 million to $100.0 million in the second quarter of 2016 assuming 30% to 35% of individuals elect the option to receive a lump sum pension payment or annuity.

In connection with the proposed spinoff transactions, the Company incurred spinoff-related transaction expenses of $11.9 million and $13.6 million during the three months ended March 31, 2016 and the year ended December 31, 2015, respectively. The Company expects to incur a significant amount of spinoff-related transaction and transition expenses in 2016, including debt refinancing, information technology, consulting, real estate and other incremental expenses.

Financial Performance: Three Months Ended March 31, 2016

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 three months ended March 31, 2016, from the three months ended March 31, 2015, were due to the following:

	Income from Operations	Operating Margin	Net Earnings Attributable to RR Donnelley	Net Earnings Attributable to RR Donnelley

			Common Shareholders	Shareholders Per Diluted Share
	(in millions, except margin and per share data)			
For the three months ended March 31, 2015	$115.6	4.2 %	$ 22.3	$ 0.11
2016 restructuring, impairment and other charges - net	(9.7)	(0.4 %)	(10.0)	(0.05)
2015 restructuring, impairment and other charges - net	19.8	0.7 %	3.1	0.02
Spinoff-related transaction expenses	(11.9)	(0.4 %)	(9.1)	(0.04)
Acquisition-related expenses	9.9	0.3 %	9.9	0.05
Gain on disposals of businesses	12.3	0.5 %	12.3	0.06
Venezuela currency remeasurement	—	—	16.0	0.08
Operations	(2.7)	0.1 %	(4.7)	(0.04)
For the three months ended March 31, 2016	$133.3	5.0 %	$ 39.8	$ 0.19

2016 restructuring, impairment and other charges - net: included pre-tax charges of $5.0 million for employee termination costs; $4.1 million of lease termination and other restructuring costs; $1.4 million for multi-employer pension plan withdrawal obligations; and $0.8 million of income primarily related to the gains on sales of previously impaired long-lived assets.

2015 restructuring, impairment and other charges - net: included pre-tax charges of $14.2 million for employee termination costs; $3.6 million of lease termination and other restructuring costs; $1.3 million for multi-employer pension plan withdrawal obligations; and $0.7 million for net impairment charges of other long-lived assets, primarily for buildings and machinery and equipment associated with facility closures.

Spinoff-related transaction expenses: included pre-tax charges of $11.9 million ($9.1 million after-tax) related to consulting, tax advice, legal and other expenses for the three months ended March 31, 2016 associated with the proposed spinoff transactions.

Acquisition-related expenses: included pre-tax charges of $0.6 million ($0.6 million after-tax) related to legal, accounting and other expenses for the three months ended March 31, 2016 associated with completed or contemplated acquisitions. For the three months ended March 31, 2015, these pre-tax charges were $10.5 million ($10.5 million after-tax) for completed or contemplated acquisitions.

Gain on disposals of businesses: included pre-tax gain on the sales of two entities in the International segment of $12.3 million ($12.3 million after-tax) for the three months ended March 31, 2016.

Venezuela currency remeasurement: currency remeasurement in Venezuela and the related impact of the devaluation resulted in a pre-tax loss of $29.9 million ($26.3 million after-tax) for the three months ended March 31, 2015, of which $10.3 million was included in loss attributable to noncontrolling interests.

Operations: reflected lower financial capital markets transactions in the Strategic Services segment and price pressures, partially offset by the acquisition of Courier and higher volume in the International segment. See further details in the review of operating results by segment that follows below.

OUTLOOK

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 acquisition of Courier supports the Company’s strategic objective of generating profitable growth and improved cash flow and liquidity through targeted acquisitions. The acquisition has enhanced the Company’s existing capabilities and ability to serve its customers and has 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. Management also reviews the Company's operations and management structure on a regular basis to balance appropriate risks and opportunities to maximize efficiencies and to support the Company's long-term strategic goals. 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 business to pursue their own strategies and invest according to the unique dynamics of their respective industries. Refer to 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 Inc., which provides significant campaign-related printed products, quarterly and annual results may also be impacted by U.S. election cycles. These seasonal patterns can also be impacted by overall trends in the U.S. and world economy. The Company expects the seasonality impact in 2016 and future years to be 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 the three months ended March 31, 2016, 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"). On January 15, 2015, the United States Postal Service ("USPS") filed for a CPI rate increase of approximately 2.0%, which was approved by the Postal Regulatory Commission on May 7, 2015, and became effective on May 31, 2015. On April 10, 2016, the USPS removed the exigent surcharge which was approved in December 2013, resulting in a 4.3% decrease in postage rates for all significant mail categories.

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 has temporarily suspended its previously announced plans to restructure its mail delivery network, including the closure of many post office facilities. These restructuring plans may resume in mid to late 2016. 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 41% of the Company's logistics revenues during the three months ended March 31, 2016.

Goodwill Impairment Assessment

The Company performs its goodwill impairment tests annually as of October 31, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. As part of its interim review for indicators of impairment, management analyzed potential changes in value of individual reporting units with goodwill based on each reporting unit's operating results for the three months ended March 31, 2016 compared to expected results. In addition, management considered how other key assumptions, including discount rates and expected long-term growth rates, used in the last fiscal year's impairment analysis, could be impacted by changes in market conditions and economic events.

Management considered trends in these factors when performing its assessment of whether an interim impairment review was required for any reporting unit. Based on this interim assessment, management concluded that as of March 31, 2016, 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. Nevertheless, significant changes in economic and market conditions could result in changes to expectations of future financial results and key valuation assumptions. Such changes could result in revisions of management's estimates of the fair value of the Company's reporting units and could result in a material impairment of goodwill in a future interim period or as of October 31, 2016, the Company's next annual measurement date.

Pension and Other Postretirement Benefit Plans

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. Market conditions may lead to changes in the discount rates (used to value the year-end benefit obligations of the plans) and the market value of the securities held by the plans, which could significantly increase or decrease the funded status of the plans. The Company reviews its actuarial assumptions on an annual basis as of December 31. Based on current estimates, the Company expects to make cash contributions of approximately $25.0 million to $30.0 million to its pension and other postretirement benefits plans for the full year 2016, of which $8.0 million has been contributed during the three months ended March 31, 2016.

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. 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, 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.

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.

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 Condensed Consolidated Financial Statements and related notes.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2016 AS COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2015

The following table shows the results of operations for the three months ended March 31, 2016 and 2015, which reflects the results of acquired businesses from the relevant acquisition dates:

	Three Months Ended March 31,			
	2016	2015	$ Change	% Change
	(in millions, except percentages)			
Products net sales	$2,172.2	$2,260.3	$ (88.1)	(3.9 %)
Services net sales	479.2	485.8	(6.6)	(1.4 %)
Total net sales	2,651.4	2,746.1	(94.7)	(3.4 %)
Products cost of sales (exclusive of depreciation and amortization)	1,701.2	1,780.3	(79.1)	(4.4 %)
Services cost of sales (exclusive of depreciation and amortization)	380.9	386.1	(5.2)	(1.3 %)
Total cost of sales	2,082.1	2,166.4	(84.3)	(3.9 %)
Products gross profit	471.0	480.0	(9.0)	(1.9 %)
Services gross profit	98.3	99.7	(1.4)	(1.4 %)
Total gross profit	569.3			