RR Donnelley & Sons Co
Form 10-K
February 25, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-4694

R. R. DONNELLEY & SONS COMPANY

(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code—(312) 326-8000

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
Common Stock (Par Value $1.25)	NASDAQ

Indicated by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.   Yes þ   No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.   Yes ¨   No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.   Yes þ   No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   Yes þ   No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   þ

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).   Yes ¨   No þ

The aggregate market value of the shares of common stock (based on the closing price of these shares on the NASDAQ Stock Exchange—Composite Transactions) on June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, held by nonaffiliates was $3,364,349,044.

As of February 20, 2015, 199,811,821 shares of common stock were outstanding.

Documents Incorporated By Reference

Portions of the registrant's proxy statement related to its annual meeting of stockholders scheduled to be held on May 21, 2015 are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

Company Overview

R.R. Donnelley & Sons Company ("RR Donnelley," the "Company," "we," "us," and "our"), a Delaware corporation, helps organizations communicate more effectively by working to create, manage, produce, distribute and process content on behalf of our customers. The Company assists customers in developing and executing multichannel communication strategies that engage audiences, reduce costs, drive revenues and increase compliance. R.R. Donnelley's innovative technologies enhance digital and print communications to deliver integrated messages across multiple media to highly targeted audiences at optimal times for clients in virtually every private and public sector. Strategically located operations provide local service and responsiveness while leveraging the economic, geographic and technological advantages of a global organization.

Segment Descriptions

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

Publishing and Retail Services

The Publishing and Retail Services segment's primary product offerings include magazines, catalogs, retail inserts, books, directories and packaging. The Publishing and Retail Services segment accounted for 22.7% of the Company's consolidated net sales in 2014.

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. The Variable Print segment accounted for 32.5% of the Company's consolidated net sales in 2014.

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. The Strategic Services segment accounted for 22.5% of the Company's consolidated net sales in 2014.

International

The International segment includes the Company's non-U.S. printing operations in Asia, Europe, Latin America and Canada. This segment's primary product and service offerings include magazines, catalogs, retail inserts, books, directories, direct mail, packaging, forms, labels, manuals, statement printing, commercial and digital print, logistics services and digital and creative solutions. Additionally, this segment includes the Company's business process outsourcing and Global Turnkey Solutions operations. Business process outsourcing provides transactional print and outsourcing services, statement printing, direct mail and print management offerings through its operations in Europe, Asia and North America. Global Turnkey Solutions provides outsourcing capabilities, including product configuration, customized kitting and order fulfillment for technology, medical device and other companies around the world through its operations in Europe, North America and Asia. The International segment accounted for 22.3% of the Company's consolidated net sales in 2014.

Corporate

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

Financial and other information related to these segments is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and in Note 19, Segment Information, to the Consolidated Financial Statements. Additional information related to the Company's International operations is included in Note 20, Geographic Area and Products and Services Information, to the Consolidated Financial Statements.

Business Acquisitions and Dispositions

On February 5, 2015, the Company announced that it had entered into a definitive agreement to acquire Courier Corporation ("Courier") for a total transaction value of approximately $261.0 million in cash and RR Donnelley shares, plus the assumption of Courier's net debt and payout of outstanding equity awards. Courier is a leader in digital printing, publishing and content management in the United States, specializing in educational, religious and trade books. The completion of the transaction is subject to customary closing conditions, including regulatory approval and approval of Courier's shareholders.

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 purchase price 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 $6.0 million. MultiCorpora is an international provider of translation technology solutions. 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 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.

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 $9.5 million was received as of December 31, 2014, resulting in a gain of $11.2 million. 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 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. 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. The operations of the GRES business were included in the International segment.

2013 Disposition

During the fourth quarter of 2013, the Company sold the assets and liabilities of R.R. Donnelley SAS (“MRM France”), its direct mail business located in Cosne sur Loire, France, for a loss of $17.9 million, which included cash incentive payments due to the purchaser of $18.8 million, of which $16.4 million was paid as of December 31, 2014 with the remaining balance to be paid by January 2016. The operations of the MRM France business were included in the International segment.

2012 Acquisitions

On December 28, 2012, the Company acquired Presort Solutions (“Presort”), a provider of mail presorting services to businesses in various industries. Presort’s operations are included in the Strategic Services segment.

On December 17, 2012, the Company acquired Meisel Photographic Corporation (“Meisel”), a provider of custom designed visual graphics products to the retail market. Meisel’s operations are included in the Variable Print segment.

On September 6, 2012, the Company acquired Express Postal Options International (“XPO”), a provider of international outbound mailing services to pharmaceutical, e-commerce, financial services, information technology, catalog, direct mail and other businesses. XPO’s operations are included in the Strategic Services segment.

On August 14, 2012, the Company acquired EDGAR Online, a leading provider of disclosure management services, financial data and enterprise risk analytics software and solutions. EDGAR Online's operations are included in the Strategic Services segment.

Competition and Strategy

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.

The impact of digital technologies has been felt in many print products. 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 addition, e-book substitution is having a continuing impact on consumer print book volume, though adoption rates are stabilizing, and a limited impact on educational and specialty books. Digital technologies have also impacted printed magazines, as advertiser spending has moved from print to electronic media. 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 in the Company's existing business to offer customers innovative services and solutions that further secure the Company's position as a technology leader in the industry.

The acquisitions of Consolidated Graphics, Esselte and MultiCorpora support the Company's strategic objective of generating profitable growth and improved cash flow and liquidity through targeted acquisitions. These acquisitions have enhanced the Company's existing capabilities and ability to serve its customers and have provided cost savings through the combination of best practices, complementary products and manufacturing and distribution capabilities.

The Company has implemented a number of strategic initiatives to reduce its overall cost structure and improve efficiency, including the restructuring, reorganization and integration of operations and streamlining of administrative and support activities. Future cost reduction initiatives could include the reorganization of operations and the consolidation of facilities. Implementing such initiatives might result in future restructuring or impairment charges, which may be substantial. 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.

Seasonality

Advertising and consumer spending trends affect demand in several of the end-markets served by the Company. Historically, demand for printing of magazines, catalogs, retail inserts and books is higher in the second half of the year driven by increased advertising pages within magazines, and holiday volume in catalogs, retail inserts and books. Partially offsetting this pattern, demand for financial print and related services is typically stronger in the first half of the year due to annual compliance requirements. As a result of the acquisition of Consolidated Graphics, which provides significant campaign-related printed products, quarterly and annual results may also be impacted by U.S. election cycles. These typical seasonal patterns can be impacted by overall trends in the U.S. and world economy. The seasonal pattern in 2014 was in line with historical patterns.

Raw Materials

The primary raw materials the Company uses in its print businesses are paper and ink. The Company negotiates with leading suppliers to maximize its purchasing efficiencies and uses a wide variety of paper grades, formats, ink formulations and colors. In addition, a substantial amount of paper used by the Company is supplied directly by customers. Variations in the cost and supply of certain paper grades and ink formulations used in the manufacturing process may affect the Company's consolidated financial results. Paper prices fluctuated during 2014, and volatility in the future is expected. Generally, customers directly absorb the impact of changing prices on customer-supplied paper. With respect to paper purchased by the Company, the Company has historically passed most changes in price through to its customers. Contractual arrangements and industry practice should support the Company's continued ability to pass on any future paper price increases, but there is no assurance that market conditions will continue to enable the Company to successfully do so. Management believes that the paper supply is consolidating, and there may be shortfalls in the future in supplies necessary to meet the demands of the entire marketplace. Higher paper prices and tight paper supplies may have an impact on customers' demand for printed products. The Company has undertaken various strategic initiatives to mitigate any foreseeable supply disruptions with respect to the Company's ink requirements. The Company also resells waste paper and other print-related by-products and may be impacted by changes in prices for these by-products.

The Company continues to monitor the impact of changes in the price of crude oil and other energy costs, which impact the Company's ink suppliers, logistics operations and manufacturing costs. Crude oil and energy prices continue to be volatile. The Company believes its logistics operations will continue to be able to pass a substantial portion of any increases in fuel prices directly to its customers in order to offset the impact of related cost increases. Decreases in fuel prices are also passed on to customers which negatively impacts sales. The Company generally cannot pass on to customers the impact of higher energy prices on its manufacturing costs. However, the Company enters into fixed price contracts for a portion of its natural gas purchases to mitigate the impact of changes in energy prices. The Company cannot predict sudden changes in energy prices and the impact that possible future changes in energy prices might have upon either future operating costs or customer demand and the related impact either will have on the Company's consolidated annual results of operations, financial position or cash flows.

Distribution

The Company's products are distributed to end-users through the U.S. or foreign postal services, through retail channels, electronically or by direct shipment to customer facilities. Through its logistics operations, the Company manages the distribution of most customer products printed by the Company in the U.S. and Canada to maximize efficiency and reduce costs for customers.

