

RR Donnelley & Sons Co
Form 10-Q
May 07, 2015

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 March 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-4694

R.R. DONNELLEY & SONS COMPANY

(Exact name of registrant as specified in its charter)

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

(312) 326-8000

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(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 May 1, 2015, 200.6 million shares of common stock were outstanding.

R.R. DONNELLEY & SONS COMPANY

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

(UNAUDITED)

	March 31, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$268.7	\$527.9
Receivables, less allowances for doubtful accounts of \$48.0 in 2015 (2014 - \$44.3)	1,981.6	2,033.8
Inventories (Note 3)	560.2	586.2
Prepaid expenses and other current assets	233.2	225.4
Total current assets	3,043.7	3,373.3
Property, plant and equipment-net (Note 4)	1,455.5	1,515.5
Goodwill (Note 5)	1,697.9	1,706.6
Other intangible assets-net (Note 5)	402.5	423.7
Deferred income taxes	227.2	234.1
Other noncurrent assets	378.5	386.1
Total assets	\$7,205.3	\$7,639.3
LIABILITIES		
Accounts payable	\$1,100.1	\$1,296.6
Accrued liabilities	727.5	867.3
Short-term and current portion of long-term debt (Note 14)	203.3	203.4
Total current liabilities	2,030.9	2,367.3
Long-term debt (Note 14)	3,431.0	3,429.1
Pension liabilities	589.4	616.1
Other postretirement benefits plan liabilities	204.7	210.8
Other noncurrent liabilities	390.7	395.6
Total liabilities	6,646.7	7,018.9
Commitments and Contingencies (Note 13)		
EQUITY (Note 9)		
RR Donnelley shareholders' equity		
Preferred stock, \$1.00 par value		
Authorized: 2.0 shares; Issued: None	—	—
Common stock, \$1.25 par value		
Authorized: 500.0 shares;		
Issued: 259.0 shares in 2015 and 2014	323.7	323.7

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Additional paid-in-capital	3,011.0	3,041.5
Accumulated deficit	(588.8)	(559.1)
Accumulated other comprehensive loss	(794.2)	(773.6)
Treasury stock, at cost, 58.4 shares in 2015 (2014 - 59.2 shares)	(1,408.8)	(1,438.7)
Total RR Donnelley shareholders' equity	542.9	593.8
Noncontrolling interests	15.7	26.6
Total equity	558.6	620.4
Total liabilities and equity	\$7,205.3	\$7,639.3

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(UNAUDITED)

	Three Months Ended March 31,	
	2015	2014
Products net sales	\$2,260.3	\$2,225.7
Services net sales	485.8	448.1
Total net sales	2,746.1	2,673.8
Products cost of sales (exclusive of depreciation and amortization)	1,780.3	1,745.9
Services cost of sales (exclusive of depreciation and amortization)	386.1	354.7
Total cost of sales	2,166.4	2,100.6
Products gross profit	480.0	479.8
Services gross profit	99.7	93.4
Total gross profit	579.7	573.2
Selling, general and administrative expenses (exclusive of depreciation and amortization)	330.9	316.5
Restructuring, impairment and other charges-net (Note 6)	19.8	45.2
Depreciation and amortization	113.4	115.5
Income from operations	115.6	96.0
Interest expense-net	69.0	71.0
Investment and other expense-net	28.3	4.6
Loss on debt extinguishment	—	77.1
Earnings (loss) before income taxes	18.3	(56.7)
Income tax expense (benefit)	6.4	(23.5)
Net earnings (loss)	11.9	(33.2)
Less: Loss attributable to noncontrolling interests	(10.4)	(4.2)
Net earnings (loss) attributable to RR Donnelley common shareholders	\$22.3	\$(29.0)
Net earnings (loss) per share attributable to RR Donnelley common shareholders (Note 10):		
Basic net earnings (loss) per share	\$0.11	\$(0.15)
Diluted net earnings (loss) per share	\$0.11	\$(0.15)
Dividends declared per common share	\$0.26	\$0.26
Weighted average number of common shares outstanding:		
Basic	200.6	193.1
Diluted	202.1	193.1

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(UNAUDITED)

