RR Donnelley & Sons Co
Form 10-Q
November 02, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 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 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 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		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

As of October 31, 2016, 69.8 million shares of common stock were outstanding.

R.R. DONNELLEY & SONS COMPANY

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 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)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 411.8	$ 389.6
Receivables, less allowances for doubtful accounts of $53.6 in 2016 (2015 - $41.5)	2,109.3	2,000.4
Inventories (Note 3)	651.1	592.0
Prepaid expenses and other current assets	140.3	119.7
Total current assets	3,312.5	3,101.7
Property, plant and equipment-net (Note 4)	1,342.3	1,448.1
Goodwill (Note 5)	1,787.3	1,743.6
Other intangible assets-net (Note 5)	403.3	438.0
Deferred income taxes	211.1	178.2
Other noncurrent assets	416.0	369.7
Total assets	$ 7,472.5	$ 7,279.3
LIABILITIES		
Accounts payable	$ 1,172.7	$ 1,322.3
Accrued liabilities	793.3	780.4
Short-term and current portion of long-term debt (Note 13)	255.6	234.6
Total current liabilities	2,221.6	2,337.3
Long-term debt (Note 13)	3,635.3	3,188.3
Pension liabilities	554.7	514.4
Other postretirement benefits plan liabilities	163.3	168.8
Other noncurrent liabilities	359.2	373.9
Total liabilities	6,934.1	6,582.7
Commitments and Contingencies (Note 12)		
EQUITY (Note 8)		
RR Donnelley stockholders' equity		
Preferred stock, $1.00 par value		
Authorized: 2.0 shares; Issued: None	—	—
Common stock, $0.01 par value in 2016 (2015 - $1.25)		
Authorized: 165.0 shares;		
Issued: 89.0 shares in 2016 and 2015	0.9	111.2
Additional paid-in-capital	3,473.8	3,386.8
Accumulated deficit	(765.6)	(620.6)
Accumulated other comprehensive loss	(815.7)	(793.2)

Treasury stock, at cost, 19.2 shares in 2016 (2015 - 19.4 shares)	(1,369.0)	(1,401.5)
Total RR Donnelley stockholders' equity	524.4	682.7
Noncontrolling interests	14.0	13.9
Total equity	538.4	696.6
Total liabilities and equity	$ 7,472.5	$ 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Products net sales	$2,281.6	$2,359.0	$6,706.3	$6,883.8
Services net sales	490.8	469.0	1,447.2	1,438.4
Total net sales	2,772.4	2,828.0	8,153.5	8,322.2
Products cost of sales (exclusive of depreciation and amortization)	1,780.5	1,844.8	5,237.2	5,386.5
Services cost of sales (exclusive of depreciation and amortization)	384.2	363.3	1,134.4	1,120.3
Total cost of sales	2,164.7	2,208.1	6,371.6	6,506.8
Products gross profit	501.1	514.2	1,469.1	1,497.3
Services gross profit	106.6	105.7	312.8	318.1
Total gross profit	607.7	619.9	1,781.9	1,815.4
Selling, general and administrative expenses (exclusive of depreciation and amortization)	333.4	328.4	1,099.9	972.4
Restructuring, impairment and other charges-net (Note 6)	15.0	52.9	38.4	104.9
Depreciation and amortization	101.5	115.3	312.5	341.5
Other operating expense (income)	0.3	—	(12.0)	—
Income from operations	157.5	123.3	343.1	396.6
Interest expense-net	67.1	69.0	204.1	207.2
Investment and other (income) expense-net	(0.6)	3.0	0.4	43.2
Loss on debt extinguishments	85.3	—	85.3	—
Earnings before income taxes	5.7	51.3	53.3	146.2
Income tax expense	12.5	39.7	34.3	79.1
Net (loss) earnings	(6.8)	11.6	19.0	67.1
Less: Income (loss) attributable to noncontrolling interests	0.3	(2.7)	0.8	(13.0)
Net (loss) earnings attributable to RR Donnelley common stockholders	$(7.1)	$14.3	$18.2	$80.1
Net (loss) earnings per share attributable to RR Donnelley common stockholders (Note 9):				
Basic net (loss) earnings per share[(1)]	$(0.10)	$0.21	$0.26	$1.18
Diluted net (loss) earnings per share[(1)]	$(0.10)	$0.20	$0.26	$1.17
Dividends declared per common share[(1)]	$0.78	$0.78	$2.34	$2.34
Weighted average number of common shares outstanding:				
Basic[(1)]	70.0	69.7	70.0	68.1
Diluted[(1)]	70.0	70.1	70.5	68.5

(1) Earnings per share amounts, dividends declared per share amounts and adjusted weighted average common shares outstanding for all periods reflect RR Donnelley's 1-for-3 reverse stock split, which was effective October 1, 2016.

(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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net (loss) earnings	$(6.8)	$11.6	$19.0	$67.1
Other comprehensive (loss) income, net of tax (Note 10):				
Translation adjustments	(4.4)	(37.5)	(9.0)	(42.5)
Adjustment for net periodic pension and postretirement benefits plan cost	(19.4)	2.2	(13.3)	10.4
Change in fair value of derivatives	—	0.1	—	0.1
Other comprehensive loss	(23.8)	(35.2)	(22.3)	(32.0)
Comprehensive (loss) income	(30.6)	(23.6)	(3.3)	35.1
Less: comprehensive income (loss) attributable to noncontrolling interests	0.3	(3.7)	1.0	(14.0)
Comprehensive (loss) income attributable to RR Donnelley common stockholders	$(30.9)	$(19.9)	$(4.3)	$49.1

(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)

	Nine Months Ended September 30,	
	2016	2015
OPERATING ACTIVITIES		
Net earnings	$19.0	$67.1
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Impairment charges	0.8	29.4
Depreciation and amortization	312.5	341.5
Provision for doubtful accounts receivable	20.4	12.5
Share-based compensation	13.4	13.6
Deferred income taxes	(33.5)	(43.0)
Changes in uncertain tax positions	(0.4)	9.4
(Gain) loss on investments and other assets - net	(13.0)	13.1
Loss related to Venezuela currency remeasurement-net	—	30.3
Net pension and other postretirement benefits plan income	(55.1)	(33.2)
Net loss on pension and other postretirement benefits plan settlements and curtailments (Note 7)	78.8	—
Loss on debt extinguishments	85.3	—
Other	9.6	20.8
Changes in operating assets and liabilities - net of acquisitions:		
Accounts receivable - net	(126.0)	(54.9)
Inventories	(57.6)	(29.1)
Prepaid expenses and other current assets	(9.2)	5.5
Accounts payable	(159.6)	(72.3)
Income taxes payable and receivable	(35.6)	18.8
Accrued liabilities and other	(23.4)	(105.5)
Pension and other postretirement benefits plan contributions	(18.6)	(19.8)
Net cash provided by operating activities	7.8	204.2
INVESTING ACTIVITIES		
Capital expenditures	(147.9)	(152.8)
Acquisitions of businesses, net of cash acquired	(47.5)	(118.3)
Dispositions of businesses	13.7	0.6
Proceeds from sales of investments and other assets	3.7	17.4
Transfers from restricted cash	13.7	—
Other investing activities	(3.6)	(7.9)
Net cash used in investing activities	(167.9)	(261.0)
FINANCING ACTIVITIES		
Net change in short-term debt	5.7	12.9
Payments of current maturities and long-term debt	(786.6)	(271.8)
Proceeds from issuance of long-term debt	1,164.0	—
Net proceeds from credit facility borrowings	—	225.0

Proceeds from termination of interest rate swaps	2.5	—
Debt issuance costs	(37.5)	—
Dividends paid	(163.2)	(158.4)
Other financing activities	2.5	3.5
Net cash provided by (used in) financing activities	187.4	(188.8)
Effect of exchange rate on cash and cash equivalents	(5.1)	(25.0)
Net decrease in cash and cash equivalents	22.2	(270.6)
Cash and cash equivalents at beginning of year	389.6	527.9
Cash and cash equivalents at end of period	$411.8	$257.3
Supplemental non-cash disclosure:		
Assumption of warehousing equipment related to customer contract	$8.8	$—
Debt-for-debt exchange, including debt issuance costs of $5.5 million	$300.0	$—
Issuance of 2.7 million shares of RR Donnelley stock for acquisition of business	$—	$154.2

(See Notes to Condensed Consolidated Financial Statements)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

1. Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements include the accounts of R.R. Donnelley & Sons Company and its subsidiaries (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 nine months ended September 30, 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.

Spinoff Transactions

On October 1, 2016, the Company completed the previously announced separation of its financial communications and data services business (“Donnelley Financial Solutions, Inc.” or “Donnelley Financial”) and the publishing and retail-centric print services and office products business (“LSC Communications, Inc.” or “LSC”) into two separate publicly-traded companies (the "Separation"). The Company completed the tax free distribution of approximately 26.2 million shares, or 80.75%, of the outstanding common stock of Donnelley Financial and 26.2 million shares, or 80.75%, of the outstanding common stock of LSC, to the Company’s stockholders (the “Distribution”). The Distribution was made to the Company’s stockholders of record as of the close of business on September 23, 2016, who received one share of Donnelley Financial common stock and one share of LSC common stock for every eight shares of RR Donnelley common stock held as of the record date. As a result of the Distribution, Donnelley Financial and LSC are now independent public companies trading under the symbols “DFIN” and “LKSD”, respectively, on the New York Stock Exchange. Immediately following the Distribution, the Company held 6.2 million shares of Donnelley Financial Solutions common stock and 6.2 million shares of LSC common stock. The Company will account for these investments as available-for-sale equity securities. The value of the Company’s investment in Donnelley Financial and LSC was approximately $350.1 million, calculated using the mid-point stock price for each company’s common stock on October 3, 2016.

The accompanying unaudited condensed consolidated interim financial statements include the historical results of Donnelley Financial and LSC, as the Separation did not take place until October 1, 2016. In future filings, the historical results of Donnelley Financial and LSC will be presented as discontinued operations. As a result of the Separation, the accompanying unaudited interim condensed consolidated interim financial statements are not indicative of the Company's future financial position, results of operations or cash flows.

In conjunction with the Separation, the Company entered into certain agreements with Donnelley Financial and LSC, to implement the legal and structural separation from Donnelley Financial and LSC, govern the relationship between the Company, Donnelley Financial and LSC up to and after the completion of the Separation, and allocate between the Company, Donnelley Financial and LSC various assets, liabilities and obligations, including, among other things, employee benefits, intellectual property and tax-related assets and liabilities. These agreements included the Separation and Distribution Agreement, Transition Services Agreement, Tax Disaffiliation Agreement, Patent Assignment and License Agreement, Trademark Assignment and License Agreement, Data Assignment and License Agreement, Software, Copyright and Trade Secret Assignment and License Agreement, Stockholder and Registration Rights Agreement and commercial and other arrangements and agreements.

Reverse Stock Split

Immediately following the Distribution on October 1, 2016, the Company effected a one for three reverse stock split for RR Donnelley common stock (the "Reverse Stock Split"). The Reverse Stock Split was approved by the Company's Board of Directors on September 14, 2016 and previously approved by the Company's stockholders at the annual meeting on May 19, 2016.

As a result of the Reverse Stock Split, the number of issued and outstanding and treasury shares of the Company's common stock will be reduced proportionally based on the Reverse Stock Split ratio of one share for every three shares of common stock held before the Reverse Stock Split. No fractional shares of RR Donnelley common stock were distributed to stockholders in connection

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

with the Reverse Stock Split, but instead, all fractional shares were aggregated by the Company’s transfer agent and sold at the prevailing price in the open-market on October 6, 2016. The total number of aggregated shares of the Company’s common stock of 3,088 shares was sold for total net cash proceeds of less than $0.1 million which was then paid to stockholders in an amount equal to their respective pro rata share of the total net cash proceeds. All references in these unaudited condensed consolidated interim financial statements to the number of shares of common stock and per share amounts have been retroactively adjusted to give effect to the Reverse Stock Split.