Postal costs are a significant component of many customers' cost structures and postal rate changes can influence the number of pieces that the Company's customers are willing to print and mail. On January 27, 2013, the United States Postal Service ("USPS") increased postage rates across all classes of mail by approximately 2.6%, on average. Under the 2006 Postal Accountability and Enhancement Act, it had been anticipated that postage would increase annually by an amount equal to or slightly less than the Consumer Price Index (the "CPI"). However, on December 24, 2013, the Postal Regulatory Commission (the "PRC") approved the USPS Board of Governors' request under the Exigency Provision in the applicable law for price increases of 4.3%. The exigent rate increase was implemented in addition to a 1.7% rate increase, equal to the CPI, for total price increases of 6.0%, on average, across all significant mail categories, effective January 26, 2014. According to the PRC's ruling, which is currently being appealed, the USPS must develop a plan to phase out the exigent rate increase once it has produced the revenue justified by the request. As of December 31, 2014, the USPS has not presented a plan for the required phase out. On January 15, 2015, the USPS filed for a CPI rate increase of 2.0%, which if approved by the PRC, will be effective April 26, 2015. As a leading provider of print logistics and among the largest mailers of standard mail in the U.S., the Company works closely with its customers and the USPS to offer innovative products and 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 changes in postal rates. 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 44% of the Company's logistics revenues during the year ended December 31, 2014.

During the year ended December 31, 2014, the Company experienced an increase in its costs of transportation, largely as a result of an industry-wide shortage of drivers resulting from regulations restricting the number of hours drivers can work and the severe winter weather in the first quarter. The Company's ability to pass on these increased costs to its customers varies based on contractual arrangements. Industry practice should support the Company's ability to pass on these cost increases when contractually allowed, but there is no assurance that market conditions will continue to enable the Company to successfully do so.

Customers

For each of the years ended December 31, 2014, 2013 and 2012, no customer accounted for 10% or more of the Company's consolidated net sales.

Technology, Research and Development

The Company has a research facility that supports the development and implementation of new technologies to meet customer needs and improve operating efficiencies. The Company’s cost for research and development activities is not material to the Company’s consolidated annual results of operations, financial position or cash flows.

Environmental Compliance

It is the Company’s policy to conduct its global operations in accordance with all applicable laws, regulations and other requirements. It is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly remediation and other compliance efforts that the Company may undertake in the future. However, in the opinion of management, compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, will not have a material adverse effect on the Company’s consolidated annual results of operations, financial position or cash flows.

Employees

As of December 31, 2014, the Company had approximately 68,000 employees.

Available Information

The Company maintains an Internet website at www.rrdonnelley.com where the Company’s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are available without charge, as soon as reasonably practicable following the time they are filed with, or furnished to, the Securities and Exchange Commission (“SEC”). The Principles of Corporate Governance of the Company’s Board of Directors, the charters of the Audit, Human Resources and Corporate Responsibility & Governance Committees of the Board of Directors and the Company’s Principles of Ethical Business Conduct are also available on the Investor Relations portion of www.rrdonnelley.com, and will be provided, free of charge, to any shareholder who requests a copy. References to the Company’s website address do not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document.

Special Note Regarding Forward-Looking Statements

The Company has made forward-looking statements in this Annual Report on Form 10-K that are subject to risks and uncertainties. These statements are based on the beliefs and assumptions of the Company. Generally, forward-looking statements include information concerning possible or assumed future actions, events, or results of operations of the Company.

These statements may include, or be preceded or followed by, the words “may,” “will,” “should,” “might,” “could,” “would,” “potential,” “possible,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” “hope” or similar expressions. The Com claims the protection of the Safe Harbor for Forward-Looking Statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements.

Forward-looking statements are not guarantees of performance. The following important factors, in addition to those discussed elsewhere in this Annual Report on Form 10-K, could affect the future results of the Company and could cause those results or other outcomes to differ materially from those expressed or implied in its forward-looking statements:

- the volatility and disruption of the capital and credit markets, and adverse changes in the global economy;

- successful execution of acquisitions and negotiation of future acquisitions;
- the ability of the Company to integrate operations of acquisitions successfully and achieve enhanced earnings or effect cost savings;
- the ability to implement comprehensive plans for the integration of sales forces, cost containment, asset rationalization, systems integration and other key strategies;
- the ability to divest non-core businesses;
- future growth rates in the Company’s core businesses;
- competitive pressures in all markets in which the Company operates;
- the Company’s ability to access debt and the capital markets and the ability of its counterparties to perform their contractual obligations under the Company’s lending and insurance agreements;
- changes in technology, including electronic substitution and migration of paper based documents to digital data formats;

- factors that affect customer demand, including changes in postal rates, postal regulations and service levels, changes in the capital markets, changes in advertising markets, customers' budgetary constraints and changes in customers' short-range and long-range plans;
- the ability to gain customer acceptance of the Company's new products and technologies;
- the ability to secure and defend intellectual property rights and, when appropriate, license required technology;
- customer expectations and financial strength;
- performance issues with key suppliers;
- changes in the availability or costs of key materials (such as ink, paper and fuel) or in prices received for the sale of by-products;
- changes in ratings of the Company or the Company's debt securities;
- the ability of the Company to comply with covenants under its Credit Agreement and indentures governing its debt securities;
- the ability to generate cash flow or obtain financing to fund growth;
- the effect of inflation, changes in currency exchange rates and changes in interest rates;
- the effect of changes in laws and regulations, including changes in accounting standards, trade, tax, environmental compliance (including the emission of greenhouse gases and other air pollution controls), health and welfare benefits (including the Patient Protection and Affordable Care Act, as modified by the Health Care and Education Reconciliation Act, and further healthcare reform initiatives), price controls and other regulatory matters and the cost, which could be substantial, of complying with these laws and regulations;
- contingencies related to actual or alleged environmental contamination;
- the retention of existing, and continued attraction of additional customers and key employees;
- the effect of a material breach of security of any of the Company's or its vendors' systems;
- the failure to properly use and protect customer information and data;
- the failure to properly protect the Company's and its employees' information and data;
- the effect of labor disruptions or shortages;
- the effect of economic and political conditions on a regional, national or international basis;
- the effect of economic weakness and constrained advertising;
- uncertainty about future economic conditions;
- the possibility of future terrorist activities or the possibility of a future escalation of hostilities in Eastern Europe, the Middle East or elsewhere;
- the possibility of a regional or global health pandemic outbreak;
- disruptions to the Company's operations resulting from possible natural disasters, interruptions in utilities and similar events;
- adverse outcomes of pending and threatened litigation; and
- other risks and uncertainties detailed from time to time in the Company's filings with the SEC.

Because forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Undue reliance should not be placed on such statements, which speak only as of the date of this document or the date of any document that may be incorporated by reference into this document.

Consequently, readers of this Annual Report on Form 10-K should consider these forward-looking statements only as the Company's current plans, estimates and beliefs. The Company does not undertake and specifically declines any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. The Company undertakes no obligation to update or revise any forward-looking statements in this Annual Report on Form 10-K to reflect any new events or any change in conditions or circumstances.

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ITEM 1A. RISK FACTORS

The Company's consolidated results of operations, financial position and cash flows can be adversely affected by various risks. These risks include the principal factors listed below and the other matters set forth in this Annual Report on Form 10-K. You should carefully consider all of these risks.

Risks Relating to the Businesses of the Company

Global market and economic conditions, as well as the effects of these conditions on customers' businesses could adversely affect the Company.

Global economic conditions affect customers' businesses and the markets they serve. Demand for advertising tends to correlate with changes in the level of economic activity in the markets customers serve. Because a significant part of the Company's business relies on its customers' advertising spending, a prolonged downturn in the global economy and an uncertain economic outlook could further reduce the demand for printing and related services that the Company provides to these customers. Economic weakness and constrained advertising spending may result in decreased revenue, operating margin, earnings and growth rates and difficulty in managing inventory levels and collecting accounts receivable. The Company may experience reduced demand for its products and services due to economic conditions and other macroeconomic factors affecting consumers' and businesses' spending behavior. In addition, customer difficulties could result in increases in bad debt write-offs and allowances for doubtful accounts receivable. In particular, the Company's exposure to certain industries currently experiencing financial difficulties and certain financially troubled customers could have an adverse effect on the Company's results of operations. The Company may experience operating margin declines in certain businesses, reflecting the effect of items such as competitive price pressures, inventory write-downs, cost increases for wages and materials, and increases in pension and other postretirement benefits plan funding requirements. Economic downturns may also result in restructuring actions and associated expenses and impairment of long-lived assets, including goodwill and other intangibles. Uncertainty about future economic conditions makes it difficult for the Company to forecast operating results and to make decisions about future investments. Delays or reductions in customers' spending would have an adverse effect on demand for the Company's products and services, which could be material, and consequently impact the Company's consolidated results of operations, financial position and cash flow.

Adverse credit market conditions may limit the Company's ability to obtain future financing.