	Three Months Ended March 31,	
	2015	2014
Net earnings (loss)	\$11.9	\$(33.2)
Other comprehensive (loss) income, net of tax (Note 11):		
Translation adjustments	(22.6)	(9.0)
Adjustment for net periodic pension and postretirement benefits plan cost	2.2	0.9
Other comprehensive loss	(20.4)	(8.1)
Comprehensive loss	(8.5)	(41.3)
Less: comprehensive loss attributable to noncontrolling interests	(10.2)	(4.3)
Comprehensive income (loss) attributable to RR Donnelley common shareholders	\$1.7	\$(37.0)

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(UNAUDITED)

	Three Months Ended March 31,	
	2015	2014
OPERATING ACTIVITIES		
Net earnings (loss)	\$ 11.9	\$(33.2)
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Impairment charges	0.8	6.6
Depreciation and amortization	113.4	115.5
Provision for doubtful accounts receivable	5.9	2.4
Share-based compensation	3.5	3.8
Deferred income taxes	(8.0)	(3.2)
Changes in uncertain tax positions	(1.5)	(2.9)
Gain on investments and other assets – net	(0.2)	(0.8)
Loss related to Venezuela currency remeasurement-net	29.9	21.8
Loss on debt extinguishment	—	77.1
Net pension and other postretirement benefits plan income	(10.8)	(11.3)
Gain on bargain purchase	—	(16.6)
Other	11.8	6.4
Changes in operating assets and liabilities - net of acquisitions:		
Accounts receivable - net	9.8	23.1
Inventories	(1.0)	6.1
Prepaid expenses and other current assets	(3.4)	(9.1)
Accounts payable	(173.7)	(145.0)
Income taxes payable and receivable	4.1	(33.1)
Accrued liabilities and other	(128.5)	(73.8)
Pension and other postretirement benefits plan contributions	(8.3)	(14.2)
Net cash used in operating activities	(144.3)	(80.4)
INVESTING ACTIVITIES		
Capital expenditures	(48.5)	(49.0)
Acquisitions of businesses, net of cash acquired	(2.0)	(381.6)
Disposition of businesses	(0.2)	1.7
Proceeds from sales of investments and other assets	5.4	1.5
Other investing activities	(0.4)	—
Net cash used in investing activities	(45.7)	(427.4)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	—	400.0
Net change in short-term debt	1.7	0.1
Payments of current maturities and long-term debt	(0.3)	(552.5)

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Net proceeds from credit facility borrowings	—	10.0
Debt issuance costs	—	(6.2)
Dividends paid	(52.0)	(47.3)
Other financing activities	3.0	(0.9)
Net cash used in financing activities	(47.6)	(196.8)
Effect of exchange rate on cash and cash equivalents	(21.6)	(15.4)
Net decrease in cash and cash equivalents	(259.2)	(720.0)
Cash and cash equivalents at beginning of year	527.9	1,028.4
Cash and cash equivalents at end of period	\$268.7	\$308.4
Supplemental non-cash disclosure:		
Issuances of 17.0 million shares of RR Donnelley stock for acquisitions of businesses	\$—	\$319.0

(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, 2014 filed with the SEC on February 25, 2015. Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2015. 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.

Note 2. Acquisitions and Dispositions

2015 Acquisitions

On February 5, 2015, the Company announced that it had entered into a definitive agreement to acquire Courier Corporation (“Courier”), a leader in digital printing, publishing and content management primarily in the United States, specializing in educational, religious and trade books. Based on the Company’s closing share price on March 31, 2015, the total transaction value is approximately \$290.5 million in cash and RR Donnelley shares, plus the assumption of Courier’s net debt. The completion of the transaction is subject to customary closing conditions, including approval of Courier’s shareholders.

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

2014 Acquisitions

On March 25, 2014, the Company acquired substantially all of the North American operations of Esselte Corporation (“Esselte”), a developer and manufacturer of nationally branded and private label office and stationery products. The acquisition, combined with the Company’s existing products, created a more competitive and efficient office products supplier capable of supplying enhanced offerings across the combined customer base. The purchase price for Esselte included \$82.3 million in cash and 1.0 million shares of RR Donnelley common stock, or a total transaction value of

\$100.6 million based on the Company's closing share price on March 24, 2014. Esselte's operations are included in the Variable Print segment.