2. Acquisitions and Dispositions

2016 Acquisitions

On August 4, 2016, the Company acquired Precision Dialogue Holdings, LLC (“Precision Dialogue”), a provider of email marketing, direct mail marketing and other services with operations in the United States for a purchase price, net of cash acquired, of approximately $58.6 million. The acquisition expanded the Company’s ability to help its customers measure communications effectiveness and audience engagement. Precision Dialogue contributed $8.2 million in sales and a loss before income taxes of $1.1 million during the three and nine months ended September 30, 2016 and is included within the operating results of the Variable Print segment.

The Precision Dialogue 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. The total tax deductible goodwill related to the Precision Dialogue acquisition was $8.8 million.

Based on the valuation, the preliminary purchase price allocation for the Precision Dialogue acquisition was as follows:

Accounts receivable	$11.8
Inventories	0.4
Prepaid expenses and other current assets	1.0
Property, plant and equipment	6.9
Other intangible assets	14.7
Other noncurrent assets	1.2
Goodwill	41.0
Accounts payable and accrued liabilities	(11.1)
Deferred taxes--net	(7.3)
Total purchase price-net of cash acquired	58.6
Less: debt assumed	11.1
Net cash paid	$47.5

8

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

The purchase price allocation is preliminary as the Company is still in the process of obtaining data to finalize the estimated fair values of certain intangible assets.

The fair values of other intangible assets, technology and goodwill associated with the Precision Dialogue acquisition 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	$ 11.6	Excess earnings	Discount rate Attrition rate	16.0% 7.0% - 8.0%
Trade names	1.4	Relief-from-royalty method	Discount rate Royalty rate (pre-tax)	16.0% 0.75% - 1.25%
Technology	0.6	Relief-from-royalty method	Discount rate Royalty rate (pre-tax) Obsolescence factor	16.0% 15.0% 0.0% - 40.0%
Non-compete agreements	1.7	With and without method	Discount rate	16.0%

The fair values of property, plant and equipment associated with the 2016 acquisitions 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 the cost approach.

For the three and nine months ended September 30, 2016, the Company recorded $0.7 million and $2.7 million of acquisition-related expenses, respectively, associated with completed or contemplated acquisitions within selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

2016 Dispositions

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 September 30, 2016. Additionally, during the three months ended September 30, 2016 the Company sold three immaterial entities for proceeds of $0.3 million. The dispositions of these entities resulted in a loss of $0.3 million and a net gain of $12.0 million during the three and nine month periods ended September 30, 2016, respectively, which were 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 2.7 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 and nine months ended September 30, 2015, the Company recorded $0.3 million and $14.1 million of acquisition-related expenses, respectively, 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.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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 2015 acquisitions was $15.0 million.

Based on the valuations, the final purchase price allocation for the 2015 acquisitions was as follows:

Accounts receivable	$36.2
Inventories	59.0
Prepaid expenses and other current assets	38.8
Property, plant and equipment	163.8
Other intangible assets	108.8
Other noncurrent assets	7.9
Goodwill	66.3
Accounts payable and accrued liabilities	(24.6)
Other noncurrent liabilities	(10.5)
Deferred taxes--net	(83.7)
Total purchase price-net of cash acquired	362.0
Less: debt assumed	80.2
Less: settlement of accounts receivable for acquisition of a business	8.6
Less: value of common stock issued	155.2
Net cash paid	$118.0

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

	Fair Value	Valuation Technique	Unobservable Input	Range
Customer relationships	$98.4	Excess earnings	Discount rate Attrition rate	14.0% - 17.0% 0.0% - 7.5%
Trade names	10.1	Relief-from-royalty method	Discount rate	12.0%

			Royalty rate (pre-tax)	0.3% - 1.0%
			Discount rate	11.0%
Technology	1.6	Relief-from-royalty method	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 the 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 $16.3 million and a loss before income taxes of $38.4 million, including the net loss as a result of the sale, for the nine months ended September 30, 2015.

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES ("RR DONNELLEY")

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Pro forma results

The following unaudited pro forma financial information for the three and nine months ended September 30, 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 September 30, 2015	Nine Months Ended September 30, 2015
Net sales	$ 2,828.0	$ 8,445.5
Net earnings attributable to RR Donnelley common stockholders	22.5	118.0
Net earnings per share attributable to RR Donnelley common stockholders:		
Basic	$ 0.32	$ 1.69
Diluted	$ 0.32	$ 1.68

The following table outlines unaudited pro forma financial information for the three and nine months ended September 30, 2015:

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Amortization of purchased intangibles	$ 20.4	$ 63.0
Restructuring, impairment and other charges	48.4	76.7

Additionally, the pro forma adjustments affecting net earnings attributable to RR Donnelley common stockholders for the three and nine months ended September 30, 2015 were as follows:

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Depreciation and amortization of purchased assets, pre-tax	$ 2.0	$ 2.4
Acquisition-related expenses, pre-tax	0.2	18.8
Restructuring, impairment and other charges, pre-tax	4.5	28.6
Inventory fair value adjustment, pre-tax	6.7	9.9
Other pro forma adjustments, pre-tax	—	1.2
Income taxes	(4.8)	(15.0)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

3. Inventories

The components of the Company’s inventories, net of excess and obsolescence reserves for raw materials and finished goods, at September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016	December 31, 2015
Raw materials and manufacturing supplies	$ 250.4	$ 247.2
Work in process	202.6	156.1
Finished goods	281.1	275.2
LIFO reserve	(83.0)	(86.5)
Total	$ 651.1	$ 592.0

4. Property, Plant and Equipment

The components of the Company’s property, plant and equipment at September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016	December 31, 2015
Land	$ 111.4	$ 113.6
Buildings	1,215.2	1,224.7
Machinery and equipment	6,148.1	6,160.3
	7,474.7	7,498.6
Less: Accumulated depreciation	(6,132.4)	(6,050.5)
Total	$ 1,342.3	$ 1,448.1

During the three and nine months ended September 30, 2016, depreciation expense was $74.9 million and $230.6 million, respectively. During the three and nine months ended September 30, 2015, depreciation expense was $84.3 million and $249.7 million, respectively.

5. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2016 were as follows:

	Publishing and Retail Services	Variable Print	Strategic Services	International	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
Acquisitions	—	41.0	—	—	41.0
Foreign exchange and other adjustments	—	0.6	0.3	1.8	2.7
Net book value as of September 30, 2016					
Goodwill	739.2	1,955.6	990.8	1,083.9	4,769.5
Accumulated impairment losses	(688.0)	(1,105.2)	(218.7)	(970.3)	(2,982.2)
Total	$ 51.2	$850.4	$772.1	$ 113.6	$1,787.3

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

The components of other intangible assets at September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationships	$935.2	$ (593.0)	$342.2	$932.1	$ (555.3)	$ 376.8
Patents	2.0	(2.0)	—	98.3	(98.3)	—
Trademarks, licenses and agreements	29.4	(27.3)	2.1	30.6	(29.9)	0.7
Trade names	47.8	(20.9)	26.9	47.5	(19.1)	28.4
Total amortizable other intangible assets	1,014.4	(643.2)	371.2	1,108.5	(702.6)	405.9
Indefinite-lived trade names	32.1	—	32.1	32.1	—	32.1
Total other intangible assets	$1,046.5	$ (643.2)	$403.3	$1,140.6	$ (702.6)	$ 438.0

During the nine months ended September 30, 2016 the Company recorded additions to other intangible assets of which the components and the related weighted average amortization periods are as follows:

	September 30, 2016	
	Amount	Weighted Average Amortization Period
Customer relationships	$ 11.6	10.5
Trade names	1.4	4.7
Non-compete agreements	1.7	3.3
Total additions	$ 14.7	

Amortization expense for other intangible assets was $15.6 million and $20.4 million for the three months ended September 30, 2016 and 2015, respectively, and $49.6 million and $58.6 million for the nine months ended September 30, 2016 and 2015, respectively.

The following table outlines the estimated annual amortization expense related to other intangible assets as of September 30, 2016:

For the year ending December 31,	Amount

2016	$ 65.4
2017	60.7
2018	54.7
2019	50.4
2020	46.5
2021 and thereafter	143.1
Total	$ 420.8

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

6. Restructuring, Impairment and Other Charges

Restructuring, Impairment and Other Charges Recognized in Results of Operations

For the three months ended September 30, 2016 and 2015, the Company recorded the following net restructuring, impairment and other charges:

Three Months Ended September 30, 2016	Employee Terminations	Other Restructuring Charges	Total Restructuring Charges	Impairment	Other Charges	Total
Publishing and Retail Services	$ —	$ 1.2	$ 1.2	$ —	$ 0.8	$2.0
Variable Print	1.2	0.3	1.5	—	0.6	2.1
Strategic Services	2.6	0.4	3.0	—	0.1	3.1
International	0.9	0.3	1.2	—	—	1.2
Corporate	6.5	0.1	6.6	—	—	6.6
Total	$ 11.2	$ 2.3	$ 13.5	$ —	$ 1.5	$15.0

Three Months Ended September 30, 2015	Employee Terminations	Other Restructuring Charges	Total Restructuring Charges	Impairment	Other Charges	Total
Publishing and Retail Services	$ 2.1	$ 1.0	$ 3.1	$ 2.0	$ 0.7	$5.8
Variable Print	0.5	2.1	2.6	(0.1)	0.4	2.9
Strategic Services	1.9	0.5	2.4	0.9	0.2	3.5
International	13.1	0.8	13.9	25.4	—	39.3
Corporate	1.2	0.2	1.4	—	—	1.4
Total	$ 18.8	$ 4.6	$ 23.4	$ 28.2	$ 1.3	$52.9

For the nine months ended September 30, 2016 and 2015, the Company recorded the following net restructuring, impairment and other charges:

Nine Months Ended September 30, 2016	Employee Terminations	Other Restructuring Charges	Total Restructuring Charges	Impairment	Other Charges	Total
Publishing and Retail Services	$ 2.1	$ 2.8	$ 4.9	$ 1.1	$ 2.4	$8.4

Variable Print	1.5	1.8	3.3	0.1	1.5	4.9
Strategic Services	4.1	1.1	5.2	0.6	0.4	6.2
International	7.0	2.9	9.9	(2.5)	—	7.4
Corporate	10.2	0.1	10.3	1.2	—	11.5
Total	$ 24.9	$ 8.7	$ 33.6	$ 0.5	$ 4.3	$38.4

Nine Months Ended September 30, 2015	Employee Terminations	Other Restructuring Charges	Total Restructuring Charges	Impairment	Other Charges	Total
Publishing and Retail Services	$ 5.3	$ 2.5	$ 7.8	$ 1.5	$ 18.5	$27.8
Variable Print	3.6	5.4	9.0	1.6	1.3	11.9
Strategic Services	5.7	1.6	7.3	0.9	3.3	11.5
International	22.3	2.5	24.8	25.0	—	49.8
Corporate	2.9	1.0	3.9	—	—	3.9
Total	$ 39.8	$ 13.0	$ 52.8	$ 29.0	$ 23.1	$104.9

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Restructuring and Impairment Charges

For the three and nine months ended September 30, 2016, the Company recorded net restructuring charges of $11.2 million and $24.9 million, respectively, for employee termination costs for an aggregate of 870 employees, of whom 843 were terminated as of September 30, 2016. These charges primarily related to the reorganization of certain administrative functions and operations, two facility closures in the International segment and one facility closure in the Publishing and Retail Services segment. Additionally, the Company incurred lease termination and other restructuring charges of $2.3 million and $8.7 million, respectively, for the three and nine months ended September 30, 2016. For the nine months ended September 30, 2016 the Company also recorded $0.5 million of net impairment charges primarily related to buildings and machinery and equipment associated with facility closures, as well as gains on the sale of previously impaired assets.