Uncertainty and volatility in global financial markets may cause financial markets institutions to fail or may cause lenders to hoard capital and reduce lending. The failure of a financial institution that supports the Company's existing credit agreement would reduce the size of its committed facility unless a replacement institution were added.

The Company's operating performance and creditworthiness may limit its ability to obtain future financing and the cost of any such capital may be higher than in past periods.

The Company's access to future financing will depend on a variety of factors such as the general availability of credit, its credit ratings and credit capacity at the time it pursues such financing. The Company's current Corporate credit ratings are below investment grade and, as a result, the Company's borrowing costs may further increase or ability to borrow may be limited. The Company's obligations under its current $1.5 billion senior secured revolving credit facility (the "Credit Agreement") which expires September 9, 2019, are guaranteed by material and certain other domestic subsidiaries and are secured by a pledge of the equity interests of certain subsidiaries, including most of its domestic subsidiaries, and a security interest in substantially all of the domestic current assets and mortgages of certain domestic real property of the Company. The Credit Agreement is subject to a number of covenants, including a minimum Interest Coverage Ratio and a maximum Leverage Ratio, that, in part, restrict the Company's ability to incur additional indebtedness, create liens, engage in mergers and consolidations, make restricted payments, dispose of certain assets and may also limit the use of proceeds. The Credit Agreement generally allows annual dividend payments of up to $225.0 million in aggregate, though additional dividends may be allowed subject to certain conditions. If adequate capital is not available to the Company and its internal sources of liquidity prove to be insufficient, or if future financings require more restrictive covenants, such combination of events could adversely affect the Company's ability to (i) acquire new businesses or enter new markets, (ii) service or refinance its existing debt, (iii) pay dividends on common stock, (iv) make necessary capital investments, and (v) make other expenditures necessary for the ongoing conduct of its business.

The indentures governing the notes and debentures the Company issues do not contain restrictive covenants and the Company may incur substantially more debt or take other actions, including engaging in mergers and acquisitions, paying dividends and making other distributions to holders of equity securities, and disposing of certain assets, which may adversely affect the Company's ability to satisfy its obligations under the notes and debentures issued under its indentures.

Although the Credit Agreement is subject to a number of negative and financial covenants, including a minimum interest coverage ratio and a maximum leverage ratio, and covenants that restrict the Company's ability to incur additional indebtedness, engage in mergers and acquisitions, pay dividends and make other distributions to the holders of the Company's equity securities, and dispose of certain assets, the indentures governing the Company's notes and debentures do not contain financial or operating covenants or restrictions on the incurrence of indebtedness, the payment of dividends or making other distributions, or the disposition of certain assets. In addition, the limited covenants applicable to the notes and debentures do not require the Company to achieve or maintain any minimum financial results relating to its financial position or results of operations.

In carrying out the Company's strategy focused on maximizing long-term shareholder value, the Company may enter into transactions which may increase its financial leverage. The Company's ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the indentures governing its notes and debentures could have the effect of diminishing the Company's ability to make payments on those notes and debentures when due, and require the Company to dedicate a substantial portion of its cash flow from operations to payments on its indebtedness, which would reduce the availability of cash flow to fund the Company's operations, working capital and capital expenditures.

Fluctuations in the costs of paper, ink, energy and other raw materials may adversely impact the Company.

Purchases of paper, ink, energy and other raw materials represent a large portion of the Company's costs. Increases in the costs of these inputs may increase the Company's costs and the Company may not be able to pass these costs on to customers through higher prices. In addition, the Company may not be able to resell waste paper and other print-related by-products or may be adversely impacted by decreases in the prices for these by-products. Increases in the cost of materials may adversely impact customers' demand for the Company's printing and related services.

The Company may be adversely affected by a decline in the availability of raw materials.

The Company is dependent on the availability of paper, ink and other raw materials to support its operations. Unforeseen developments in these markets could result in a decrease in the supply of paper, ink or other raw materials and could cause a decline in the Company's revenues.

The financial condition of the Company's customers may deteriorate.

Many of the Company's customers participate in highly competitive markets, and their financial condition may deteriorate as a result. A decline in the financial condition of the Company's customers would hinder the Company's ability to collect amounts owed by customers. In addition, such a decline would result in lower demand for the Company's products and services. A lack of liquidity in the capital markets or a sustained period of unfavorable economic conditions will increase the Company's exposure to credit risks and result in increases in bad debt write-offs and allowances for doubtful accounts receivable.

The Company may be unable to improve its operating efficiency rapidly enough to meet market conditions.

Because the markets in which the Company competes are highly competitive, the Company must continue to improve its operating efficiency in order to maintain or improve its profitability. There is no assurance that the Company will be able to do so in the future. In addition, the need to reduce ongoing operating costs may result in significant up-front costs to reduce workforce, close or consolidate facilities, or upgrade equipment and technology.

The Company may be unable to successfully integrate the operations of acquired businesses and may not achieve the cost savings and increased revenues anticipated as a result of these acquisitions.

Achieving the anticipated benefits of acquisitions will depend in part upon the Company’s ability to integrate these businesses in an efficient and effective manner. The integration of companies that have previously operated independently may result in significant challenges, and the Company may be unable to accomplish the integration smoothly or successfully. In particular, the coordination of geographically dispersed organizations with differences in corporate cultures and management philosophies may increase the difficulties of integration. The integration of acquired businesses may also require the dedication of significant management resources, which may temporarily distract management’s attention from the day-to-day operations of the Company. In addition, the process of integrating operations may cause an interruption of, or loss of momentum in, the activities of one or more of the Company’s businesses and the loss of key personnel from the Company or the acquired businesses. Further, employee uncertainty and lack of focus during the integration process may disrupt the businesses of the Company or the acquired businesses. The Company’s strategy is, in part, predicated on the Company’s ability to realize cost savings and to increase revenues through the acquisition of businesses that add to the breadth and depth of the Company’s products and services. Achieving these cost savings and revenue increases is dependent upon a number of factors, many of which are beyond the Company’s control. In particular, the Company may not be able to realize the benefits of more comprehensive product and service offerings, anticipated integration of sales forces, asset rationalization and systems integration.

The Company may be unable to hire and retain talented employees, including management.

The Company’s success depends, in part, on its general ability to attract, develop, motivate and retain highly skilled employees. The loss of a significant number of the Company’s employees or the inability to attract, hire, develop, train and retain additional skilled personnel could have a serious negative effect on the Company. Various locations may encounter competition with other manufacturers for skilled labor. Many of these competitors may be able to offer significantly greater compensation and benefits or more attractive lifestyle choices than the Company offers. In addition, many members of the Company’s management have significant industry experience that is valuable to the Company’s competitors. The Company enters into non-solicitation and, as appropriate, non-competition agreements with its executive officers, prohibiting them contractually from soliciting the Company’s customers and employees and from leaving and joining a competitor within a specified period. If one or more members of the Company’s senior management team leave and cannot be replaced with a suitable candidate quickly, the Company could experience difficulty in managing its business properly, which could harm business prospects and the Company’s consolidated results of operations.

The trend of increasing costs to provide health care and other benefits to the Company’s employees and retirees may continue.

The Company provides health care and other benefits to both employees and retirees. For many years, costs for health care have increased more rapidly than general inflation in the U.S. economy. If this trend in health care costs continues, the Company’s cost to provide such benefits could increase, adversely impacting the Company’s profitability. Changes to health care regulations in the U.S. may also increase the Company’s cost of providing such benefits.

Changes in market conditions or lower returns on assets may increase required pension and other postretirement benefits plan contributions in future periods.

The funded status of the Company’s pension and other postretirement benefits plans is dependent upon many factors, including returns on invested assets and the level of certain market interest rates. As experienced in prior years, declines in the market value of the securities held by the plans coupled with historically low interest rates have substantially reduced, and in the future could further reduce, the funded status of the plans. These reductions have increased the level of expected required pension and other postretirement benefits plan contributions in future years. Market conditions may lead to changes in the discount rates used to value the year-end benefit obligations of the plans, which could partially mitigate or worsen the effects of lower asset returns. If adverse market conditions were to continue for an extended period of time, the Company's costs and required cash contributions associated with pension and other postretirement benefits plans may substantially increase in future periods.

There are risks associated with operations outside the United States.

The Company has significant operations outside the United States. Revenues from the Company's operations in geographic regions outside the United States accounted for approximately 23% of the Company's consolidated net sales for the year ended December 31, 2014. As a result, the Company is subject to the risks inherent in conducting business outside the United States, including the impact of economic and political instability of those countries in which the Company operates. The volatile economic environment has increased the risk of disruption and losses resulting from hyper-inflation, currency devaluation and tax or regulatory changes in certain countries in which the Company has operations.

The Company is exposed to significant risks related to potential adverse changes in currency exchange rates.