On March 10, 2014, the Company acquired the assets of MultiCorpora R&D Inc. and MultiCorpora International Inc. (together "MultiCorpora") for approximately \$6.0 million. MultiCorpora is an international provider of translation technology solutions. The acquisition of MultiCorpora expanded the capabilities of the Company's translation services offering which supports clients' multi-lingual communications. MultiCorpora's operations are included in the Strategic Services segment.

On January 31, 2014, the Company acquired Consolidated Graphics, Inc. ("Consolidated Graphics"), a provider of digital and commercial printing, fulfillment services, print management and proprietary Internet-based technology solutions, with operations in North America, Europe and Asia. The acquisition enhanced the Company's ability to provide integrated communications solutions for its customers. The purchase price for Consolidated Graphics was \$359.9 million in cash and 16.0 million shares of RR Donnelley common stock, or a total transaction value of \$660.6 million based on the Company's closing share price on January 30, 2014, plus the assumption of Consolidated Graphics' debt of \$118.4 million. Immediately following the acquisition, the Company repaid substantially all of the debt assumed. Consolidated Graphics' operations are included in the Variable Print segment, with the exception of operations in the Czech Republic and Japan which are included in the International segment.

For the three months ended March 31, 2014, the Company recorded \$7.7 million of acquisition-related expenses associated with acquisitions completed or contemplated within selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

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

For Esselte, the fair value of the identifiable net assets acquired of approximately \$110.1 million exceeded the purchase price of \$100.6 million, resulting in a bargain purchase gain of \$9.5 million for the year ended December 31, 2014, which was recorded in net investment and other expense. The gain on the bargain purchase was primarily attributable to the Company’s ability to utilize certain tax operating losses.

The tax deductible goodwill related to the Consolidated Graphics, Esselte and MultiCorpora acquisitions was \$73.4 million.

Based on the valuations, the final purchase price allocations for these acquisitions as well as the purchase price allocation for an insignificant acquisition were as follows:

Accounts receivable	\$242.0
Inventories	89.6
Prepaid expenses and other current assets	17.5
Property, plant and equipment	337.0
Other intangible assets	205.0
Other noncurrent assets	11.9
Goodwill	300.1
Accounts payable and accrued liabilities	(221.0)
Other noncurrent liabilities	(57.5)
Deferred taxes--net	(96.6)
Total purchase price-net of cash acquired	828.0
Less: debt assumed	118.4
Less: value of common stock issued	319.0
Less: gain on bargain purchase	9.5
Net cash paid	\$381.1

The fair values of other intangible assets, technology and goodwill associated with the acquisitions of Esselte, MultiCorpora and Consolidated Graphics 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:

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	Fair Value	Valuation Technique	Unobservable Input	Range
Customer relationships	\$178.2	Excess earnings	Discount rate	17.0%
			Attrition rate	- 21.0%
				5.0% - 9.5%
Trade names	26.5	Relief-from-royalty method	Discount rate	19.0%
			Royalty rate (after-tax)	0.5% - 1.5%
Technology	1.1	Excess earnings	Discount rate	17.0%

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

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)

2014 Dispositions

On August 15, 2014, the Company sold the assets and liabilities of Journalism Online, LLC (“Journalism Online”), a provider of online subscription management services, for net proceeds of \$10.7 million, of which \$9.3 million was received as of March 31, 2015, resulting in a gain of \$11.2 million during the year ended December 31, 2014. The gain was included in net investment and other expense in the Consolidated Statement of Operations. The operations of the Journalism Online business were included in the Strategic Services segment.

On August 11, 2014, the Company’s subsidiary, RR Donnelley Argentina S.A. (“RRDA”), filed for bankruptcy liquidation in bankruptcy court in Argentina. The bankruptcy petition was approved by the court shortly thereafter and a bankruptcy trustee was appointed. As a result of the bankruptcy liquidation, the Company recorded a loss of \$16.4 million in net investment and other expense for the year ended December 31, 2014. Effective as of the court’s approval, the operating results of RRDA are no longer included in the Company’s consolidated results of operations. RRDA had net sales of \$9.6 million and a loss before income taxes of \$1.4 million for the three months ended March 31, 2014. The operations of RRDA were included in the International segment.