For the three and nine months ended September 30, 2015, the Company recorded net restructuring charges of $18.8 million and $39.8 million, respectively, for employee termination costs for 1,829 employees, all of whom were terminated as of September 30, 2016. These charges primarily related to two facility closures, both in the International segment, one facility closure in the Variable Print segment and the reorganization of certain operations. Additionally, the Company incurred lease termination and other restructuring charges of $4.6 million and $13.0 million, respectively, for the three and nine months ended September 30, 2015. For the three and nine months ended September 30, 2015, the Company also recorded $7.9 million and $8.7 million, respectively, of net impairment charges primarily related to buildings and machinery and equipment associated with facility closures. The fair values of the buildings and machinery and equipment were determined to be Level 3 under the fair value hierarchy and were estimated based on discussions with real estate brokers, review of comparable properties, if available, discussions with machinery and equipment brokers, dealer quotes and internal expertise related to the current marketplace conditions.

As the result of the Company’s interim goodwill impairment review, the Company recorded non-cash charges of $13.7 million and $4.3 million for the three and nine months ended September 30, 2015 to recognize the impairment of goodwill in the Europe and Latin America reporting units, respectively, both of which are within the International segment. The goodwill impairment charge in the Europe reporting unit was due to the announced reorganization of certain operations which resulted in a reduction in the estimated fair value of the reporting unit based on lower expectations of future revenue, profitability and cash flows as compared to the expectations as of the October 31, 2014 annual goodwill impairment test. As of September 30, 2015, the Europe and Latin America reporting units had no remaining goodwill. The goodwill impairment charges were determined using Level 3 inputs, including discounted cash flow analyses, comparable marketplace fair value data and management’s assumptions in valuing the significant tangible and intangible assets. Additionally, for the three and nine months ended September 30, 2015, the Company recorded $2.3 million for the impairment of intangible assets, substantially all of which related to the impairment of acquired customer relationship intangible assets and trade names in the Latin America reporting unit within the International segment.

Other Charges

For the three and nine months ended September 30, 2016, the Company recorded other charges of $1.5 million and $4.3 million, respectively, for multi-employer withdrawal pension plan obligations unrelated to facility closures. The total liabilities for the withdrawal obligations associated with the Company's decision to withdraw from multi-employer pension plans included in accrued liabilities and other noncurrent liabilities are $11.0 million and $78.4 million, respectively, as of September 30, 2016.

For the three and nine months ended September 30, 2015, the Company recorded other charges of $1.3 million and $23.1 million, respectively, including integration charges of $19.1 million for payments made to certain Courier employees upon the termination of Courier's executive severance plan, immediately prior to the acquisition.

The Company's multi-employer pension plan 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, in one of which the Company's contributions account for 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.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Restructuring Reserve

The restructuring reserve as of December 31, 2015 and September 30, 2016, and changes during the nine months ended September 30, 2016, were as follows:

	December 31, 2015	Restructuring Charges	Foreign Exchange and Other	Cash Paid	September 30, 2016
Employee terminations	$ 20.2	$ 24.9	$ 0.3	$ (27.6)	$ 17.8
Multi-employer pension withdrawal obligations	32.9	1.6	—	(3.6)	30.9
Lease terminations and other	10.6	7.1	(0.1)	(9.9)	7.7
Total	$ 63.7	$ 33.6	$ 0.2	$ (41.1)	$ 56.4

The current portion of restructuring reserves of $22.9 million at September 30, 2016 was included in accrued liabilities, while the long-term portion of $33.5 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 September 30, 2016.

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

7. Employee Benefits

The components of the estimated net pension and other postretirement benefits plan expense (income) for the three and nine months ended September 30, 2016 and 2015 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Pension expense (income)				
Service cost	$0.3	$0.5	$0.9	$1.6
Interest cost	36.8	44.5	110.5	133.9
Expected return on plan assets	(58.6)	(61.4)	(180.0)	(184.7)
Amortization, net	7.8	10.1	23.5	30.5
Settlements	1.6	—	98.5	—
Net pension (income) expense	$(12.1)	$(6.3)	$53.4	$(18.7)
Other postretirement benefits plan expense (income)				
Service cost	$1.0	$1.1	$3.0	$3.5
Interest cost	3.1	4.0	9.2	12.0
Expected return on plan assets	(3.4)	(3.3)	(10.2)	(9.8)
Amortization, net	(4.0)	(6.7)	(12.0)	(20.2)
Curtailments	(19.7)	—	(19.7)	—
Net other postretirement benefits plan income	$(23.0)	$(4.9)	$(29.7)	$(14.5)

16

In the fourth quarter of 2015, the Company communicated to certain former employees the option to receive a lump-sum pension payment or annuity with payments computed in accordance with statutory requirements, beginning in the second quarter of 2016. Payments to eligible participants who elected to receive a lump-sum pension payment or annuity were funded from existing pension plan assets and constituted a complete settlement of the Company's pension liabilities with respect to these participants. The Company's pension assets and liabilities were remeasured as of the payout date. The discount rates and actuarial assumptions used to calculate the payouts were determined in accordance with federal regulations. As of the remeasurement date, the reduction in the reported pension obligation for these participants was $354.8 million, compared to payout amounts of approximately $328.4 million. The Company recorded non-cash settlement charges of $1.6 million and $98.5 million in selling, general and administrative expenses during the three and nine months ended September 30, 2016, respectively, in connection with the settlement payments. These charges resulted from the recognition in earnings of a portion of the actuarial losses recorded in accumulated other comprehensive loss based on the proportion of the obligation settled.

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 third quarter of 2016, the Company announced the discontinuation of retiree medical, prescription drug and life insurance benefits for individuals retiring on or after October 1, 2016. This change was accounted for as a significant plan amendment and the other postemployment benefit plan obligations were remeasured as of September 30, 2016. This remeasurement resulted in a reduction to the other postemployment benefit plan obligations of $35.0 million and a curtailment gain of $16.4 million within cost of sales and $3.3 million in selling, general and administrative expenses during the three and nine months ended September 30, 2016.

8. Equity

The Company's equity as of December 31, 2015 and September 30, 2016, and changes during the nine months ended September 30, 2016, were as follows:

	RR Donnelley Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2015	$ 682.7	$ 13.9	$696.6
Net earnings	18.2	0.8	19.0
Other comprehensive (loss) income	(22.5)	0.2	(22.3)
Share-based compensation	13.4	—	13.4
Issuance of share-based awards, net of withholdings and other	(4.2)	—	(4.2)
Cash dividends paid	(163.2)	—	(163.2)
Distributions to noncontrolling interests	—	(0.9)	(0.9)
Balance at September 30, 2016	$ 524.4	$ 14.0	$538.4

On May 31, 2016, the Company reduced the par value of the authorized shares of RR Donnelley’s common stock from $1.25 per share to $0.01 per share.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

The Company’s equity as of December 31, 2014 and September 30, 2015, and changes during the nine months ended September 30, 2015, were as follows:

	RR Donnelley Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2014	$ 593.8	$ 26.6	$620.4
Net earnings (loss)	80.1	(13.0)	67.1
Other comprehensive loss	(31.0)	(1.0)	(32.0)
Share-based compensation	13.6	—	13.6
Issuance of common stock	154.2	—	154.2
Issuance of share-based awards, net of withholdings and other	(3.4)	—	(3.4)
Cash dividends paid	(158.4)	—	(158.4)
Noncontrolling interests in acquired business	—	4.6	4.6
Noncontrolling interests in disposed businesses	—	(2.4)	(2.4)
Distributions to noncontrolling interests	—	(1.0)	(1.0)
Balance at September 30, 2015	$ 648.9	$ 13.8	$662.7

During the three months ended June 30, 2015, the Company issued stock in conjunction with the Courier acquisition with a closing date value of $154.2 million.

9. Earnings per Share

Basic earnings per share is calculated by dividing net earnings attributable to RR Donnelley common stockholders 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 nine months ended September 30, 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. During the nine months ended September 30, 2015, the Company issued 2.7 million shares of stock in conjunction with the Courier acquisition.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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 and nine months ended September 30, 2016 and 2015 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016 (1)	2015 (1)	2016 (1)	2015 (1)
Net (loss) earnings per share attributable to RR Donnelley common stockholders:				
Basic	$(0.10)	$0.21	$0.26	$1.18
Diluted	$(0.10)	$0.20	$0.26	$1.17
Dividends declared per common share	$0.78	$0.78	$2.34	$2.34
Numerator:				
Net (loss) earnings attributable to RR Donnelley common stockholders	$(7.1)	$14.3	$18.2	$80.1
Denominator:				
Weighted average number of common shares outstanding	70.0	69.7	70.0	68.1
Dilutive options and awards	—	0.4	0.5	0.4
Diluted weighted average number of common shares outstanding	70.0	70.1	70.5	68.5
Weighted average number of anti-dilutive share-based awards:				
Stock options	0.8	0.7	0.7	0.7
Performance share units	0.2	0.4	0.2	0.4
Restricted stock units	0.3	—	—	—
Total	1.3	1.1	0.9	1.1

(1) Earnings per share amounts, dividends declared per common share and adjusted weighted average common shares outstanding for all periods reflect RR Donnelley's 1-for-3 reverse stock split, which was effective October 1, 2016.

10. Comprehensive Income

The components of other comprehensive loss and income tax (benefit) expense allocated to each component for the three and nine months ended September 30, 2016 and 2015 were as follows:

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Before Tax	Income Tax	Net of Tax	Before Tax	Income Tax	Net of Tax

	Amount	Expense	Amount	Amount	Expense	Amount
Translation adjustments	$(4.4)	$ —	$ (4.4)	$(9.0)	$ —	$ (9.0)
Adjustment for net periodic pension and other postretirement benefits plan cost	(32.4)	(13.0)	(19.4)	(16.3)	(3.0)	(13.3)
Other comprehensive loss	$(36.8)	$ (13.0)	$ (23.8)	$(25.3)	$ (3.0)	$ (22.3)

During the nine months ended September 30, 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 September 30, 2015			Nine Months Ended September 30, 2015		
	Before Tax Amount	Income Tax Expense	Net of Tax Amount	Before Tax Amount	Income Tax Expense	Net of Tax Amount
Translation adjustments	$(37.5)	$ —	$ (37.5)	$(42.5)	$ —	$ (42.5)
Adjustment for net periodic pension and other postretirement benefits plan cost	3.4	1.2	2.2	16.1	5.7	10.4
Change in fair value of derivatives	—	(0.1)	0.1	0.1	—	0.1
Other comprehensive (loss) income	$(34.1)	$ 1.1	$ (35.2)	$(26.3)	$ 5.7	$ (32.0)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Accumulated other comprehensive loss by component as of December 31, 2015 and September 30, 2016, and changes during the nine months ended September 30, 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 loss before reclassifications	(69.7)	(8.5)	(78.2)
Amounts reclassified from accumulated other comprehensive loss	55.2	—	55.2
Amounts reclassified due to the disposition of businesses	1.2	(0.7)	0.5
Net change in accumulated other comprehensive loss	(13.3)	(9.2)	(22.5)
Balance at September 30, 2016	$ (740.8)	$ (74.9)	$(815.7)

Accumulated other comprehensive loss by component as of December 31, 2014 and September 30, 2015, and changes during the nine months ended September 30, 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	—	—	(54.6)	(54.6)
Amounts reclassified from accumulated other comprehensive loss	0.1	6.6	—	6.7
Amounts reclassified due to disposition of a business	—	3.8	13.1	16.9
Net change in accumulated other comprehensive loss	0.1	10.4	(41.5)	(31.0)
Balance at September 30, 2015	$ —	$ (751.9)	$ (52.7)	$(804.6)

Reclassifications from accumulated other comprehensive loss for the three and nine months ended September 30, 2016 and 2015 were as follows:

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Classification in the Condensed Consolidated Statements of Operations
Amortization of pension and other postretirement benefits plan cost:					
Net actuarial loss	$7.8	$10.1	$23.5	$30.5	(a)
Net prior service credit	(4.0)	(6.7)	(12.0)	(20.2)	(a)
Curtailments	(19.7)	—	(19.7)	—	(a)
Settlements	1.6	—	98.5	—	(a)
Reclassifications before tax	(14.3)	3.4	90.3	10.3	
Income tax (benefit) expense	(7.9)	1.2	35.1	3.7	
Reclassifications, net of tax	$(6.4)	$2.2	$55.2	$6.6	

(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).