The Company is exposed to market risks resulting from changes in the currency exchange rates of the currencies in the countries in which it does business. Although operating in local currencies may limit the impact of currency rate fluctuations on the operating results of the Company's non-U.S. subsidiaries, fluctuations in such rates may affect the translation of these results into the Company's consolidated financial statements. To the extent borrowings, sales, purchases, revenues and expenses or other transactions are not in the applicable local currency, the Company may enter into foreign currency spot and forward contracts to hedge the currency risk. Management cannot be sure, however, that the Company's efforts at hedging will be successful, and such efforts could, in certain circumstances, lead to losses.

A decline in expected profitability of the Company or individual reporting units of the Company could result in the impairment of assets, including goodwill, other long-lived assets and deferred tax assets.

The Company holds material amounts of goodwill, other long-lived assets and deferred tax assets on its balance sheet. A decline in expected profitability, particularly if there is a decline in the global economy, could call into question the recoverability of the Company's related goodwill, other long-lived tangible and intangible assets or deferred tax assets and require the write down or write off these assets or, in the case of deferred tax assets, recognition of a valuation allowance through a charge to income. Such an occurrence has had and could continue to have a material adverse effect on the Company's consolidated results of operations, financial position and cash flows.

Risks Related to the Printing and Related Services Industry

The highly competitive market for the Company's products and industry consolidation may continue to create adverse price pressures.

The markets for the majority of the Company's product categories are highly fragmented and the Company has a large number of competitors. Management believes that excess capacity in the Company's markets has caused downward price pressure and that this trend is likely to continue. In addition, consolidation in the markets in which the Company competes may increase competitive price pressures due to competitors lowering prices as a result of synergies achieved.

The substitution of electronic delivery for printed materials may continue to adversely affect the Company's businesses.

Electronic delivery of documents and data, including the online distribution and hosting of media content, offer alternatives to traditional delivery of printed documents. Consumers continue to accept electronic substitution in directory and statement printing and are replacing traditional reading of print materials with online, hosted media content or e-reading devices. The extent to which consumers will continue to accept electronic delivery is uncertain and it is difficult to predict future rates of acceptance of these alternatives. Electronic delivery has negatively impacted the Company's products, such as directories, books, forms and statement printing. Digital technologies have also impacted printed magazines, as advertising spending has moved from print to electronic media. To the extent that consumers, customers and regulators continue to accept these alternatives, the Company's products will be adversely affected.

Changes in the rules and regulations to which the Company is subject may increase the Company's costs.

The Company is subject to numerous rules and regulations, including, but not limited to, product safety, environmental and health and welfare benefit regulations. These rules and regulations may be changed by local, state or federal governments in countries in which the Company operates. Changes in these regulations may result in a significant increase in the Company's costs to comply. Compliance with changes in rules and regulations could require increases to the Company's workforce, increased cost for compensation and benefits, or investments in new or upgraded equipment. In addition, growing concerns about climate change, including the impact of global warming, may result in new regulations with respect to greenhouse gas emissions (including carbon dioxide) and/or "cap and trade" legislation. Compliance with new rules and regulations or changes in existing rules and regulations could result in additional costs to the Company.

Declines in general economic conditions or political unrest may adversely impact the Company's business.

In general, demand for the Company's products and services are highly correlated with general economic conditions. Declines in economic conditions in the U.S., or in other countries in which the Company operates, may adversely impact the Company's consolidated financial results. Because such declines in demand are difficult to predict, the Company or the industry may have increased excess capacity as a result. An increase in excess capacity may result in declines in prices for the Company's products and services. The overall business climate may also be impacted by wars or acts of terrorism. Such acts may have sudden and unpredictable adverse impacts on demand for the Company's products and services.

Changes in the rules and regulations to which customers are subject may impact demand for the Company's products and services.

Many of the Company's customers are subject to rules and regulations requiring certain printed or electronic communications governing the form of such communications and protecting the privacy of consumers. Changes in these regulations may impact customers' business practices and could reduce demand for the Company's printed products and related services. Changes in such regulations could eliminate the need for certain types of printed communications altogether or such changes may impact the quantity or format of printed communications.

Changes in postal rates, regulations and delivery structure may adversely impact demand for the Company's products and services.

Postal costs are a significant component of many of the Company's customers' cost structures and postal rate changes can influence the number of pieces and types of mailings that the Company's customers mail. On December 24, 2013, the PRC approved the USPS Board of Governors' request for an exigent price increase of 4.3%. This exigent rate increase was implemented in addition to a 1.7% rate increase, equal to the CPI, for total price increases of 6.0%, on average, across all mail categories, effective January 26, 2014. On January 15, 2015, the USPS filed for a CPI rate increase of 2.0%, which if approved by the PRC, will be effective April 26, 2015. In addition, the USPS has incurred significant financial losses in recent years and may, as a result, implement significant changes to the breadth or frequency of its mail delivery. The USPS is continuing to pursue its previously announced plans to restructure its mail delivery network, including the closure of many post office facilities and a possible suspension of Saturday service. The impact to the Company of the USPS's restructuring plans, many of which require legislative action, cannot currently be estimated. If implemented, such changes could impact customers' ability or willingness to communicate by mail. Declines in print volumes mailed would have an adverse effect on the Company's business.

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

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

Technological developments and changing demands of customers may require additional investment in new equipment and technologies. The Company must monitor changes in its customers' markets and develop new solutions to meet customers' needs. The development of such solutions may be costly and there is no assurance that these solutions will be accepted by customers. If the Company is unable to adapt to technological changes on a timely basis or at an acceptable cost, customers' demand for the Company's products and services may be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

The Company has no unresolved written comments from the SEC staff regarding its periodic or current reports under the Securities Exchange Act of 1934.

ITEM 2. PROPERTIES

The Company's corporate office is located in leased office space in Chicago, Illinois. As of December 31, 2014, the Company leased or owned 355 U.S. facilities, some of which had multiple buildings and warehouses, and these U.S. facilities encompassed approximately 41.4 million square feet. The Company leased or owned 149 international facilities encompassing approximately 10.8 million square feet in Canada, Latin America, Europe and Asia. Of the Company's U.S. and international facilities, approximately 30.5 million square feet of space was owned, while the remaining 21.7 million square feet of space was leased.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF R.R. DONNELLEY & SONS COMPANY

Name, Age and Positions with the Company	Officer Since	Business Experience During Past Five Years
Thomas J. Quinlan, III 52, President and Chief Executive Officer	2004	Served as RR Donnelley's President and Chief Executive Officer since April 2007. Prior to this, served as Group President, Global Services since October 2006 and Chief Financial Officer since April 2006. Prior to this, served as Executive Vice President, Operations since February 2004.
Suzanne S. Bettman 50, Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer	2004	Served as RR Donnelley's Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer since January 2007. Served previously as Senior Vice President, General Counsel since March 2004.
Andrew B. Coxhead 46, Senior Vice President and Chief Accounting Officer	2007	Served as RR Donnelley's Senior Vice President and Chief Accounting Officer since October 2007, and Corporate Controller from October 2007 to January 2013. Prior to this, served as Vice President, Assistant Controller since September 2006. Prior to this, from 1995 until 2006, served in various capacities with RR Donnelley in financial planning, accounting, manufacturing management, operational finance and mergers and acquisitions.
Daniel L. Knotts 50, Chief Operating Officer	2007	Served as RR Donnelley's Chief Operating Officer since January 2013. Prior to this, served as Group President from April 2007 to December 2012 and Chief Operating Officer, Global Print Solutions from January 2007 to April 2007. Prior to this, from 1986 until 2007, served in various capacities with RR Donnelley, including Group Executive Vice President, Operations, Publishing and Retail Services and President, Catalog/Retail/Magazine Solutions, RR Donnelley Print Solutions.
Daniel N. Leib 48, Executive Vice President and Chief Financial Officer	2009	Served as RR Donnelley's Executive Vice President and Chief Financial Officer since May 2011. Prior to this, served as Group Chief Financial Officer and Senior Vice President, Mergers and Acquisitions since August 2009 and Treasurer from June 2008 to February 2010. Prior to this, served as RR Donnelley's Senior Vice President, Treasurer, Mergers and Acquisitions and Investor Relations since July 2007. Prior to this, from May 2004 to 2007, served in various capacities in financial management, corporate strategy and investor relations.

PART II

ITEM 5. MARKET FOR R.R. DONNELLEY & SONS COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

RR Donnelley's common stock is listed and traded on the NASDAQ Stock Market.

As of February 20, 2015, there were 7,138 stockholders of record of the Company's common stock. Quarterly closing prices of the Company's common stock, as reported on NASDAQ, and dividends paid per share during the years ended December 31, 2014 and 2013, are contained in the chart below:

	Dividends Paid		Closing Common Stock Prices			
			2014		2013	
	2014	2013	High	Low	High	Low
First Quarter	$0.26	$0.26	$20.38	$17.15	$12.05	$8.72
Second Quarter	0.26	0.26	18.30	15.10	14.07	10.98
Third Quarter	0.26	0.26	17.82	15.85	19.26	14.23
Fourth Quarter	0.26	0.26	17.70	15.02	20.60	15.74

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

ISSUER PURCHASES OF EQUITY SECURITIES

There were no repurchases of equity securities during the three months ended December 31, 2014.