On February 7, 2014, the Company sold the assets and liabilities of Office Tiger Global Real Estate Service Inc. (“GRES”), its commercial and residential real estate advisory services, for net proceeds of \$1.8 million and a loss of \$0.8 million, which was recognized in net investment and other expense in the Consolidated Statements of Operations for the year ended December 31, 2014. The operations of the GRES business were included in the International segment.

Pro forma results

The following unaudited pro forma financial information for the three months ended March 31, 2014 presents the combined results of operations of the Company and the 2014 acquisitions described above, as if the acquisitions had occurred as of January 1 of the year prior to acquisition.

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

	Three Months Ended March 31, 2014
Net sales	\$2,826.6
Net loss attributable to RR Donnelley common shareholders	(17.7)

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Net loss per share attributable to RR Donnelley common shareholders:	
Basic	\$(0.09)
Diluted	\$(0.09)

The following table outlines unaudited pro forma financial information for the three months ended March 31, 2014:

	Three Months Ended March 31, 2014
Amortization of purchased intangibles	\$ 20.5
Restructuring, impairment and other charges	30.1

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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)

Additionally, the pro forma adjustments affecting net loss attributable to RR Donnelley common shareholders for the three months ended March 31, 2014 were as follows:

	Three Months Ended March 31, 2014
Depreciation and amortization of purchased assets, pre-tax	\$ (0.2)
Acquisition-related expenses, pre-tax	18.6
Restructuring and impairment charges, pre-tax	17.1
Inventory fair value adjustment, pre-tax	12.1
Other pro forma adjustments, pre-tax	(10.6)
Income taxes	(10.2)

3. Inventories

The components of the Company’s inventories, net of excess and obsolescence reserves for raw materials and finished goods, at March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015	December 31, 2014
Raw materials and manufacturing supplies	\$250.0	\$ 261.7
Work in process	155.4	157.5
Finished goods	249.1	260.6
LIFO reserve	(94.3)	(93.6)
Total	\$560.2	\$ 586.2

4. Property, Plant and Equipment

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The components of the Company's property, plant and equipment at March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015	December 31, 2014
Land	\$111.1	\$112.1
Buildings	1,206.7	1,214.8
Machinery and equipment	6,123.8	6,142.8
	7,441.6	7,469.7
Less: Accumulated depreciation	(5,986.1)	(5,954.2)
Total	\$1,455.5	\$1,515.5

During the three months ended March 31, 2015 and 2014, depreciation expense was \$82.9 million and \$87.9 million, respectively.

Assets Held for Sale

Primarily as a result of restructuring actions, certain facilities and equipment are considered held for sale. The net book value of assets held for sale was \$3.4 million and \$7.2 million at March 31, 2015 and December 31, 2014, respectively. These assets were included in other current assets in the Condensed Consolidated Balance Sheets at March 31, 2015 and December 31, 2014 at the lower of their historical net book value or their estimated fair value, less estimated costs to sell.

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)

5. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill by segment for the three months ended March 31, 2015 were as follows:

	Publishing & Retail Services	Print Solutions	Strategic Services	International Services	Total
Net book value as of December 31, 2014					
Goodwill	\$ 688.0	1,914.1	987.5	\$ 1,213.9	\$ 4,803.5
Accumulated impairment losses	(688.0)	(1,105.2)	(222.4)	(1,081.3)	(3,096.9)
Total	—	808.9	765.1	132.6	1,706.6
Acquisitions	—	—	1.2	—	1.2
Foreign exchange and other adjustments	—	(1.2)	(0.4)	(8.3)	(9.9)
Net book value as of March 31, 2015					
Goodwill	688.0	1,912.9	986.0	1,151.1	4,738.0
Accumulated impairment losses	(688.0)	(1,105.2)	(220.1)	(1,026.8)	(3,040.1)
Total	\$ —	\$ 807.7	\$ 765.9	\$ 124.3	\$ 1,697.9