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

11. 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.

21

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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.

	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Depreciation and Amortization	Capital Expenditures
Three Months Ended September 30, 2016						
Publishing and Retail Services	$717.0	$ (45.0)	$672.0	$ 39.0	$ 34.7	$ 11.9
Variable Print	931.8	(17.5)	914.3	64.2	34.7	15.8
Strategic Services	731.9	(85.3)	646.6	39.8	15.0	3.9
International	567.9	(28.4)	539.5	34.4	15.9	8.3
Total operating segments	2,948.6	(176.2)	2,772.4	177.4	100.3	39.9
Corporate	—	—	—	(19.9)	1.2	6.6
Total operations	$2,948.6	$ (176.2)	$2,772.4	$ 157.5	$ 101.5	$ 46.5

	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Depreciation and Amortization	Capital Expenditures
Three Months Ended September 30, 2015						
Publishing and Retail Services	$694.8	$ (9.9)	$684.9	$ 33.4	$ 40.1	$ 5.9
Variable Print	949.4	(13.5)	935.9	58.0	38.0	18.7
Strategic Services	685.6	(50.0)	635.6	51.5	15.8	4.8
International	599.0	(27.4)	571.6	(8.4)	20.5	16.7
Total operating segments	2,928.8	(100.8)	2,828.0	134.5	114.4	46.1
Corporate	—	—	—	(11.2)	0.9	5.6
Total operations	$2,928.8	$ (100.8)	$2,828.0	$ 123.3	$ 115.3	$ 51.7

	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Assets of Operations	Depreciation and Amortization	Capital Expenditures
Nine Months Ended September 30, 2016							
Publishing and Retail Services	$1,956.0	$ (66.7)	$1,889.3	$ 85.9	$1,291.6	$ 108.8	$ 23.6
Variable Print	2,750.1	(50.6)	2,699.5	189.4	2,570.1	103.3	47.9

Strategic Services	2,152.7	(165.6)	1,987.1	161.0	1,528.1	47.0	27.2
International	1,659.6	(82.0)	1,577.6	97.7	1,533.3	50.4	28.7
Total operating segments	8,518.4	(364.9)	8,153.5	534.0	6,923.1	309.5	127.4
Corporate	—	—	—	(190.9)	549.4	3.0	20.5
Total operations	$8,518.4	$ (364.9)	$8,153.5	$ 343.1	$7,472.5	$ 312.5	$ 147.9

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Assets of Operations	Depreciation and Amortization	Capital Expenditures
Nine Months Ended September 30, 2015							
Publishing and Retail Services	$1,861.3	$ (20.9)	$1,840.4	$ 47.8	$1,434.1	$ 109.1	$ 27.9
Variable Print	2,837.6	(41.6)	2,796.0	183.6	2,542.3	115.5	43.1
Strategic Services	2,119.1	(118.6)	2,000.5	189.3	1,420.4	50.4	33.0
International	1,768.5	(83.2)	1,685.3	25.9	1,655.3	63.7	36.7
Total operating segments	8,586.5	(264.3)	8,322.2	446.6	7,052.1	338.7	140.7
Corporate	—	—	—	(50.0)	418.5	2.8	12.1
Total operations	$8,586.5	$ (264.3)	$8,322.2	$ 396.6	$7,470.6	$ 341.5	$ 152.8

Restructuring, impairment and other charges by segment for the three and nine months ended September 30, 2016 and 2015 are described in Note 6, Restructuring, Impairment and Other Charges.

12. 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 eleven 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.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

13. Debt

The Company’s debt at September 30, 2016 and December 31, 2015 consisted of the following:

	September 30, 2016	December 31, 2015
Borrowings under the Credit Agreement	$ —	$ —
8.60% senior notes due August 15, 2016	—	219.6
6.125% senior notes due January 15, 2017	155.1	251.2
7.25% senior notes due May 15, 2018	45.8	250.0
11.25% senior notes due February 1, 2019 (a)	172.2	172.2
8.25% senior notes due March 15, 2019	21.3	238.9
7.625% senior notes due June 15, 2020	350.0	350.0
7.875% senior notes due March 15, 2021	448.7	448.5
8.875% debentures due April 15, 2021	80.9	80.9
7.00% senior notes due February 15, 2022	140.0	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
Donnelley Financial 8.250% senior notes due 2024	300.0	—
LSC 8.750% senior notes due 2023	450.0	—
Donnelley Financial and LSC term loan B facilities	713.9	—
Other (b)	38.3	18.7
Unamortized debt issuance costs	(43.8)	(25.6)
Total debt	3,890.9	3,422.9
Less: current portion	(255.6)	(234.6)
Long-term debt	$ 3,635.3	$ 3,188.3

(a) As of September 30, 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 miscellaneous debt obligations and capital leases. The balance as of December 31, 2015 also included the fair value adjustments to the 8.25% senior notes due March 15, 2019 related to the Company’s fair value hedges, which were terminated as of September 30, 2016.

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 greater than its book value by approximately $120.9 million at September 30, 2016 and less than its book value by approximately $39.7 million at December 31, 2015.

In connection with the spin-off transactions, on September 30, 2016, Donnelley Financial issued 8.250% senior notes due 2024 with an aggregate principal of $300.0 million (the "DFS Notes") and incurred a senior secured term loan B facility (the "DFS Term Loan Facility") under its new credit agreement in an aggregate principal of $350.0 million, under which Donnelley Financial will borrow at 4.00% over LIBOR, subject to a LIBOR floor of 1.00%. Donnelley Financial's credit agreement also includes a $300.0 million senior secured revolving credit facility which was undrawn as of September 30, 2016. Additionally on September 30, 2016, LSC issued 8.750% senior secured notes due 2023 with an aggregate principal of $450.0 million (the "LSC Notes") and incurred a senior secured term loan B facility (the "LSC Term Loan Facility") under its new credit agreement in an aggregate principal of $375.0 million, under which LSC will borrow at 6.00% over LIBOR, subject to a LIBOR floor of 1.00%. LSC's credit agreement also includes a $400.0 million senior secured revolving credit facility which was undrawn as of September 30, 2016. The net proceeds from the sale of the LSC Notes and the borrowings under the DFS Term Loan Facility and the LSC Term Loan Facility were distributed to their parent company, RR Donnelley in connection with the spinoff transactions. RR Donnelley used these proceeds to reduce its existing debt. Additionally, there were approximately $4.5 million of accrued financing fees as of September 30, 2016 related to these transactions.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

On August 31, 2016, the Company and certain third party financial institutions (such financial institutions collectively, the “Third Party Purchasers”), launched cash tender offers for certain of the Company’s outstanding debt securities, including the Company’s 6.125% senior notes due January 15, 2017 (the “2017 Notes”), 7.250% senior notes due May 15, 2018 the (“2018 Notes”), 8.250% senior notes due March 15, 2019 (the “2019 Notes”) and 7.000% senior notes due February 15, 2022 (the “2022 Notes”). On September 16, 2016, the Third Party Purchasers purchased $274.4 million in aggregate principal amount of the 2017 Notes and 2018 Notes (the “Third Party Purchase Notes”). On September 30, 2016, the Company purchased approximately $503.6 million in aggregate principal amount of the 2017 Notes, the 2018 Notes, the 2019 Notes and the 2022 Notes (the “Company Purchase Notes”), and exchanged $300.0 million in aggregate principal amount of the DFS Notes for the Third Party Purchase Notes. The Company cancelled the Third Party Purchase Notes and Company Purchase Notes on September 30, 2016. As a result, the Company recognized an $83.9 million loss on debt extinguishments in the three months ended September 30, 2016 related to premiums and other related transaction costs.

On October 6, 2016, the Company redeemed the outstanding $45.8 million principal amount of the 2018 Notes and the outstanding $21.3 principal amount of the 2019 Notes plus accrued and unpaid interest. Additionally, the Company redeemed the outstanding $155.2 million aggregate principal of the 2017 Notes on November 2, 2016. As a result, the Company expects to recognize an estimated $9.0 million loss on debt extinguishments in the fourth quarter of 2016.

On September 30, 2016, the Company entered into an amended and restated Credit Agreement (the “Credit Agreement”) providing for $800.0 million in credit facilities (the “Revolving Facility”). The Revolving Facility matures on September 30, 2021. Interest rates on borrowings are equal to, at the Company’s option, a base rate plus a margin ranging from 1.125% to 1.50%, or LIBOR plus a margin ranging from 2.125% to 2.50%, in either case based upon the leverage ratio of RR Donnelley. In addition, the Company will pay a facility fee on the actual daily amount of the aggregate revolving commitments regardless of usage ranging from 0.375% to 0.50%, based upon the leverage ratio of the Company. As a result of the reduction in borrowing capacity, the Company recognized a $1.4 million loss related to unamortized debt issuance costs within loss on debt extinguishments in the condensed consolidated statements of operations for the three months ended September 30, 2016. Additionally, the Company had approximately $0.8 million of accrued financing fees as of September 30, 2016 related to this transaction.

The Credit Agreement contains a number of restrictive covenants, including a maximum secured 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 $60.0 million in aggregate though additional dividends may be permitted subject to certain conditions.

The weighted average interest rate on borrowings under the prior Credit Agreement was 2.2% and 2.0% during the nine months ended September 30, 2016 and 2015, respectively.

Interest income was $1.3 million and $4.2 million for the three and nine months ended September 30, 2016 and 2015, respectively.

Cash on hand and borrowings under the Credit Agreement were used to pay the $219.8 million of 8.6% senior notes that matured on August 15, 2016.

14. 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 September 30, 2016 and December 31, 2015 was $260.4 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 2014, the Company repurchased $211.1 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. During the three months ended September 30, 2016, in connection with the tender of the Company’s 8.25% senior notes due March 15, 2019, the Company terminated the remaining $190.0 million notional value of the interest rate swap agreements which resulted in cash received of $2.5 million for the fair value of the interest rate swaps.

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.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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 September 30, 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:

	September 30, 2016	December 31, 2015
Derivatives not designated as hedges		
Prepaid expenses and other current assets	$ 0.1	$ 1.8
Accrued liabilities	1.9	1.5
Derivatives designated as fair value hedges		
Other noncurrent assets	$ —	$ 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 and nine months ended September 30, 2016 and 2015 were as follows:

	Classification of (Gain) Loss Recognized in the Condensed Consolidated Statements of Operations	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Derivatives not designated as hedges					
Foreign exchange forward contracts	Selling, general and administrative expenses	$ 0.8	$ 1.3	$ 3.4	$ (22.2)

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 and nine months ended September 30, 2016 and 2015 were as follows:

	Classification of (Gain) Loss Recognized in the Condensed Consolidated Statements of Operations	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Fair Value Hedges					
Interest rate swaps	Investment and other (income) expense-net	$ 3.6	$ (2.2)	$ 0.4	$ (3.6)
Hedged items	Investment and other (income) expense-net	(4.3)	2.4	(0.8)	3.4
Total (gain) loss recognized as ineffectiveness in the Condensed Consolidated Statements of Operations	Investment and other (income) expense-net	$ (0.7)	$ 0.2	$ (0.4)	$ (0.2)

The Company also recognized a net reduction to interest expense of $0.2 million and $1.0 million for the three and nine months ended September 30, 2016, respectively, and $0.5 million and $1.6 million for the three and nine months ended September 30, 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.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

15. 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 nine months ended September 30, 2015, a pre-tax loss of $30.3 million ($27.5 million after-tax) was recognized in net investment and other expense, of which $10.5 million was included in loss attributable to noncontrolling interests.

16. 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.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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

- Accounting Standards Update No. 2016-17 “Consolidation (Topic 810): Interests Held through Related Parties That Are Under Common Control”
- Accounting Standards Update No. 2016-16 “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory”
- Accounting Standards Update No. 2016-15 “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts an Cash Payments (a consensus of the Emerging Issues Task Force)”
- Accounting Standards Update No. 2016-13 “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”
- 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 have been effective for and adopted by the Company in 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”

29

- 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.