EQUITY COMPENSATION PLANS

For information regarding equity compensation plans, see Item 12 of Part III of this Annual Report on Form 10-K.

PEER PERFORMANCE TABLE

The graph below compares five-year returns of the Company's common stock with those of the S&P 500 Index and a selected peer group of companies. The comparison assumes all dividends have been reinvested, and an initial investment of $100 on December 31, 2009. The returns of each company in the peer group have been weighted to reflect their market capitalizations.

Because the Company's services and customers are so diverse, the Company does not believe that any single published industry index is appropriate for comparing stockholder return. Therefore, the peer group used in the performance graph combines two industry groups identified by Value Line Publishing, Inc., the publishing group (including printing companies) and the newspaper group. The Company itself has been excluded, and its contributions to the indices cited have been subtracted out. Changes in the peer group from year to year result from companies being added to or deleted from the Value Line publishing group or newspaper group.

Comparison of Five-Year Cumulative Total Return Among RR Donnelley, S&P 500 Index and Peer Group*

	Base					
	Period	Fiscal Years Ended December 31,				
Company Name/Index	2009	2010	2011	2012	2013	2014
RR Donnelley	100	83.17	73.11	50.03	122.05	107.41
Standard & Poor's 500	100	115.06	117.49	136.30	180.44	205.14
Peer Group	100	109.00	113.73	138.67	215.33	241.52

Below are the specific companies included in the peer group.

*Peer Group Companies

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

(a) American Greetings was included through August 9, 2013, when American Greetings went private.
(b) Consolidated Graphics Inc. was included through January 31, 2014, when it was acquired by RR Donnelley.
(c) Name change from the McGraw-Hill Companies

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ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA

(in millions, except per share data)

	2014	2013	2012	2011	2010
Net sales	$11,603.4	$10,480.3	$10,221.9	$10,611.0	$10,018.9
Net earnings (loss) attributable to RR Donnelley common shareholders	117.4	211.2	(651.4)	(122.6)	221.7
Net earnings (loss) attributable to RR Donnelley common shareholders per diluted share	0.59	1.15	(3.61)	(0.63)	1.06
Total assets	7,639.3	7,238.2	7,262.7	8,281.7	9,083.2
Long-term debt	3,429.1	3,587.0	3,420.2	3,416.8	3,398.6
Cash dividends per common share	1.04	1.04	1.04	1.04	1.04

Reflects results of acquired businesses from the relevant acquisition dates.

Includes the following significant items:

- For 2014: Pre-tax restructuring, impairment and other charges of $133.7 million ($97.0 million after-tax), $95.7 million pre-tax settlement charges ($58.4 million after-tax) on lump-sum pension settlement payments, $77.1 million pre-tax loss ($49.8 million after-tax) on the repurchases of $361.1 million of senior notes, $18.4 million pre-tax loss ($13.8 million after-tax) on the currency remeasurement in Venezuela, pre-tax loss of $16.4 million ($14.2 million after-tax) as a result of the bankruptcy liquidation of RRDA, a subsidiary of RR Donnelley, pre-tax charges of $14.3 million ($9.1 million after-tax) for inventory purchase accounting adjustments for Consolidated Graphics and Esselte, $10.4 million net pre-tax gain ($6.4 million after-tax) on the sale of Journalism Online and GRES, pre-tax gain of $9.5 million ($9.5 million after-tax) related to the acquisition of Esselte, $15.2 million tax benefit related to the decline in value of an entity within the Strategic Services segment, pre-tax charges of $8.6 million ($6.9 million after-tax) for acquisition related expenses, a pre-tax gain of $3.0 million ($1.9 million after-tax) from the sale of the Company’s shares of a previously impaired equity investment and a pre-tax loss of $1.3 million ($0.8 million after-tax) from the impairment of an equity investment;
- For 2013: Pre-tax restructuring, impairment and other charges of $133.5 million ($88.2 million after-tax), $81.9 million pre-tax loss ($53.9 million after-tax) on the repurchases of $753.7 million of senior notes, $58.5 million income tax benefit related to the decline in value and reorganization of certain entities within the Publishing and Retail Services segment and a $7.2 million benefit for previously unrecognized tax benefits related to the expected resolution of certain federal tax matters, pre-tax loss of $17.9 million ($12.3 million after-tax) on the disposal of the MRM France direct mail business in the International segment, pre-tax charges of $5.9 million ($5.2 million after-tax) for acquisition-related expenses, pre-tax impairment loss on equity investments of $5.5 million ($3.6 million after-tax) and a $3.2 million pre-tax loss ($2.0 million after-tax) on the currency devaluation in Venezuela;
- For 2012: Pre-tax restructuring, impairment and other charges of $1,118.5 million ($981.9 million after-tax), $16.1 million pre-tax loss ($10.6 million after-tax) on the repurchases of $441.8 million of senior notes and termination of the Company’s previous $1.75 billion unsecured revolving credit agreement (the “Previous Credit Agreement”) which was due to expire on December 17, 2013, $4.8 million net benefit from income tax adjustments including the recognition of $26.1 million of previously unrecognized tax benefits due to the resolution of certain U.S. federal

uncertain tax positions and a $22.4 million benefit related to the decline in value and reorganization of certain entities within the International segment, partially offset by a valuation allowance provision of $32.7 million on certain deferred tax assets in Latin America and an $11.0 million provision related to certain foreign earnings no longer considered to be permanently reinvested, $4.1 million pre-tax impairment loss ($2.6 million after-tax) on an equity investment, $3.7 million pre-tax gain ($2.8 million after-tax) on pension curtailment and pre-tax charges of $2.5 million ($2.2 million after-tax) for acquisition-related expenses;

- For 2011: Pre-tax restructuring, impairment and other charges of $667.8 million ($532.8 million after-tax), $74.8 million recognition of income tax benefits due to the expiration of U.S. federal statutes of limitations for certain years, $69.9 million pre-tax loss ($44.1 million after-tax) on the repurchases of $427.8 million of senior notes, pre-tax gain on pension curtailment of $38.7 million ($24.3 million after-tax), $15.3 million of pre-tax expense ($9.7 million after-tax) for contingent compensation earned by the prior owners of an acquired business, $9.8 million pre-tax gain ($9.5 million after-tax) on the Helium investment and pre-tax charges of $2.2 million ($2.0 million after-tax) for acquisition-related expenses; and
- For 2010: Pre-tax restructuring, impairment and other charges of $157.9 million ($130.0 million after-tax), pre-tax charges of $13.5 million ($11.8 million after-tax) for acquisition-related expenses, $8.9 million pre-tax loss ($8.1 million after-tax) on the currency devaluation in Venezuela, including an increase in loss attributable to noncontrolling interests of $3.6 million, and a pre-tax $1.1 million write-down ($0.7 million after-tax) of affordable housing investments.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of RR Donnelley's financial condition and results of operations should be read together with the consolidated financial statements and notes to those statements included in Item 15 of Part IV of this Annual Report on Form 10-K.

Business

For a description of the Company's business, segments and product and service offerings, see Item 1, Business, of Part I of this Annual Report on Form 10-K.

The Company separately reports its net sales, related costs of sales and gross profit for its product and service offerings. The Company's product offerings primarily consist of magazines, catalogs, retail inserts, commercial and digital print, books, financial print, statement printing, direct mail, labels, office products, packaging, forms, manuals and other related products procured through the Company's print management offering and directories. The Company's service offerings primarily consist of logistics, EDGAR-related and eXtensible Business Reporting Language ("XBRL") financial services, certain business outsourcing services and digital and creative solutions.

Executive Overview

2014 OVERVIEW

Net sales increased by 10.7% in 2014 compared to 2013, including a $47.8 million, or 0.4%, decrease due to changes in foreign exchange rates. The net sales increase was primarily due to the acquisitions of Consolidated Graphics and Esselte. On a pro forma basis, the Company's net sales decreased by approximately 0.5% (see Note 2, Acquisitions and Dispositions, to the Consolidated Financial Statements). The net sales decrease on a pro forma basis was primarily due to price pressures, volume declines in the Publishing and Retail Services segment, the impact of dispositions in the International segment and decreases in pass-through paper sales in the Publishing and Retail Services segment, partially offset by increased volume in the Strategic Services and International segments.

The Company made significant progress in the integration of Consolidated Graphics and Esselte during the year ended December 31, 2014. Restructuring actions to eliminate duplicate facilities and personnel have been implemented throughout the affected operations. Along with the Company's continuing focus on productivity improvement, these actions are expected to result in significant cost savings. In addition, the Company has benefited from an enhanced ability to serve local print markets and broader product and service offerings as a result of these acquisitions.

Net cash provided by operating activities for the year ended December 31, 2014 was $722.7 million as compared to $694.8 million for the year ended December 31, 2013. The increase in net cash provided by operating activities reflected timing of supplier payments and cash collections, partially offset by an increase in pension and other postretirement benefits plan contributions and higher payments in 2014 related to 2013 incentive compensation.