The components of other intangible assets at March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015			December 31, 2014		
	Carrying Amount	Accumulated Amortization	Net Book Value	Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationships	\$ 850.5	\$ (503.3)	\$ 347.2	\$ 865.6	\$ (498.0)	\$ 367.6
Patents	98.3	(98.3)	—	98.3	(98.3)	—
Trademarks, licenses and agreements	31.8	(29.9)	1.9	31.5	(29.7)	1.8
Trade names	42.9	(16.2)	26.7	43.1	(15.6)	27.5
Total amortizable other intangible assets	1,023.5	(647.7)	375.8	1,038.5	(641.6)	396.9
Indefinite-lived trade names	26.7	—	26.7	26.8	—	26.8
Total other intangible assets	\$ 1,050.2	\$ (647.7)	\$ 402.5	\$ 1,065.3	\$ (641.6)	\$ 423.7

Amortization expense for other intangible assets was \$19.0 million and \$18.3 million for the three months ended March 31, 2015 and 2014, respectively.

The following table outlines the estimated annual amortization expense related to other intangible assets as of March 31, 2015:

For the year ending December 31,	Amount
2015	\$ 73.6
2016	56.2
2017	50.2
2018	45.0
2019	41.5
2020 and thereafter	128.3
Total	\$ 394.8

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 March 31, 2015 and 2014, the Company recorded the following net restructuring, impairment and other charges:

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

		Other	Total			
Three Months Ended	Employee	Restructuring	Restructuring	Impairment	Other	Total
March 31, 2014	Terminations	Charges	Charges		Charges	
Publishing and Retail Services	\$ 0.2	\$ 2.1	\$ 2.3	\$ 2.2	16.3	\$20.8
Variable Print	11.1	0.9	12.0	4.5	4.1	20.6
Strategic Services	1.0	0.5	1.5	—	0.1	1.6
International	1.1	0.5	1.6	—	—	1.6
Corporate	0.5	0.1	0.6	—	—	0.6
Total	\$ 13.9	\$ 4.1	\$ 18.0	\$ 6.7	\$ 20.5	\$45.2

Restructuring and Impairment Charges

For the three months ended March 31, 2015, the Company recorded net restructuring charges of \$14.2 million for employee termination costs for 894 employees, of whom 735 were terminated as of March 31, 2015. These charges primarily related to one facility closure in the International segment, one facility closure in the Variable Print segment and the reorganization of certain operations. Additionally, the Company incurred lease termination and other restructuring charges of \$3.6 million for the three months ended March 31, 2015. For the three months ended March 31, 2015, the Company also recorded \$0.7 million of net impairment charges primarily related to buildings and machinery and equipment associated with facility closures.

For the three months ended March 31, 2014, the Company recorded net restructuring charges of \$13.9 million for employee termination costs for 278 employees, substantially all of whom were terminated as of March 31, 2015. These charges primarily related to the integration of Consolidated Graphics, including the closure of three Consolidated Graphics facilities as well as one additional facility closure within the Variable Print segment, one facility closure in the Publishing and Retail Services segment and the reorganization of certain operations. Additionally, the Company incurred lease termination and other restructuring charges of \$4.1 million for the three months ended March 31, 2014. For the three months ended March 31, 2014, the Company also recorded \$6.7 million of impairment charges primarily related to buildings and machinery and equipment associated with facility closings. 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.

Other Charges

For the three months ended March 31, 2015 and 2014, the Company recorded other charges of \$1.3 million and \$20.5 million, respectively, for multi-employer pension plan withdrawal obligations unrelated to facility closures. The total liabilities for the withdrawal obligations associated with the Company's decision to withdraw from all multi-employer pension plans included in accrued liabilities and other noncurrent liabilities are \$10.9 million and \$86.6 million, respectively, as of March 31, 2015.

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

Restructuring Reserve

The restructuring reserve as of December 31, 2014 and March 31, 2015, and changes during the three months ended March 31, 2015, were as follows:

	December 31, 2014	Restructuring Charges	Foreign Exchange and Other	Cash Paid	March 31, 2015
Employee terminations	\$ 13.0	\$ 14.2	\$ (0.8)	\$(11.1)	\$ 15.3
Multi-employer pension withdrawal obligations	34.6	0.5	(0.1)	(1.5)	33.5
Lease terminations and other	15.1	3.1	—	(5.4)	12.8
Total	\$ 62.7	\$ 17.8	\$ (0.9)	\$(18.0)	\$ 61.6

The current portion of restructuring reserves of \$23.7 million at March 31, 2015 was included in accrued liabilities, while the long-term portion of \$37.9 million, primarily related to multi-employer pension plan withdrawal obligations related to facility closures and lease termination costs, was included in other noncurrent liabilities at March 31, 2015.