Spinoff Transactions

On October 1, 2016, the Company completed the previously announced separation of its financial communications and data services business ("Donnelley Financial Solutions, Inc." or "Donnelley Financial") and the publishing and retail-centric print services and office products business ("LSC Communications, Inc." or "LSC") into two separate publicly-traded companies (the "Separation"). The Company completed the tax free distribution of approximately 26.2 million shares, or 80.75%, of the outstanding common stock of Donnelley Financial and 26.2 million shares, or 80.75%, of the outstanding common stock of LSC, to the Company's stockholders (the "Distribution"). The Distribution was made to the Company's stockholders of record as of the close of business on September 23, 2016, who received one share of Donnelley Financial common stock and one share of LSC common stock for every eight shares of RR Donnelley common stock held as of the record date. As a result of the Distribution, Donnelley Financial and LSC are now independent public companies trading under the symbols "DFIN" and "LKSD", respectively, on the New York Stock Exchange. Immediately following the Distribution, the Company held 6.2 million shares of Donnelley Financial Solutions common stock and 6.2 million shares of LSC common stock. The Company will account for these investments as available-for-sale equity securities. The value of the Company's investments in Donnelley Financial and LSC was approximately $350.1 million, calculated using the mid-point stock price for each company's common stock on October 3, 2016.

The disclosures within this Management's Discussion and Analysis of Financial Condition and Results of Operations are on a consolidated Company basis which includes the results of Donnelley Financial and LSC and do not take into account the Separation. In future filings, the historical results of Donnelley Financial and LSC will be presented as discontinued operations. As a result of the Separation, the accompanying unaudited interim condensed consolidated interim financial statements are not indicative of the Company's future financial position, results of operations or cash flows. See Item 1A, Risk Factors, of Part I of the Company's 2015 Form 10-K filed on February 25, 2016 and Item 1A of Part II under "Risk Factors" below for certain risk factors relating to the Separation.

Reverse Stock Split

Immediately following the Distribution on October 1, 2016, the Company effected a one for three reverse stock split for RR Donnelley common stock (the "Reverse Stock Split"). The Reverse Stock Split was approved by the Company's Board of Directors on September 14, 2016 and previously approved by the Company's stockholders at the annual meeting on May 19, 2016.

As a result of the Reverse Stock Split, the number of issued and outstanding and treasury shares of the Company's common stock will be reduced proportionally based on the Reverse Stock Split ratio of one share for every three shares of common stock held before the Reverse Stock Split. Refer to Note 1, Basis of Presentation, to the Condensed

Consolidated Financial Statements for additional information regarding the Reverse Stock Split. All references in these unaudited condensed consolidated interim financial statements to the number of shares of common stock and per share amounts have been retroactively adjusted to give effect to the Reverse Stock Split.

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.

Business Acquisitions and Dispositions

On August 4, 2016, the Company acquired Precision Dialogue, a provider of email marketing, direct mail marketing and other services with operations in the United States.

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, 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.

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

Executive Overview

Third Quarter Overview

Net sales decreased by $55.6 million, or 2.0%, for the third quarter of 2016 compared to the same period in the prior year. There was a $22.2 million, or 0.8%, decrease due to foreign exchange rates. In addition to the impact of foreign exchange rates, the decrease in net sales was due to lower volume in the Publishing and Retail Services, Variable Print and International segments, price pressures, a decrease in fuel surcharges in the logistics reporting unit within the Strategic Services segment and a $4.4 million decline in pass-through paper sales. These items were partially offset by increased volume in the Strategic Services segment.

The Company continues to take actions across all segments to reduce its cost structure and enhance productivity. During the nine months ended September 30, 2016, the Company realized cost savings from restructuring activities including the reorganization of administrative and support functions across all segments and facility consolidations. Additional cost savings were realized as a result of synergies from the integration of Courier.

Net cash provided by operating activities for the nine months ended September 30, 2016 was $7.8 million as compared to net cash provided by operating activities of $204.2 million for the nine months ended September 30, 2015. The decrease in net cash provided by operating activities reflected the timing of supplier and customer payments, higher spinoff-related transaction expenses and higher payments for taxes, partially offset by lower payments for incentive compensation.

In connection with the spinoff transactions, the Company incurred spinoff-related transaction expenses of $27.0 million and $57.3 million during the three and nine months ended September 30, 2016, respectively. The Company expects to incur approximately $30.0 million to $40.0 million of additional spinoff-related transaction and transition expenses in the fourth quarter of 2016, including advisory and other expenses.

As a result of the spin-off transactions of Donnelley Financial and LSC on October 1, 2016, the Company is re-evaluating the realizability of its domestic deferred tax assets during the fourth quarter of 2016.

Financial Performance: Three Months Ended September 30, 2016

The changes in the Company's income from operations, operating margin, net (loss) earnings attributable to RR Donnelley common stockholders and net (loss) earnings attributable to RR Donnelley common stockholders per diluted share for the three months ended September 30, 2016, from the three months ended September 30, 2015, were due to the following:

	Income from Operations	Operating Margin	Net Earnings (Loss) Attributable to RR Donnelley Common Stockholders	Net Earnings (Loss) Attributable to RR Donnelley Stockholders Per Diluted Share
	(in millions, except margin and per share data)			
For the three months ended September 30, 2015	$123.3	4.4 %	$ 14.3	$ 0.21
2016 restructuring, impairment and other charges - net	(15.0)	(0.5%)	(11.1)	(0.16)
2015 restructuring, impairment and other charges - net	52.9	1.9 %	41.0	0.58
Spinoff-related transaction expenses	(20.3)	(0.7%)	(21.1)	(0.30)
Acquisition-related expenses	(0.4)	—	(0.3)	—
Purchase accounting inventory adjustments	6.7	0.2 %	4.3	0.06
Loss on debt extinguishments	—	—	(51.9)	(0.74)
OPEB curtailment gains	19.7	0.7 %	12.0	0.17
Pension settlement charges	(1.6)	(0.1%)	(0.9)	(0.01)

Loss on dispositions of businesses	(0.3)	0.0 %	(0.1)	—
Loss on investment	—	—	2.8	0.04
Income tax adjustment	—	—	9.0	0.13
Operations	(7.5)	(0.2 %)	(5.1)	(0.08)
For the three months ended September 30, 2016	$157.5	5.7 %	$ (7.1)	$ (0.10)

2016 restructuring, impairment and other charges - net: included pre-tax charges of $11.2 million for employee termination costs; $2.3 million of lease termination and other restructuring costs; and $1.5 million for multi-employer pension plan withdrawal obligations unrelated to facility closures.

2015 restructuring, impairment and other charges - net: included pre-tax charges of $18.8 million for employee termination costs; $18.0 million for the impairment of goodwill in the Europe and Latin America reporting units, respectively, within the International segment; $7.9 million for net impairment charges of other long-lived assets, primarily for buildings and machinery and equipment associated with facility closures; $4.6 million of lease termination and other restructuring costs; $2.3 million for the impairment of intangibles in the Latin America reporting unit within the International segment; and $1.3 million of other charges for multi-employer pension plan withdrawal obligations unrelated to facility closures.

Spinoff-related transaction expenses: included pre-tax charges of $27.0 million ($25.5 million after-tax, of which $6.9 million related to certain international spinoff-related tax entity restructuring activities) and $6.7 million ($4.4 million after-tax) related to consulting, tax advice, legal and other expenses for the three months ended September 30, 2016 and 2015, respectively, associated with the spinoff transactions.

Loss on debt extinguishments: included pre-tax charges of $85.3 million ($51.9 million after-tax) related to the premiums paid in connection with the tenders, unamortized debt issuance costs and other expenses due to the repurchase of senior notes and amendments to the senior secured revolving credit facility (the “Credit Agreement”) during the three months ended September 30, 2016.

Acquisition-related expenses: included pre-tax charges of $0.7 million ($0.5 million after-tax) related to legal, accounting and other expenses for the three months ended September 30, 2016 associated with contemplated or completed acquisitions. For the three months ended September 30, 2015, these pre-tax charges were $0.3 million ($0.2 million after-tax) for acquisitions completed or contemplated.

Other postretirement benefit plan obligation (OPEB) curtailment gains: included a pre-tax gain of $19.7 million ($12.0 million after-tax) as a result of curtailments of the Company’s OPEB plans during the three months ended September 30, 2016.

Pension settlement charges: included pre-tax charges of $1.6 million ($0.9 million after-tax) for the three months ended September 30, 2016, related to lump-sum pension settlement payments.

Purchase accounting inventory adjustments: included pre-tax charges of $6.7 million ($4.3 million after-tax) as a result of inventory purchase accounting adjustments for Courier for the three months ended September 30, 2015.

Loss on dispositions of businesses: included a pre-tax loss on the sale of immaterial entities of $0.3 million ($0.1 million after-tax) for the three months ended September 30, 2016.

Loss on investments: included a pre-tax loss of $2.8 million ($2.8 million after-tax) resulting from the impairment of the Company’s investment in the Brazilian operations of Courier during the three months ended September 30, 2015.

Income tax adjustment: tax expense of $9.0 million was recorded due to the receipt of an unfavorable court decision relating to payment of prior year taxes in the International segment for the three months ended September 30, 2015.

Operations: reflected price pressures, unfavorable mix in the Strategic Services segment, lower volume in the Publishing and Retail Services and Variable Print segments, partially offset by lower depreciation and amortization expense and cost saving initiatives. See further details in the review of operating results by segment that follows below.

Financial Performance: Nine Months Ended September 30, 2016

The changes in the Company's income from operations, operating margin, net earnings attributable to RR Donnelley common stockholders and net earnings attributable to RR Donnelley common stockholders per diluted share for the nine months ended September 30, 2016, from the nine months ended September 30, 2015, were due to the following:

	Income from Operations	Operating Margin	Net Earnings Attributable to RR Donnelley Common Stockholders	Net Earnings Attributable to RR Donnelley Stockholders Per Diluted Share
	(in millions, except margin and per share data)			
For the nine months ended September 30, 2015	$396.6	4.8 %	$ 80.1	$ 1.17
2016 restructuring, impairment and other charges - net	(38.4)	(0.5 %)	(32.2)	(0.46)
2015 restructuring, impairment and other charges - net	104.9	1.3 %	65.3	0.95
Spinoff-related transaction expenses	(50.6)	(0.6 %)	(44.5)	(0.63)
Pension settlement charges	(98.5)	(1.2 %)	(59.9)	(0.85)
Acquisition-related expenses	11.4	0.2 %	11.0	0.16
Purchase accounting inventory adjustments	9.9	0.1 %	6.4	0.09
Net gain on dispositions of businesses	12.0	0.2 %	12.2	0.17
Loss on debt extinguishments	—	—	(51.9)	(0.74)
OPEB curtailment gains	19.7	0.2 %	12.0	0.17
Loss on disposal of Venezuelan entity	—	—	15.7	0.23
Venezuela currency remeasurement	—	—	17.0	0.25
Net gain on investments	—	—	0.3	—
Income tax adjustment	—	—	9.0	0.13
Operations	(23.9)	(0.3 %)	(22.3)	(0.38)
For the nine months ended September 30, 2016	$343.1	4.2 %	$ 18.2	$ 0.26

2016 restructuring, impairment and other charges - net: included pre-tax charges of $24.9 million for employee termination costs; $8.7 million of lease termination and other restructuring costs; $4.3 million for multi-employer pension plan withdrawal obligations unrelated to facility closures; and $0.5 million of net impairment charges of long-lived assets.

2015 restructuring, impairment and other charges - net: included pre-tax charges of $39.8 million for employee termination costs; $23.1 million of other charges, primarily for integration charges related to the Courier acquisition; $18.0 million for the impairment of goodwill in the Europe and Latin America reporting units, respectively, within the International segment; $13.0 million of lease termination and other restructuring costs; $8.7 million for net impairment charges of other long-lived assets, primarily for buildings and machinery and equipment associated with facility closures; and $2.3 million for the impairment of intangibles in the Latin America reporting unit within the International segment.