In June 2014 the Company communicated to certain former employees the option to receive a lump-sum pension payment or annuity computed in accordance with statutory requirements, with payments beginning in the fourth quarter of 2014. 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 obligations were remeasured as of the payout dates. As of the remeasurement dates, the reductions in the reported pension obligations for these participants were $404.0 million, compared to payout amounts of approximately $317.7 million. Payout amounts were funded from pension plan assets. The Company recorded non-cash settlement charges of $95.7 million included in selling, general and administrative expenses in the fourth quarter of 2014 in connection with the settlement payments. These charges resulted from the recognition in earnings of a portion of the losses recorded in accumulated other comprehensive loss based on the proportion of the obligation settled.

2014 Financial Performance

The changes in the Company’s income from operations, operating margin, net earnings attributable to RR Donnelley common shareholders and net earnings attributable to RR Donnelley common shareholders per diluted share for the year ended December 31, 2014, from the year ended December 31, 2013, were due to the following:

	Income from Operations	Operating Margin	Net Earnings Attributable to RR Donnelley Common Shareholders	Net Earnings Attributable to RR Donnelley Shareholders Per Diluted Share
	(in millions, except margin and per share data)			
For the year ended December 31, 2013	$579.7	5.5 %	$ 211.2	$ 1.15
2014 restructuring, impairment and other charges - net	(133.7)	(1.2 %)	(97.0)	(0.49)
2013 restructuring, impairment and other charges - net	133.5	1.3 %	88.2	0.48
Acquisition-related expenses	(2.7)	0.0 %	(1.7)	—
Pension settlement charges	(95.7)	(0.8 %)	(58.4)	(0.29)
Purchase accounting inventory adjustments	(14.3)	(0.1 %)	(9.1)	(0.05)
Net gain on disposal of businesses	—	—	18.7	0.10
Loss on bankruptcy of subsidiary	—	—	(14.2)	(0.07)
Gain on bargain purchase	—	—	9.5	0.05
Venezuela currency remeasurement	—	—	(7.2)	(0.03)
Net gain on investments	—	—	4.7	0.03
Loss on debt extinguishment	—	—	4.1	0.04
Income tax adjustments	—	—	(50.5)	(0.28)
Operations	49.1	(0.3 %)	19.1	(0.05)
For the year ended December 31, 2014	$515.9	4.4 %	$ 117.4	$ 0.59

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

2013 restructuring, impairment and other charges—net: included pre-tax charges of $40.4 million for employee termination costs primarily related to the closing of two manufacturing facilities within the Publishing and Retail Services segment and one manufacturing facility within the Variable Print segment and the reorganization of certain operations; $38.4 million for other estimated charges related to the decision to partially withdraw from certain multi-employer pension plans; $33.8 million of lease termination and other restructuring costs, of which $14.7 million related to multi-employer pension plan withdrawal charges primarily attributable to manufacturing facility closures; $17.6 million for impairment of other long-lived assets, primarily for buildings and machinery and equipment associated with facility closures and charges of $3.3 million for the impairment of other intangible assets in the financial reporting unit within the Strategic Services segment.

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

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

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

Net gain on disposal of businesses: included a pre-tax gain on the sale of Journalism Online of $11.2 million ($6.9 million after-tax) offset by a pre-tax loss on the sale of GRES of $0.8 million ($0.5 million after-tax) for the year ended December 31, 2014. The year ended December 31, 2013 included a pre-tax loss on the disposal of the MRM France direct mail business in the International segment of $17.9 million ($12.3 million after-tax).

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

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

Venezuela currency remeasurement: currency remeasurement in Venezuela resulted in a pre-tax loss, net of foreign exchange gains, of $18.4 million ($13.8 million after-tax), of which $5.6 million was included in loss attributable to noncontrolling interests for the year ended December 31, 2014. For the year ended December 31, 2013, the currency devaluation in Venezuela resulted in a pre-tax loss of $3.2 million ($2.0 million after-tax), of which $1.0 million was included in income attributable to noncontrolling interests.

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

Loss on debt extinguishment: included a pre-tax loss of $77.1 million ($49.8 million after-tax) for the year ended December 31, 2014, related to the premiums paid, unamortized debt issuance costs and other expenses due to the repurchase of $211.1 million of the 8.25% senior notes due March 15, 2019, $100.0 million of the 7.25% senior notes due May 15, 2018 and $50.0 million of the 7.625% senior notes due June 15, 2020. For the year ended December 31, 2013, a pre-tax loss of $81.9 million ($53.9 million after-tax) was recognized related to the premiums paid, unamortized debt issuance costs and other expenses due to the repurchase of $273.5 million of the 6.125% senior notes due January 15, 2017, $250.0 million of the 7.25% senior notes due May 15, 2018, $130.2 million of the 8.60% senior notes due August 15, 2016 and $100.0 million of the 5.50% senior notes due May 15, 2015.

Income tax adjustments: for the year ended December 31, 2014, income tax adjustments include a tax benefit related to the decline in value of an entity within the Strategic Services segment, of $15.2 million. For the year ended December 31, 2013, income tax adjustments included the recognition of a $58.5 million benefit related to the decline in value and reorganization of certain entities within the Publishing and Retail Services segment and a $7.2 million benefit for previously unrecognized tax benefits related to the expected resolution of certain federal tax matters for the year ended December 31, 2013.

Operations: reflected price pressures primarily in the International, Publishing and Retail Services and Variable Print segments, wage and other inflation in the International segment, an increase in depreciation and amortization expense and volume declines in the Publishing and Retail Services and Variable Print segments, partially offset by increases due to the acquisitions of Consolidated Graphics and Esselte, cost control initiatives, lower healthcare costs and increased volume in the Strategic Services segment. See further details in the review of operating results by segment that follows below.

OUTLOOK

Vision and Strategy

RR Donnelley's vision is to improve on its existing position as a global provider of integrated communications by providing its customers with the highest quality products and services. The Company 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 Company's long-term strategy is focused on maximizing long-term shareholder value by building on its core strategic advantages, which are summarized below, along with more specific areas of focus.

Core Strategic Advantages	Areas of Focus
Industry-Leading Scale	—Largest player in a highly fragmented market —Drive cost advantage from platform flexibility and economies of scale in procurement, production and distribution
Breadth and Depth of Product and Service Offerings	—Strong customer relationships; single-source provider —Broadest offering of industry-leading products and services —Use technology to continue to increase integration and customer value —Differentiate front-end logistics capabilities
Attractive Financial Profile	—Strong cash flow generation —Achieve a gross leverage ratio within the targeted range —Limit annual debt maturities —Prudent deployment of capital —Disciplined approach to mergers and acquisitions

As the largest player in the highly-fragmented market for print and related services, the Company enjoys scale advantages in procurement, production, and distribution. Management believes productivity improvement and cost reduction are critical to the Company's continued competitiveness, and the flexibility of its platform enhances the value the Company delivers to its customers. The Company continues to implement strategic initiatives across all platforms to reduce its overall cost structure and enhance productivity, including restructuring, consolidation, reorganization and integration of operations, and streamlining of administrative and support activities.

The Company's global platform provides differentiated solutions for its customers through its broad range of complementary print-related services, strong logistics capabilities, and its innovative leadership in both conventional and digital technologies. The Company is focusing its information technology efforts on projects that facilitate integration and make it easier for customers to manage their full range of communication needs. The Company is also working to broaden customer relationships by more fully integrating its sales efforts.

The Company seeks to deploy its capital using a balanced approach in order to ensure financial flexibility and provide returns to shareholders. Priorities for capital deployment, over time, include principal and interest payments on debt obligations, distributions to shareholders, targeted acquisitions and capital expenditures. The Company believes that a strong financial condition is important to customers focused on establishing or growing long-term relationships with a stable provider of integrated communications. The Company also expects to make targeted acquisitions that extend its capabilities, drive cost savings and reduce future capital spending needs. The Company's acquisitions of Consolidated Graphics and Esselte have and are expected to continue to enhance existing capabilities and improve the ability to serve customers.

The Company uses several key indicators to gauge progress toward achieving these objectives. These indicators include organic sales growth, operating margins, cash flow from operations and capital expenditures. The Company targets long-term net sales growth at or above industry levels, while managing operating margins by achieving productivity improvements that offset the impact of price declines and cost inflation. Cash flows from operations are expected to be stable over time, however, cash flows from operations in any given year can be significantly impacted by the timing of non-recurring or infrequent receipts and expenditures, the level of required pension and other postretirement benefits plan contributions and the impact of working capital management efforts.

The Company faces many challenges and risks as a result of competing in highly competitive global markets. Refer to Item 1A, Risk Factors, of Part I of this Annual Report on Form 10-K for further discussion.