The Company anticipates that payments associated with the employee terminations reflected in the above table will be substantially completed by March 2016.

Payments on all of the Company’s multi-employer pension plan withdrawal obligations are scheduled to be substantially 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, other facility closing costs and contract termination costs. Payments on certain of the lease obligations are scheduled to continue until 2026. Market conditions and the Company’s ability to sublease these properties could affect the ultimate charges related to the lease obligations. Any potential recoveries or additional charges could affect amounts reported in the Company’s financial statements.

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7. Employee Benefits

The components of the estimated net pension and other postretirement benefits plan income for the three months ended March 31, 2015 and 2014 were as follows:

	Three Months Ended March 31, 2015 2014	
Pension (income) expense		
Service cost	\$0.6	\$0.5
Interest cost	44.8	47.7
Expected return on assets	(61.6)	(63.1)
Amortization, net	10.2	7.8
Net pension income	\$(6.0)	\$(7.1)
Other postretirement benefits plan (income) expense		
Service cost	\$1.2	\$1.1
Interest cost	4.0	4.2
Expected return on plan assets	(3.3)	(3.1)
Amortization, net	(6.7)	(6.4)
Net other postretirement benefits plan income	\$(4.8)	\$(4.2)

8. Share-Based Compensation

The Company recognizes compensation expense based on estimated grant date fair values for all share-based awards issued to employees and directors, including stock options, restricted stock units and performance share units. The total compensation expense related to all share-based compensation plans was \$3.5 million and \$3.8 million for the three months ended March 31, 2015 and 2014, respectively.

Stock Options

There were no options granted during the three months ended March 31, 2015 and 2014.

Stock option awards as of December 31, 2014 and March 31, 2015, and changes during the three months ended March 31, 2015, were as follows:

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	Shares Under Option (Thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (millions)
Outstanding at December 31, 2014	3,847	\$ 19.43	4.7	\$ 12.6
Exercised	(92)	13.21		
Outstanding at March 31, 2015	3,755	19.58	4.4	16.6
Vested and expected to vest at March 31, 2015	3,745	19.60	4.4	16.6
Exercisable at March 31, 2015	1,729	\$ 10.48	5.2	\$ 15.1

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The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company’s closing stock price on March 31, 2015 and December 31, 2014, respectively, and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their in-the-money options on March 31, 2015 and December 31, 2014. This amount will change in future periods based on the fair market value of the Company’s stock and the number of options outstanding. Total intrinsic value of options exercised for the three months ended March 31, 2015 and 2014 was \$0.5 million and \$1.0 million, respectively. Excess tax benefits on stock option exercises, shown as financing cash inflows in the Condensed Consolidated Statements of Cash Flows were \$0.1 million and \$0.3 million for the three months ended March 31, 2015 and 2014, respectively.

Compensation expense related to stock options for the three months ended March 31, 2015 and 2014 was \$0.2 million and \$0.3 million, respectively. As of March 31, 2015, \$0.5 million of total unrecognized compensation expense related to stock options is expected to be recognized over a weighted average period of 0.9 years.

Restricted Stock Units

Nonvested restricted stock unit awards as of December 31, 2014 and March 31, 2015, and changes during the three months ended March 31, 2015, were as follows:

	Shares (Thousands)	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2014	2,045	\$ 12.54
Granted	575	16.73
Vested	(880)	12.94
Nonvested at March 31, 2015	1,740	\$ 13.71

Compensation expense related to restricted stock units for the three months ended March 31, 2015 and 2014 was \$2.6 million and \$2.9 million, respectively. As of March 31, 2015, there was \$19.7 million of unrecognized share-based compensation expense related to approximately 1.7 million of restricted stock unit awards, with a weighted average grant date fair market value of \$13.71, that are expected to vest over a weighted average period of 2.5 years. The fair value of these awards was determined based on the Company’s stock price on the grant date reduced by the present value of expected dividends through the vesting period.