Spinoff-related transaction expenses: included pre-tax charges of $57.3 million ($48.9 million after-tax, of which $6.9 million related to certain international spinoff-related tax entity restructuring activities) and $6.7 million ($4.4 million after-tax) related to consulting, tax advice, legal and other expenses for the nine months ended September 30, 2016 and 2015, respectively, associated with the spinoff transactions.

Pension settlement charges: included pre-tax charges of $98.5 million ($59.9 million after-tax) for the nine months ended September 30, 2016, related to lump-sum pension settlement payments.

Loss on debt extinguishments: included pre-tax charges of $85.3 million ($51.9 million after-tax) related to the premiums paid in connection with the tenders, unamortized debt issuance costs and other expenses due to the repurchase of senior notes and amendments to the Credit Agreement during the nine months ended September 30, 2016.

Acquisition-related expenses: included pre-tax charges of $2.7 million ($2.4 million after-tax) and $14.1 million ($13.4 million after-tax) related to legal, accounting and other expenses for the nine months ended September 30, 2016 and 2015, respectively, associated with contemplated or completed acquisitions.

OPEB curtailment gains: included a pre-tax gain of $19.7 million ($12.0 million after-tax) as a result of curtailments of the Company’s OPEB plans during the nine months ended September 30, 2016.

Purchase accounting inventory adjustments: included pre-tax charges of $9.9 million ($6.4 million after-tax) for the nine months ended September 30, 2015 as a result of inventory purchase accounting adjustments for Courier.

Net gain on disposition of businesses: included a pre-tax net gain on the sale of entities of $12.0 million ($12.2 million after-tax) for the nine months ended September 30, 2016.

Loss on disposal of Venezuelan entity: The nine months ended September 30, 2015 included a $15.7 million ($15.7 million after-tax) loss primarily related to the disposal of the Venezuelan operating entity in the International segment.

Venezuela currency remeasurement: currency remeasurement in Venezuela and the related impact of the devaluation resulted in a pre-tax loss of $30.3 million ($27.5 million after-tax) for the nine months ended September 30, 2015, of which $10.5 million was included in loss attributable to noncontrolling interests.

Net gain on investments: included pre-tax gains of $0.1 million ($0.1 million after-tax) and $3.9 million ($2.6 million after-tax) resulting from the sale of certain of the Company's affordable housing investments during the nine months ended September 30, 2016 and 2015, respectively. Additionally during the nine months ended September 30, 2015, the Company recorded a pre-tax loss of $2.8 million ($2.8 million after-tax) resulting from the impairment of the Company's investment in the Brazilian operations of Courier.

Income tax adjustment: tax expense of $9.0 million was recorded due to the receipt of an unfavorable court decision relating to payment of prior year taxes in the International segment for the nine months ended September 30, 2015.

Operations: reflected the impact of price pressures, unfavorable revenue mix in the Strategic Services segment, lower volume in the Variable Print segments and higher bad debt and legal expenses, partially offset by the acquisition of Courier, including synergies from the integration, and lower depreciation and amortization expense. 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 split into three independent public companies effective October 1, 2016. The spinoff transactions will allow each business to pursue their own strategies and invest according to the unique dynamics of their respective industries. Refer to Spinoff Transactions for further details regarding the 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. Additionally, the Company's Commercial and Digital Print reporting unit produces campaign-related printed products. Therefore, quarterly and annual results may 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. However, due to the breadth of our products and services offerings, we generally have not experienced significant seasonality in our business.

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 first nine months of 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 industry 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.

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 United States Postal Service (“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, as postal costs are a significant component of many customers' cost structures. Under the 2006 Postal Accountability and Enhancement Act, it had been anticipated that postage for its Market Dominant mail categories would increase annually by an amount equal to or slightly less than the Consumer Price Index (the "CPI"). On January 15, 2015, the USPS filed for a CPI rate increase of approximately 2.0%, which was approved by the Postal Regulatory Commission (the "PRC") 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. The USPS has announced that it will seek a CPI postage increase on January 22, 2017 of approximately 1.0%. In addition, there is a pending bi-partisan legislative proposal that seeks to stabilize the financial condition of the USPS, which among other things calls for restoring a 2.15% increase (approximately half of the exigent surcharge) on market dominant mail categories. Congressional passage of this legislation is unlikely in 2016. 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 2017. 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 nine months ended September 30, 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 nine months ended September 30, 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 September 30, 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.

In particular, the commercial and digital print, statement printing and digital and creative solutions reporting units have experienced declines in sales primarily due to decreased volume. Continued negative trends could impact the estimated fair values of these reporting units and could result in future impairment charges. As of the October 31, 2015 annual goodwill impairment test, the fair values of the commercial and digital print, statement printing and digital and creative solutions reporting units exceeded their respective book values by approximately 20%, 17% and 27%. As of September 30, 2016, $416.3 million, $126.9 million and $25.5 million of goodwill was allocated to the commercial and digital print, statement printing and digital and creative solutions reporting units, respectively. The commercial and digital print and statement printing reporting units are part of the Variable Print segment. The digital and creative solutions reporting unit is part of the Strategic Services segment.

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 $18.6 million has been contributed during the nine months ended September 30, 2016.

During the third quarter of 2016, the Company announced the discontinuation of retiree medical, prescription drug and life insurance benefits for individuals retiring on or after October 1, 2016. This change was accounted for as a significant plan amendment and the other postemployment benefit plan obligation was remeasured as of September 30, 2016. This remeasurement resulted in a reduction to the other postemployment benefit plan obligations of $35.0 million and a curtailment gain of $16.4 million within cost of sales and $3.3 million in selling, general and administrative expenses during the three and nine months ended September 30, 2016.

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. A portion of the eligible participants elected to receive a lump-sum pension payment or annuity and as a result the Company's pension assets and liabilities were remeasured as of the payout date. As a result of the remeasurement, the Company recorded a non-cash settlement charge of $1.6 million and $98.5 million in selling, general and administrative expenses during the three and nine months ended September 30, 2016 (see Note 7, Employee Benefits, to the Condensed Consolidated Financial Statements).

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, which prospectively started 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.

Financial Review

In the financial review that follows, the Company discusses its consolidated results of operations, financial position, cash flows and certain other information and does not give effect to the spinoff transactions which occurred on October 1, 2016. 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 SEPTEMBER 30, 2016 AS COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2015

The following table shows the results of operations for the three months ended September 30, 2016 and 2015, which reflects the results of acquired businesses from the relevant acquisition dates:

	Three Months Ended September 30,			
	2016	2015	$ Change	% Change
	(in millions, except percentages)			
Products net sales	$2,281.6	$2,359.0	$(77.4)	(3.3%)
Services net sales	490.8	469.0	21.8	4.6%
Total net sales	2,772.4	2,828.0	(55.6)	(2.0%)
Products cost of sales (exclusive of depreciation and amortization)	1,780.5	1,844.8	(64.3)	(3.5%)
Services cost of sales (exclusive of depreciation and amortization)	384.2	363.3	20.9	5.8%
Total cost of sales	2,164.7	2,208.1	(43.4)	(2.0%)
Products gross profit	501.1	514.2	(13.1)	(2.5%)

Services gross profit	106.6	105.7	0.9	0.9	%
Total gross profit	607.7	619.9	(12.2)	(2.0	%)
Selling, general and administrative expenses (exclusive of depreciation and amortization)	333.4	328.4	5.0	1.5	%
Restructuring, impairment and other charges-net	15.0	52.9	(37.9)	(71.6	%)
Depreciation and amortization	101.5	115.3	(13.8)	(12.0	%)
Other operating expense	0.3	—	0.3	100.0	%
Income from operations	$ 157.5	$ 123.3	$ 34.2	27.7	%

Consolidated

Net sales of products for the three months ended September 30, 2016 decreased $77.4 million, or 3.3%, to $2,281.6 million versus the same period in 2015, including a $20.6 million, or 0.9%, decrease due to changes in foreign exchange rates. Net sales of products decreased due to lower volume across the Variable Print, International and Publishing and Retail segments, price pressures and a $4.4 million decrease in pass-through paper sales.

Net sales from services for the three months ended September 30, 2016 increased $21.8 million, or 4.6%, to $490.8 million versus the same period in 2015, including a $1.6 million, or 0.3%, decrease due to changes in foreign exchange rates. Net sales increased primarily due to an increase in volume in freight brokerage services and increased volume in data room and translation services, partially offset by lower volume in the business process outsourcing reporting unit.

Products cost of sales decreased $64.3 million, or 3.5%, for the three months ended September 30, 2016 versus the same period in the prior year, primarily due to lower volume in the Variable Print and International segments and cost controls, partially offset by higher volume primarily in supply chain management and fulfillment within the Publishing and Retail Services segment and cost inflation. As a percentage of net sales, products cost of sales decreased 0.2% for the three months ended September 30, 2016 versus the same period in 2015, primarily due to a favorable mix in the Publishing and Retail Services segment.

Services cost of sales increased $20.9 million, or 5.8%, for the three months ended September 30, 2016 versus the same period in the prior year. Services cost of sales increased primarily due to higher volume in freight brokerage services within the logistics reporting unit. As a percentage of net sales, services cost of sales increased 0.8% for the three months ended September 30, 2016 versus the same period in 2015, primarily due to an unfavorable mix in the Strategic Services segment.

Products gross profit decreased $13.1 million to $501.1 million for the three months ended September 30, 2016 versus the same period in 2015 primarily due to price pressures and lower volume, partially offset by cost control initiatives. Products gross margin increased from 21.8% to 22.0%, driven by a favorable revenue mix and cost control initiatives, partially offset by price pressures.

Services gross profit increased $0.9 million to $106.6 million for the three months ended September 30, 2016 versus the same period in 2015 due to higher in volume in freight brokerage services and increased volume in data room and translation services, partially offset by lower volume in the business processing outsourcing reporting unit. Services gross margin decreased from 22.5% to 21.7%, reflecting unfavorable revenue mix in the Strategic Services segment.

Selling, general and administrative expenses increased $5.0 million to $333.4 million for the three months ended September 30, 2016 versus the same period in 2015 reflecting an increase of $20.3 million in spinoff-related transaction expenses, partially offset by higher pension income and the curtailment gain. As a percentage of net sales, selling, general and administrative expenses increased from 11.6% to 12.0% for the three months ended September 30, 2016 versus the same period in 2015, due to the impact of the aforementioned expenses.

For the three months ended September 30, 2016, the Company recorded net restructuring, impairment and other charges of $15.0 million. These charges included $11.2 million for employee termination costs for 174 employees, of whom 167 were terminated as of September 30, 2016. These charges were primarily the result of the reorganization of certain administrative functions and operations. The Company also incurred lease termination and other restructuring costs of $2.3 million for the three months ended September 30, 2016. Additionally, the Company recorded $1.5 million of other charges for multi-employer pension plan withdrawal obligations.

For the three months ended September 30, 2015, the Company recorded net restructuring, impairment and other charges of $52.9 million. The Company recorded $18.8 million of employee termination costs for 628 employees, all of whom were terminated as of September 30, 2016. These charges were primarily due two facility closures in the International segment. Additionally, the Company incurred net impairment charges of $28.2 million, including $18.0 million for the impairment of goodwill in the Europe and Latin America reporting units within the International segment, $7.9 million of impairment charges for other long-lived assets, primarily for buildings and machinery and equipment associated with facility closures and $2.3 million for the impairment of intangibles in the Latin America reporting unit within the International segment for the three months ended September 30, 2015. The Company also recorded lease termination and other restructuring charges of $4.6 million and $1.3 million of other charges related to multi-employer pension plan withdrawal obligations unrelated to facility closures for the three months ended September 30, 2015.