2015 Outlook

In 2015, the Company expects net sales to increase over 2014 driven by the acquisitions of Consolidated Graphics, Esselte and MultiCorpora, as well as organic growth across most product and service offerings in the Strategic Services, International and Variable Print segments that are expected to more than offset the anticipated continuing volume declines and price pressures in the Publishing and Retail Services segment. The sales growth in the International segment will be partially offset by the negative impact of fluctuations in foreign exchange rates. The highly competitive market conditions and unused industry capacity will continue to put price pressure on both transactional work and contract renewals across all segments. The Company's outlook assumes that the U.S. and European economies will grow modestly in 2015, with a decline in growth expected in developing countries and China. The Company will continue to leverage its customer relationships in order to provide a larger share of its customers' communications needs. In addition, the Company expects to continue cost control and productivity initiatives, including selected facility consolidations.

The Company initiated several restructuring actions in 2014 and 2013 to further reduce the Company's overall cost structure. These restructuring actions included the closures of nine manufacturing facilities during 2014 as well as the reorganization of certain operations. These and future cost reduction actions are expected to have a positive impact on operating earnings in 2015 and in future years. In addition, the Company expects to identify other cost reduction opportunities and possibly take further actions in 2015, which may result in significant additional restructuring charges. These restructuring actions will be funded by cash generated from operations and cash on hand or, if necessary, by utilizing the Company's credit facilities.

Publishing and Retail Services

Net sales in the Publishing and Retail Services segment are expected to decrease in 2015 driven by volume declines and price pressures, partially offset by an increase in pass-through paper sales. Net sales in magazines, catalogs and retail inserts are expected to decline due to price reductions on major contract renewals and unfavorable mix. Lower volume is expected in magazines, due to an expected decrease in advertising spending and the recent increase in postage prices, and directories, due to the impact of electronic substitution. Net sales in educational books are expected to decline due to fewer major adoptions in 2015, a continued shift of state and local budgets to lower cost products and a shift in the college market to a digital base.

The Company expects operating income in the Publishing and Retail Services segment to decrease from 2014 as a result of lower volume and continued price pressures that will be partially offset by an improved cost structure from ongoing productivity efforts and lower depreciation and amortization expense.

Variable Print

Net sales in the Variable Print segment are expected to increase in 2015 driven by the acquisitions of Consolidated Graphics and Esselte as well as organic growth in certain products. Higher volume in in-store marketing materials and packaging is also expected in 2015 as well as continued volume growth in labels, filing products and binders. These increases are expected to be partially offset by the continued decline of forms and statement printing volume, due to the impact of electronic substitution.

Operating income for the Variable Print segment is expected to increase from 2014 due to the acquisitions of Consolidated Graphics and Esselte, including cost savings from synergies and other cost control initiatives, as well as organic growth in certain products as described above.

Strategic Services

Net sales in the Strategic Services segment are expected to increase from 2014 primarily due to higher logistics volume, largely driven by continuing growth in freight brokerage services and co-mail services. Net sales in logistics are expected to be negatively impacted by expected declines in fuel prices. Net sales in financial are expected to increase in 2015 as compared to 2014. Slight growth in capital markets transactions activity is currently expected in 2015, but the level of such activity across the full year will depend on continued favorable market conditions. An increase in compliance volume is also expected due to enhanced service offerings and targeted sales efforts. Net sales for digital and creative solutions and sourcing are expected to increase compared to 2014 due to higher volume.

Operating income in the Strategic Services segment is expected to increase in 2015 as compared to 2014 consistent with the expected organic sales growth described above as well as cost control initiatives, partially offset by continued increases in the cost of transportation.

International

Net sales in the International segment are expected to increase from 2014 primarily driven by anticipated volume increases in Asia, Global Turnkey Solutions and business process outsourcing, as well as the impact of price inflation in Latin America. Fluctuations in foreign exchange rates are expected to negatively impact net sales in all reporting units with foreign currency denominated sales. Net sales in Asia are expected to increase due to volume growth in book export and labels, partially offset by price pressures. Higher net sales are expected in Global Turnkey Solutions due to volume increases from both new and existing customers. Business process outsourcing net sales are expected to increase due to higher volume in outsourcing services, transactional print, print management and creative services, partially offset by an unfavorable impact of changes in foreign exchange rates. A net sales decrease in Europe is expected primarily due to the unfavorable impact of foreign exchange rates, partially offset by increased volume in publishing and packaging and higher pass through paper sales. Net sales in Canada are expected to remain constant or slightly decrease as increases in labels and statement printing volume are expected to be offset by declines in commercial and digital print volume and price pressures.

Operating income in the International segment is expected to remain constant or slightly increase from 2014 as unfavorable mix, wage and other inflation in certain countries and price declines are expected to offset higher volume and cost control initiatives.

Other

Cash flows from operations in 2015 are expected to benefit from the expected decrease in pension and other postretirement benefits plan contributions, increased operating cash flow from the acquisitions of Consolidated Graphics and Esselte and improved profitability driven by organic net sales growth. The expected increases in cash flows are expected to be more than offset by higher cash tax payments and higher payments for incentive compensation. The Company expects capital expenditures to be in the range of $225 million to $250 million in 2015.

The Company’s pension and other postretirement benefits plans were underfunded by $610.4 million and $212.0 million, respectively, as of December 31, 2014, as reported on the Company’s Consolidated Balance Sheets and further described in Note 11, Retirement Plans, to the Consolidated Financial Statements. Governmental regulations for measuring pension plan funded status differ from those required under accounting principles generally accepted in the United States of America (“GAAP”) for financial statement preparation. Based on the plans’ regulatory funded status, required contributions in 2015 under all pension and other postretirement benefits plans are expected to be approximately $25.0 million to $30.0 million, which is a decrease compared to contributions made in 2014 of $41.9 million.

Significant Accounting Policies and Critical Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's most critical accounting policies are those that are most important to the portrayal of its financial condition and results of operations, and which require the Company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. The Company has identified the following as its most critical accounting policies and judgments. Although management believes that its estimates and assumptions are reasonable, they are based upon information available when they are made, and therefore, actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

The Company recognizes revenue for the majority of its products upon the transfer of title and risk of ownership, which is generally upon shipment to the customer. Because substantially all of the Company's products are customized, product returns are not significant; however, the Company accrues for the estimated amount of customer credits at the time of sale. Revenue from services is recognized as services are performed. Refer to Note 1, Basis of Presentation and Summary of Significant Accounting Policies, to the Consolidated Financial Statements for further discussion.

Certain revenues earned by the Company require significant judgment to determine if revenue should be recorded gross, as a principal, or net of related costs, as an agent. Billings for third-party shipping and handling costs as well as certain postage costs, primarily in the Company's logistics operations, and out-of-pocket expenses are recorded gross. In the Company's Global Turnkey Solutions operations, each contract is evaluated using various criteria to determine if revenue for components and other materials should be recognized on a gross or net basis. In general, these revenues are recognized on a gross basis if the Company has control over selecting vendors and pricing, is the primary obligor in the arrangement and bears credit risk and the risk of loss for inventory in its possession. Revenue from contracts that do not meet these criteria is recognized on a net basis. Many of the Company's operations process materials, primarily paper, that may be supplied directly by customers or may be purchased by the Company and sold to customers. No revenue is recognized for customer-supplied paper, but revenues for Company-supplied paper are recognized on a gross basis. As a result, the Company's reported sales and margins may be impacted by the mix of customer-supplied paper and Company-supplied paper.

Goodwill and Other Long-Lived Assets

The Company's methodology for allocating the purchase price of acquisitions is based on established valuation techniques that reflect the consideration of a number of factors, including valuations performed by third-party appraisers when appropriate. Goodwill is measured as the excess of the cost of an acquired entity over the fair value assigned to identifiable assets acquired and liabilities assumed. Based on its current organization structure, the Company has identified nineteen reporting units for which cash flows are determinable and to which goodwill may be allocated. Goodwill is either assigned to a specific reporting unit or allocated between reporting units based on the relative excess fair value of each reporting unit.

The Company performs its goodwill impairment tests annually as of October 31, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The Company also performs an interim review for indicators of impairment each quarter to assess whether an interim impairment review is required for any reporting unit. As part of its interim reviews, management analyzes potential changes in the value of individual reporting units based on each reporting unit's operating results for the period compared to expected results as of the prior year's annual impairment test. In addition, management considers how other key assumptions, including discount rates and expected long-term growth rates, used in the last annual impairment test, could be impacted by changes in market conditions and economic events. Based on these interim assessments, management concluded that as of the interim periods, no events or changes in circumstances indicated that it was more likely than not that the fair value for any reporting unit had declined below its carrying value.

As of October 31, 2014, twelve reporting units had goodwill. The books, directories, forms, sourcing, business process outsourcing, Latin America and Canada reporting units had no goodwill as of October 31, 2014. The reporting units with goodwill were reviewed for impairment using either a qualitative or quantitative assessment.