Excess tax benefits on restricted stock units that vested, shown as financing cash inflows in the Condensed Consolidated Statements of Cash Flows, were \$2.1 million and \$2.2 million for the three months ended March 31, 2015 and 2014, respectively.

Performance Share Units

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Nonvested performance share unit awards as of December 31, 2014 and March 31, 2015, and changes during the three months ended March 31, 2015, were as follows:

	Shares (Thousands)	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2014	804	\$ 11.87
Granted	418	16.73
Nonvested at March 31, 2015	1,222	\$ 13.53

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During the three months ended March 31, 2015, 418,000 performance share unit awards were granted to certain executive and senior officers, payable upon the achievement of certain established performance targets. The performance period for the shares awarded is January 1, 2015 through December 31, 2017. Distributions under these awards are payable at the end of the performance period in common stock or cash, at the Company’s discretion. The total potential payouts for awards granted during the three months ended March 31, 2015 range from 209,000 to 627,000 shares, should certain performance targets be achieved. The fair value of these awards was determined based on the Company’s stock price on the grant date reduced by the present value of expected dividends through the vesting period. These awards are subject to forfeiture upon termination of employment prior to vesting, subject in some cases to early vesting upon specified events, including death or permanent disability of the grantee or a change in control of the Company. In addition, certain of these awards provide for continued vesting upon same terms and conditions that would have applied had grantee’s employment not terminated upon a termination without cause by the Company or for good reason by the grantee.

Compensation expense for the performance share unit awards granted in 2015 is being recognized based on 100% payout or 418,000 shares. Compensation expense for the performance share unit awards granted in 2014 and 2013 is being recognized based on the maximum estimated payout of 319,000 and 485,000 shares, for each respective period. Compensation expense related to performance share unit awards for the three months ended March 31, 2015 and 2014 was \$0.7 million and \$0.6 million, respectively. As of March 31, 2015, there was \$11.1 million of unrecognized compensation expense related to performance share unit awards, which is expected to be recognized over a weighted average period of 2.3 years.

9. Equity

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

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

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Distributions to noncontrolling interests	—	(0.7)	(0.7)
Balance at March 31, 2015	\$ 542.9	\$ 15.7		\$558.6

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The Company’s equity as of December 31, 2013 and March 31, 2014, and changes during the three months ended March 31, 2014, were as follows:

	RR Donnelley		Total
	Shareholders' Equity	Noncontrolling Interest	Equity
Balance at December 31, 2013	\$ 631.8	\$ 21.9	\$653.7
Net loss	(29.0)	(4.2)	(33.2)
Other comprehensive loss	(8.0)	(0.1)	(8.1)
Share-based compensation	3.8	—	3.8
Issuances of common stock	300.7	—	300.7
Issuances of treasury stock	18.3	—	18.3
Issuance of share-based awards, net of withholdings and other	(4.4)	—	(4.4)
Cash dividends paid	(47.3)	—	(47.3)
Noncontrolling interests in acquired business	—	2.7	2.7
Distributions to noncontrolling interests	—	(0.7)	(0.7)
Balance at March 31, 2014	\$ 865.9	\$ 19.6	\$885.5

During the three months ended March 31, 2014, the Company issued stock in conjunction with the Consolidated Graphics and Esselte acquisitions with closing date values of \$300.7 million and \$18.3 million, respectively.

10. Earnings per Share

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

During the three months ended March 31, 2015 and 2014, no shares of common stock were purchased by the Company; however, shares were withheld for tax liabilities upon the vesting of equity awards.