Depreciation and amortization decreased $13.8 million to $101.5 million for the three months ended September 30, 2016 compared to the same period in 2015 primarily due to lower capital spending in recent years compared to historical levels. Depreciation and amortization included $15.6 million and $20.4 million of amortization of other intangible assets related to customer relationships, trade names, trademarks, licenses and agreements for the three months ended September 30, 2016 and 2015, respectively.

For the three months ended September 30, 2016, other operating expense was $0.3 million, which related to the loss on the sale of immaterial entities.

Income from operations for the three months ended September 30, 2016 was $157.5 million, an increase of $34.2 million, or 27.7%, compared to the three months ended September 30, 2015. The increase was due to lower restructuring, impairment and other charges, the curtailment gain, lower depreciation and amortization expense and cost controls, partially offset by price pressures, higher spinoff-related transaction expenses, unfavorable mix in the Strategic Services segment and lower volume in the Publishing and Retail Services and Variable Print segments.

	Three Months Ended September 30,			
	2016	2015	$ Change	% Change
	(in millions, except percentages)			
Interest expense-net	$67.1	$69.0	$ (1.9)	(2.8%)
Investment and other (income) expense-net	(0.6)	3.0	(3.6)	(120.0%)
Loss on debt extinguishments	85.3	—	85.3	100.0%

Net interest expense decreased by $1.9 million for the three months ended September 30, 2016 versus the same period in 2015, primarily due to a decrease in average senior notes outstanding, partially offset by higher average borrowings under the Credit Agreement.

Net investment and other (income) expense for the three months ended September 30, 2016 and 2015 was income of $0.6 million and expense of $3.0 million, respectively. For the three months ended September 30, 2015, the Company recorded a loss of $2.8 million for the impairment of the Company’s investment in the Brazilian operations of Courier.

Loss on debt extinguishments, related to premiums paid, unamortized debt issuance costs and other expenses for the three months ended September 30, 2016 was $85.3 million due to the tenders of senior notes and the amendments to the Credit Agreement.

	Three Months Ended September 30,			
	2016	2015	$ Change	% Change
	(in millions, except percentages)			
Earnings before income taxes	$5.7	$51.3	$ (45.6)	(88.9%)
Income tax expense	12.5	39.7	(27.2)	(68.5%)
Effective income tax rate	219.3%	77.4%		

The effective income tax rate for the three months ended September 30, 2016 was 219.3% compared to 77.4% in the same period in 2015. The income tax provision for the period ended September 30, 2016 reflects the impact of certain non-deductible spinoff-related transaction expenses, income taxes for certain internal reorganization transactions in preparation for the spinoff transactions within the International segment and the adjustment of valuation allowances in the International segment. The income tax provision for the period ended September 30, 2015 reflects charges for unrecognized tax positions of $9.0 million due to the receipt of an unfavorable court decision relating to payment of prior year taxes in the International segment as well as the impact of the non-deductible goodwill impairment charges.

Income (loss) attributable to noncontrolling interests was income of $0.3 million for the three months ended September 30, 2016 and a loss of $2.7 million for the three months ended September 30, 2015. For the three months ended September 30, 2015, the Company recorded a loss of $2.6 million for the impairment of the Company's investment in the Brazilian operations of Courier.

The net loss attributable to RR Donnelley common stockholders for the three months ended September 30, 2016 was $7.1 million, or $0.10 per diluted share, compared to net earnings of $14.3 million, or $0.20 per diluted share, for the three months ended September 30, 2015.

Information by Segment

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

Publishing and Retail Services

	Three Months Ended September 30, 2016	2015
	(in millions, except percentages)	
Net sales	$672.0	$684.9
Income from operations	39.0	33.4
Operating margin	5.8 %	4.9 %
Restructuring, impairment and other charges-net	2.0	5.8
Purchase accounting inventory adjustment	—	5.6

Reporting unit	Net Sales for the Three Months Ended September 30, 2016	2015	$ Change	% Change
	(in millions, except percentages)			
Magazines, catalogs and retail inserts	$ 319.5	$ 358.0	$ (38.5)	(10.8 %)
Books	321.4	294.6	26.8	9.1 %
Directories	31.1	32.3	(1.2)	(3.7 %)
Total Publishing and Retail Services	$ 672.0	$ 684.9	$ (12.9)	(1.9 %)

Net sales for the Publishing and Retail Services segment for the three months ended September 30, 2016 were $672.0 million, a decrease of $12.9 million, or 1.9%, compared to 2015. Net sales decreased due to reduced volume in the magazines, catalogs and retail inserts reporting unit, a $4.4 million decrease in pass-through paper sales and price pressures, partially offset by increased volume in the books reporting unit. An analysis of net sales by reporting unit follows:

- Magazines, catalogs and retail inserts: Sales decreased due to a decrease in pass-through paper sales, price pressures and lower volume within catalogs, magazines and retail.
- Books: Sales increased as a result of increased volume in supply chain management and fulfillment and an increase in pass-through paper sales, partially offset by decreases in educational volume.
- Directories: Sales decreased primarily as a result of price pressures and a decrease in pass-through paper sales, partially offset by slightly higher volume.

Publishing and Retail Services segment income from operations increased by $5.6 million for the three months ended September 30, 2016 as a result of a purchase accounting adjustment booked in the prior year period, lower restructuring, impairment and other charges and synergies from the acquisition of Courier, partially offset by price pressures and lower volume. Operating margins increased from 4.9% for the three months ended September 30, 2015 to 5.8% for the three months ended September 30, 2016, of which 0.8 percentage points were due to a purchase accounting inventory adjustment in the prior year period and 0.5 percentage points were due to lower restructuring, impairment and other charges. Operating margins were unfavorably impacted by price pressures.

Variable Print

	Three Months Ended September 30,	
	2016	2015
	(in millions, except percentages)	
Net sales	$914.3	$935.9
Income from operations	64.2	58.0
Operating margin	7.0 %	6.2 %
Restructuring, impairment and other charges-net	2.1	2.9

42

Reporting unit	Net Sales for the Three Months Ended September 30, 2016	2015	$ Change	% Change
	(in millions, except percentages)			
Commercial and digital print	$ 412.9	$ 409.6	$ 3.3	0.8 %
Direct mail	143.3	135.8	7.5	5.5 %
Office products	125.1	144.0	(18.9)	(13.1 %)
Labels	101.3	106.3	(5.0)	(4.7 %)
Statement printing	85.5	90.6	(5.1)	(5.6 %)
Forms	46.2	49.6	(3.4)	(6.9 %)
Total Variable Print	$ 914.3	$ 935.9	$ (21.6)	(2.3 %)

Net sales for the Variable Print segment for the three months ended September 30, 2016 were $914.3 million, a decrease of $21.6 million, or 2.3%, compared to 2015, including a $0.1 million decrease due to changes in foreign exchange rates. Net sales decreased due to lower volume primarily in the office products, labels, statement printing and forms reporting units, price pressures and lower pass-through postage sales, partially offset by increased volume in the direct mail and commercial and digital print reporting units. An analysis of net sales by reporting unit follows:

- Commercial and digital print: Sales increased as a result of higher in-store marketing materials volume, partially offset by lower transactional commercial print volume, price pressures and a decrease in pass-through postage sales.
- Direct mail: Sales increased as a result of incremental sales from the acquisition of Precision Dialogue and higher pass-through postage sales, partially offset by price pressures.
- Office products: Sales decreased as a result of lower volume, primarily in filing, binders and note-taking products, and price pressures.
- Labels: Sales decreased as a result of lower volume and price pressures.
- Statement printing: Sales decreased as a result of lower pass-through postage sales, lower volume and price pressures.
- Forms: Sales decreased due to lower volume, primarily as a result of electronic substitution.

Variable Print segment income from operations increased $6.2 million for the three months ended September 30, 2016, primarily due to lower depreciation and amortization expense, lower restructuring, impairment and other charges, increased volume in the direct mail, favorable revenue mix within the forms and commercial and digital print reporting units, partially offset by lower volume within the office products, statement printing and labels reporting units and price pressures. Operating margins increased from 6.2% for the three months ended September 30, 2015 to 7.0% for the three months ended September 30, 2016. Operating margins were favorably impacted by lower depreciation and amortization expense, cost controls and a favorable revenue mix within the commercial and digital print reporting unit, partially offset by price pressures.

Strategic Services

	Three Months Ended September 30, 2016	2015

	(in millions, except percentages)			
Net sales	$646.6		$635.6	
Income from operations	39.8		51.5	
Operating margin	6.2	%	8.1	%
Restructuring, impairment and other charges-net	3.1		3.5	
Spinoff-related transaction expenses	0.1		—	
Purchase accounting inventory adjustment	—		1.1	

Reporting unit	Net Sales for the Three Months Ended September 30, 2016	2015	$ Change	% Change
	(in millions, except percentages)			
Logistics	$ 325.0	$ 305.9	$ 19.1	6.2 %
Financial	214.0	219.7	(5.7)	(2.6 %)
Sourcing	62.4	55.1	7.3	13.2 %
Digital and creative solutions	45.2	54.9	(9.7)	(17.7 %)
Total Strategic Services	$ 646.6	$ 635.6	$ 11.0	1.7 %

Net sales for the Strategic Services segment for the three months ended September 30, 2016 were $646.6 million, an increase of $11.0 million, or 1.7%, compared to 2015, including a $1.1 million, or 0.2%, decrease due to changes in foreign exchange rates. Net sales increased primarily due to higher volume in freight brokerage services and commercial and forms volume within the Sourcing reporting unit, partially offset by a reduction in book publishing, capital markets transactions activity and compliance products volume and decreased fuel surcharges in logistics. An analysis of net sales by reporting unit follows:

- Logistics: Sales increased primarily due to higher volume in freight brokerage services, partially offset by a decrease in fuel surcharges and pass-through postage and decreased volume in international mail services.
- Financial: Sales decreased primarily due to a reduction in capital markets transactions and compliance products activity volume, partially offset by increased volume in data room and translation services.
- Sourcing: Sales increased primarily due to higher commercial and forms volume, partially offset by lower volume in labels.
- Digital and creative solutions: Sales decreased due to lower book publishing, prepress and photo volume, partially offset by increased volume in creative services.

Strategic Services segment income from operations decreased $11.7 million for the three months ended September 30, 2016, mainly due to a reduction in publishing volume and capital markets transactions and compliance products activity, partially offset by volume increases in freight brokerage services and sourcing, a purchase accounting inventory adjustment in the prior year period and lower restructuring, impairment and other charges. Operating margins decreased from 8.1% to 6.2% due to lower book publishing volume, a reduction in capital market transactions activity and unfavorable revenue mix in the logistics reporting unit. A purchase accounting inventory adjustment in the prior year period and lower restructuring, impairment and other charges improved operating margins by 0.2 percentage points and 0.1 percentage points, respectively.

International

	Three Months Ended September 30, 2016	2015
	(in millions, except percentages)	
Net sales	$539.5	$571.6
Income (loss) from operations	34.4	(8.4)
Operating margin	6.4 %	(1.5 %)
Spinoff-related transaction expenses	0.9	—
Gain on sale of businesses	(0.3)	—
OPEB curtailment gain	(0.1)	—
Restructuring, impairment and other charges-net	1.2	39.3

Reporting unit	Net Sales for the Three Months Ended September 30, 2016	2015	$ Change	% Change
	(in millions, except percentages)			
Asia	$ 198.3	$ 196.4	$ 1.9	1.0 %
Business process outsourcing	88.6	107.8	(19.2)	(17.8 %)
Global Turnkey Solutions	81.5	87.2	(5.7)	(6.5 %)
Europe	70.8	77.7	(6.9)	(8.9 %)
Canada	46.2	43.3	2.9	6.7 %
Latin America	54.1	59.2	(5.1)	(8.6 %)
Total International	$ 539.5	$ 571.6	$ (32.1)	(5.6 %)

Net sales in the International segment for the three months ended September 30, 2016 were $539.5 million, a decrease of $32.1 million, or 5.6%, compared to the same period in 2015, including a $21.0 million, or 3.7%, decrease due to changes in foreign exchange rates. The net sales decrease was also due to lower volume in the business process outsourcing, Global Turnkey Solutions, Europe and Latin America reporting units, as well as price pressures. An analysis of net sales by reporting unit follows:

- Asia: Sales increased due to higher volume primarily in packaging, partially offset by lower volume in labels along with price pressures.
- Business process outsourcing: Sales decreased due to changes in foreign exchanges rates, lower volume as a result of the sale of two entities in the first quarter of 2016 and price pressures.
- Global Turnkey Solutions: Sales decreased primarily due to lower volume.
- Europe: Sales decreased primarily due to lower volume and changes in foreign exchange rates.
- Canada: Sales increased due to higher volume in statement printing, forms and labels.
- Latin America: Sales decreased primarily due to changes in foreign exchange rates across the region and lower volume.