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The reconciliation of the numerator and denominator of the basic and diluted earnings (loss) per share calculation and the anti-dilutive share-based awards for the three months ended March 31, 2015 and 2014 were as follows:

	Three Months Ended March 31,	
	2015	2014
Net earnings (loss) per share attributable to RR Donnelley common shareholders:		
Basic	\$0.11	\$(0.15)
Diluted	\$0.11	\$(0.15)
Dividends declared per common share	\$0.26	\$0.26
Numerator:		
Net earnings (loss) attributable to RR Donnelley common shareholders	\$22.3	\$(29.0)
Denominator:		
Weighted average number of common shares outstanding	200.6	193.1
Dilutive options and awards	1.5	—
Diluted weighted average number of common shares outstanding	202.1	193.1
Weighted average number of anti-dilutive share-based awards:		
Stock options	2.0	4.1
Performance share units	0.9	1.0
Restricted stock units	—	2.3
Total	2.9	7.4

11. Comprehensive Income

The components of other comprehensive (loss) income and income tax expense allocated to each component for the three months ended March 31, 2015 and 2014 were as follows:

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

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Other comprehensive (loss) income \$ (19.0) \$ 1.4 \$ (20.4)

	Three Months Ended March 31, 2014		
	Before Tax Amount	Income Tax Expense	Net of Tax Amount
Translation adjustments	\$(9.0)	\$ —	\$ (9.0)
Adjustment for net periodic pension and other postretirement benefits plan cost	1.4	0.5	0.9
Change in fair value of derivatives	0.1	0.1	—
Other comprehensive (loss) income	\$(7.5)	\$ 0.6	\$ (8.1)

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

	Changes in the Fair Value of Derivatives	Pension and Other Postretirement Benefits Plan Cost	Translation Adjustments	Total
Balance at December 31, 2014	\$ (0.1)	\$ (762.3)	\$ (11.2)	\$(773.6)
Other comprehensive loss before reclassifications	—	—	(22.8)	(22.8)
Amounts reclassified from accumulated other comprehensive loss	—	2.2	—	2.2
Net change in accumulated other comprehensive loss	—	2.2	(22.8)	(20.6)
Balance at March 31, 2015	\$ (0.1)	\$ (760.1)	\$ (34.0)	\$(794.2)

Accumulated other comprehensive income (loss) by component as of December 31, 2013 and March 31, 2014, and changes during the three months ended March 31, 2014, were as follows:

	Changes in the Fair Value of Derivatives	Pension and Other Postretirement Benefits Plan Cost	Translation Adjustments	Total
Balance at December 31, 2013	\$ (0.2)	\$ (521.4)	\$ 33.5	\$(488.1)
Other comprehensive loss before reclassifications	—	—	(8.9)	(8.9)
Amounts reclassified from accumulated other comprehensive loss	—	0.9	—	0.9
Net change in accumulated other comprehensive loss	—	0.9	(8.9)	(8.0)
Balance at March 31, 2014	\$ (0.2)	\$ (520.5)	\$ 24.6	\$(496.1)

Reclassifications from accumulated other comprehensive loss for the three months ended March 31, 2015 and 2014 were as follows:

Three Months	Classification in the Condensed
-----------------	---------------------------------

Ended

March 31,

2015 2014 Consolidated Statements of
Operations

Amortization of pension and other postretirement benefits plan cost:	2015	2014	Consolidated Statements of Operations
Net actuarial loss	\$10.2	\$7.8	(a)
Net prior service credit	(6.7)	(6.4)	(a)
Reclassifications before tax	3.5	1.4	
Income tax expense	1.3	0.5	
Reclassifications, net of tax	\$2.2	\$0.9	

(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).

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12. Segment Information

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

Publishing and Retail Services

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

Variable Print

The Variable Print segment includes the Company’s U.S. short-run and transactional printing operations. This segment’s primary product offerings include commercial and digital print, 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 and digital and creative solutions.

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

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

	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Assets of Operations	Depreciation and Amortization	Capital Expenditures
Three Months Ended							
March 31, 2014							
Publishing and Retail Services	\$643.5	\$ (0.8)	\$642.7	\$ 9.9	\$ 1,303.6	\$ 37.7	\$ 11.9
Variable Print	809.0	(16.9)	792.1	27.7	2,723.6	35.1	10.4
Strategic Services	650.6	(30.9)	619.7	55.4	1,427.0	16.1	9.9
International	639.4	(20.1)	619.3	30.2	1,919.5	24.9	12.0
Total operating segments	2,742.5	(68.7)	2,673.8	123.2	7,373.7	113.8	44.2
Corporate	—	—	—	—	—	—	—