International segment income from operations increased $42.8 million primarily due to lower restructuring, impairment and other charges and increased volume in Asia and Canada, partially offset by price pressures. Operating margins increased from negative 1.5% to 6.4%, driven by lower restructuring, impairment and other charges, increased packaging volume in Asia and favorable revenue mix in Canada, partially offset by price pressures. Lower restructuring, impairment and other charges improved operating margins by 6.7 percentage points.

Corporate

	Three Months Ended September 30, 2016	2015
	(in millions)	
Operating expenses	$19.9	$11.2
Pension settlement	1.6	—
Spinoff-related transaction expenses	26.0	6.7
Restructuring, impairment and other charges-net	6.6	1.4
OPEB curtailment gain	(19.6)	—
Loss on disposition of business	0.6	—
Acquisition-related expenses	0.7	0.3

Corporate operating expenses in the three months ended September 30, 2016 were $19.9 million, an increase of $8.7 million compared to the same period in 2015. The increase was primarily driven by increased spinoff-related transaction expenses and higher restructuring, impairment and other charges, partially offset by the curtailment gain and an increase in pension income.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AS COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2015

The following table shows the results of operations for the nine months ended September 30, 2016 and 2015, which reflects the results of acquired businesses from the relevant acquisition dates:

	Nine Months Ended September 30,			
	2016	2015	$ Change	% Change
	(in millions, except percentages)			
Products net sales	$6,706.3	$6,883.8	$(177.5)	(2.6 %)
Services net sales	1,447.2	1,438.4	8.8	0.6 %
Total net sales	8,153.5	8,322.2	(168.7)	(2.0 %)
Products cost of sales (exclusive of depreciation and amortization)	5,237.2	5,386.5	(149.3)	(2.8 %)
Services cost of sales (exclusive of depreciation and amortization)	1,134.4	1,120.3	14.1	1.3 %
Total cost of sales	6,371.6	6,506.8	(135.2)	(2.1 %)
Products gross profit	1,469.1	1,497.3	(28.2)	(1.9 %)

Services gross profit	312.8	318.1	(5.3)	(1.7%)
Total gross profit	1,781.9	1,815.4	(33.5)	(1.8%)
Selling, general and administrative expenses				
(exclusive of depreciation and amortization)	1,099.9	972.4	127.5	13.1%
Restructuring, impairment and other charges-net	38.4	104.9	(66.5)	(63.4%)
Depreciation and amortization	312.5	341.5	(29.0)	(8.5%)
Other operating income	(12.0)	—	(12.0)	100.0%
Income from operations	$343.1	$396.6	$(53.5)	(13.5%)

Consolidated

Net sales of products for the nine months ended September 30, 2016 decreased $177.5 million, or 2.6%, to $6,706.3 million versus the same period in 2015, including a $71.0 million, or 1.0%, decrease due to changes in foreign exchange rates. Net sales of products decreased due to price pressures, lower volume in the Variable Print segment, a decline in compliance products and capital markets transactions in the Strategic Services segment and a $22.7 million decrease in pass-through paper sales, partially offset by higher volume primarily in the Publishing and Retail Services segment as a result of the acquisition of Courier.

Net sales from services for the nine months ended September 30, 2016 increased $8.8 million to $1,447.2 million versus the same period in 2015, including an $11.2 million, or 0.8%, decrease due to changes in foreign exchange rates. The increase in net sales from services was primarily due to higher volume in the Strategic Services segment, partially offset by lower volume in the International segment.

Products cost of sales decreased $149.3 million, or 2.8%, for the nine months ended September 30, 2016 versus the same period in the prior year. Products cost of sales decreased primarily due to lower volume in the Variable Print segment, a decline in capital markets transactions and compliance products volume in the Strategic Services segment and cost controls, partially offset by higher volume primarily in the Publishing and Retail Services segment as a result of the acquisition of Courier and wage and other inflation in the International segment. As a percentage of net sales, products cost of sales decreased 0.1% for the nine months ended September 30, 2016 versus the same period in the prior year, primarily due to cost savings initiatives, partially offset by wage and other cost inflation.

Services cost of sales increased $14.1 million, or 1.3%, for the nine months ended September 30, 2016 versus the same period in the prior year. Services cost of sales increased primarily due to higher volume logistics reporting unit partially offset by lower in the digital and creative solutions and business processing outsourcing reporting units. As a percentage of net sales, services cost of sales increased 0.5% for the nine months ended September 30, 2016 versus the same period in the prior year driven by unfavorable revenue mix in the Strategic Services segment.

Products gross profit decreased $28.2 million to $1,469.1 million for the nine months ended September 30, 2016 versus the same period in 2015 primarily due to lower volume in the Strategic Services and Variable Print segments and price pressures, partially offset by higher volume in the Publishing and Retail Services segment due to the acquisition of Courier and cost control initiatives, including synergies from the integration of Courier. Products gross margin increased slightly from 21.8% to 21.9%, reflecting the impact of synergies from the integration of Courier, partially offset by the impact of price pressures.

Services gross profit decreased $5.3 million to $312.8 million for the nine months ended September 30, 2016 versus the same period in 2015 due to lower volume in the International segment and unfavorable mix in the Strategic Services segment. Services gross margin decreased from 22.1% to 21.6%, reflecting unfavorable mix in the Strategic Services segment.

Selling, general and administrative expenses increased $127.5 million to $1,099.9 million for the nine months ended September 30, 2016 versus the same period in 2015, reflecting the non-cash pension settlement charge of $98.5 million, $50.6 million of additional spinoff-related transaction expenses, and an increase in bad debt and legal expenses. As a percentage of net sales, selling, general and administrative expenses increased due to the impact of the aforementioned charge and expenses.

For the nine months ended September 30, 2016, the Company recorded net restructuring, impairment and other charges of $38.4 million. These charges included $24.9 million of employee termination costs for 870 employees, of whom 843 were terminated as of September 30, 2016. These charges were primarily the result of the reorganization of certain administrative functions and operations, two facility closures in the International segment and one facility closure in the Publishing and Retail Services segment. The Company also incurred lease termination and other restructuring charges of $8.7 million for the nine months ended September 30, 2016. Additionally, the Company recorded $4.3 million for multi-employer pension plan withdrawal obligations and $0.5 million of net impairment charges of long-lived assets.

For the nine months ended September 30, 2015, the Company recorded net restructuring, impairment and other charges of $104.9 million. These charges included $39.8 million of employee termination costs for 1,829 employees, all of whom were terminated as of September 30, 2016. These charges were primarily the result of two facility closures in the International segment, one facility closure in the Variable Print segment and the reorganization of certain operations. The Company also recorded $23.1 million of other charges, including integration charges for payments made to certain Courier employees upon the termination of Courier's executive severance plan immediately prior to the acquisition during the second quarter of 2015. The Company also incurred lease termination and other restructuring charges of $13.0 million for the nine months ended September 30, 2015. Additionally, the Company recorded $29.0 million of net impairment charges, including $18.0 million for the impairment of goodwill in the Europe and Latin America reporting units within the International segment, $8.7 million of impairment charges for other long-lived assets, primarily related to buildings and machinery and equipment associated with facility closures and $2.3 million for the impairment of intangibles in the Latin America reporting unit within the International segment for the nine months ended September 30, 2015.

Depreciation and amortization decreased $29.0 million to $312.5 million for the nine months ended September 30, 2016 compared to the same period in 2015 primarily due to lower capital spending in recent years compared to historical levels, partially offset by additional depreciation and amortization due to the acquisition of Courier. Depreciation and amortization included $49.6 million and $58.6 million of amortization of other intangible assets related to customer relationships, trade names, trademarks, licenses and agreements for the nine months ended September 30, 2016 and 2015, respectively.

For the nine months ended September 30, 2016, other operating income was $12.0 million, which related to the net gain on the sale of entities in the International segment.

Income from operations for the nine months ended September 30, 2016 was $343.1 million, a decrease of $53.5 million, or 13.5%, compared to the nine months ended September 30, 2015. The decrease was due to the impact of the non-cash pension settlement charge, higher spinoff-related transaction expenses, price pressures, unfavorable revenue mix in the Strategic Services segment, lower volume in the Variable Print segment and increased bad debt and legal expenses, partially offset by the acquisition of Courier, including synergies from the integration, lower restructuring, impairment and other charges, lower depreciation and amortization expense and the curtailment gain.

	Nine Months Ended September 30,			
	2016	2015	$ Change	% Change
	(in millions, except percentages)			
Interest expense-net	$204.1	$207.2	$(3.1)	(1.5%)
Investment and other expense-net	0.4	43.2	(42.8)	(99.1%)
Loss on debt extinguishments	85.3	—	85.3	100.0%

Net interest expense decreased $3.1 million to $204.1 million for the nine months ended September 30, 2016 versus the same period in 2015, primarily due to a decrease in average senior notes outstanding, partially offset by higher average borrowings under the Credit Agreement.

Net investment and other expense for the nine months ended September 30, 2016 and 2015 was $0.4 million and $43.2 million, respectively. For the nine months ended September 30, 2015, the Company recorded a loss of $30.3 million related to the currency remeasurement in Venezuela and the related impact of the devaluation, a $14.7 million net loss on the sale of its Venezuelan operating entity and a loss of $2.8 million for the impairment of the Company's investment in the Brazilian operations of Courier.

Loss on debt extinguishments, related to premiums paid, unamortized debt issuance costs and other expenses for the nine months ended September 30, 2016 was $85.3 million due to the tender of senior notes and amendments to the Credit Agreement.

	Nine Months Ended September 30,			
	2016	2015	$ Change	% Change
	(in millions, except percentages)			
Earnings before income taxes	$53.3	$146.2	$(92.9)	(63.5%)
Income tax expense	34.3	79.1	(44.8)	(56.6%)
Effective income tax rate	64.4%	54.1%		

The effective income tax rate for the nine months ended September 30, 2016 was 64.4% compared to 54.1% in the same period in 2015. The income tax provision for the period ended September 30, 2016 reflects the impact of certain non-deductible spinoff-related transaction expenses, income taxes for certain internal reorganization transactions in preparation for the spinoff transactions within the International segment and the adjustment of valuation allowances in the International segment. The income tax provision for the period ended September 30, 2015 reflects charges for unrecognized tax positions of $9.0 million due to the receipt of an unfavorable court decision relating to payment of prior year taxes in the International segment, a lower tax benefit than the statutory rate of the Venezuelan currency devaluation, the impact of the non-deductible goodwill impairment charges and the loss on the sale of the Company's Venezuelan operating entity.

Income attributable to noncontrolling interests was $0.8 million and a loss of $13.0 million for the nine months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2015, the remeasurement of the Venezuelan currency, net of foreign exchange gains, resulted in losses attributable to noncontrolling interests of $10.5 million.

Net earnings attributable to RR Donnelley common stockholders for the nine months ended September 30, 2016 was $18.2 million, or $0.26 per diluted share, compared to $80.1 million, or $1.17 per diluted share, for the nine months ended September 30, 2015. In addition to the factors described above, the per share results reflect an increase in weighted average diluted shares outstanding of 2.0 million, primarily as a result of the acquisition of Courier.

Information by Segment

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

Publishing and Retail Services

	Nine Months Ended September 30,	
	2016	2015
	(in millions, except percentages)	