Qualitative Assessment for Impairment

For the financial, office products and labels reporting units, the Company performed a qualitative assessment to determine whether it was more likely than not that the fair values of the reporting units were less than their carrying values. In performing this analysis, the Company considered various factors, including the effect of market or industry changes and the reporting units' actual results compared to projected results.

As part of the qualitative review of impairment, management analyzed the potential changes in fair value of the financial, office products and labels reporting units based on their operating results for the ten months ended October 31, 2014 compared to expected results. As of October 31, 2013, the fair value of the financial, office products and forms and labels reporting units under the Company's previous organization structure, prior to the reorganization of the Company's reportable segments in the fourth quarter of 2013 (the "Previous Organization Structure"), exceeded their carrying values by 138.8%, 15.4% and 116.2%, respectively, according to a valuation performed by a third-party appraisal firm. The 2014 acquisition of Esselte increased the fair value and carrying value of the office products reporting unit, however it did not add any incremental goodwill as the acquisition resulted in a bargain purchase recorded as a gain in the Consolidated Statement of Operations. Management considered the expected synergies from the acquisition and the performance of the reporting unit since the acquisition as part of its qualitative review. In addition, management considered how other key assumptions used in the 2013 impairment test could be impacted by changes in market conditions and economic events.

Based on its qualitative assessment, management concluded that as of October 31, 2014, it was more likely than not that the fair values of the financial, office products and labels reporting units were greater than their carrying values. The goodwill balances of the financial, office products and labels reporting units were $448.0 million, $30.0 million and $7.2 million, respectively, as of October 31, 2014.

Quantitative Assessment for Impairment

For the remaining nine reporting units with goodwill, a two-step method was used for determining goodwill impairment. In the first step ("Step One"), the Company compared the estimated fair value of each reporting unit to its carrying value, including goodwill. If the carrying value of a reporting unit exceeded the estimated fair value, the second step ("Step Two") is completed to determine the amount of the impairment charge. Step Two requires the allocation of the estimated fair value of the reporting unit to the assets, including any unrecognized intangible assets, and liabilities in a hypothetical purchase price allocation. Any remaining unallocated fair value represents the implied fair value of goodwill, which is compared to the corresponding carrying value of goodwill to compute the goodwill impairment charge.

As part of its impairment test for these reporting units, the Company engaged a third-party appraisal firm to assist in the Company's determination of the estimated fair value. This determination included estimating the fair value using both the income and market approaches. The income approach requires management to estimate a number of factors for each reporting unit, including projected future operating results, economic projections, anticipated future cash flows, discount rates and the allocation of shared or corporate items. The market approach estimates fair value using comparable marketplace fair value data from within a comparable industry grouping. The Company weighted both the income and market approach equally to estimate the concluded fair value of each reporting unit.

The determination of fair value in Step One and the allocation of that value to individual assets and liabilities in Step Two, if necessary, requires the Company to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to: the selection of appropriate peer group companies; control premiums appropriate for acquisitions in the industries in which the Company competes; the discount rate; terminal growth rates; and forecasts of revenue, operating income, depreciation and amortization, restructuring charges and capital expenditures. The allocation of fair value under Step Two requires several analyses to determine the fair value of assets and liabilities including, among others, trade names, customer relationships, and property, plant and equipment.

As a result of the 2014 annual goodwill impairment test, the Company recognized a total non-cash charge of $18.1 million for the impairment of goodwill in the magazines, catalogs and retail inserts reporting unit. The goodwill impairment charge resulted from reductions in the estimated fair value of the reporting unit based on lower expectations for future revenue, profitability and cash flows as compared to expectations as of the last annual goodwill impairment test. The lower expectations for the magazines, catalogs and retail inserts reporting unit were due to accelerating volume declines and increasing price pressures resulting from declining demand, primarily in catalogs and magazines. Revenue and income from operations in the magazines, catalogs and retail inserts reporting unit for the year ended December 31, 2014 were lower than previous expectations due to volume declines and price pressures. The negative trends experienced in 2014 are expected to continue in future years. As of December 31, 2014, the magazines, catalogs and retail inserts reporting unit had no remaining goodwill.

Goodwill Impairment Assumptions

Although the Company believes its estimates of fair value are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on either the fair value of the reporting units, the amount of the goodwill impairment charge, or both. Future declines in the overall market value of the Company’s equity and debt securities may also result in a conclusion that the fair value of one or more reporting units has declined below its carrying value.

One measure of the sensitivity of the amount of goodwill impairment charges to key assumptions is the amount by which each reporting unit “passed” (fair value exceeds the carrying value) or “failed” (the carrying value exceeds fair value) Step One of the goodwill impairment test. Eight reporting units passed Step One, with fair values that exceeded the carrying values by between 24.8% and 195.1% of their respective estimated fair values. Relatively small changes in the Company’s key assumptions would not have resulted in any additional reporting units failing Step One.

Generally, changes in estimates of expected future cash flows would have a similar effect on the estimated fair value of the reporting unit. That is, a 1.0% decrease in estimated annual future cash flows would decrease the estimated fair value of the reporting unit by approximately 1.0%. The estimated long-term net sales growth rate can have a significant impact on the estimated future cash flows, and therefore, the fair value of each reporting unit. A 1.0% decrease in the long-term net sales growth rate would have resulted in no reporting units failing Step One of the goodwill impairment test. Of the other key assumptions that impact the estimated fair values, most reporting units have the greatest sensitivity to changes in the estimated discount rate. The estimated discount rates for the reporting units with operations primarily located in the U.S. ranged from 8.0% to 8.5% as of October 31, 2014. Estimated discount rates for reporting units with operations primarily in foreign locations ranged from 9.5% to 11.0%. A 1.0% increase in estimated discount rates would have resulted in no additional reporting units failing Step One. The Company believes that its estimates of future cash flows and discount rates are reasonable, but future changes in the underlying assumptions could differ due to the inherent uncertainty in making such estimates. Additionally, further price deterioration or lower volume could have a significant impact on the fair values of the reporting units.

Other Long-Lived Assets

The Company evaluates the recoverability of other long-lived assets, including property, plant and equipment and certain identifiable intangible assets, whenever events or changes in circumstances indicate that the carrying value of an asset or asset group may not be recoverable. The Company performs impairment tests of indefinite-lived intangible assets on an annual basis or more frequently in certain circumstances. Factors which could trigger an impairment review include significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the assets or the strategy for the overall business, a significant decrease in the market value of the assets or significant negative industry or economic trends. When the Company determines that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the indicators, the assets are assessed for impairment based on the estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the carrying value of an asset exceeds its estimated future undiscounted cash flows, an impairment loss is recorded for the excess of the asset’s carrying value over its fair value. During the year ended December 31, 2014, the Company recognized non-cash impairment charges of $7.8 million, $4.1 million and $1.7 million related to the impairment of certain acquired customer relationship intangible assets in the Canada reporting unit within the International segment, the commercial and digital print reporting unit within the Variable Print segment and the financial reporting unit within the Strategic Services segment, respectively. The impairment of the customer relationship intangible assets resulted from a decline in expected future revenue and certain customer losses in the Canada reporting unit, the loss of certain customers in the commercial and digital print reporting unit and a decline in Latin America’s expected future capital markets transactions revenue in the financial reporting unit. During the year ended December 31, 2014, the Company also recognized non-cash impairment charges of $1.4 million related to acquired tradenames in the commercial and digital print reporting unit within the Variable Print segment. In addition, the Company recognized non-cash impairment charges of $17.9 million during the year ended December 31, 2014, related to land, buildings, machinery and equipment and leasehold improvements, primarily as a result of restructuring actions.

Pension and Other Postretirement Benefits Plans

The Company records annual income and expense amounts relating to its pension and other postretirement benefits plans based on calculations which include various actuarial assumptions including discount rates, expected long-term rates of return, turnover rates, health care cost trend rates and compensation increases. The Company reviews its actuarial assumptions on an annual basis as of December 31 (or more frequently if a significant event requiring remeasurement occurs) and modifies the assumptions based on current rates and trends when it is appropriate to do so. The effects of modifications are recognized immediately on the Consolidated Balance Sheet, but are generally amortized into operating earnings over future periods, with the deferred amount recorded in accumulated other comprehensive income (loss). During the year ended December 31, 2014, the Company adopted the Society of Actuaries RP-2014 mortality tables which were used in the calculation of the Company's U.S pension obligations. The Company also adopted updated mortality tables for the Canadian pension plans. The new mortality tables increased the expected life of plan participants, extending the length of time that payments may be required and increasing the plans' total expected benefit payments. The updated mortality assumptions increased the benefit obligations for the U.S and Canadian pension plans by approximately $310.0 million as of December 31, 2014. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience, market conditions and input from its actuaries and investment advisors. The Company determines its assumption for the discount rate to be used for purposes of computing pension and other postretirement benefits plan obligations based on an index of high-quality corporate bond yields and matched-funding yield curve analysis. The discount rates for pension benefits at December 31, 2014 and 2013 were 4.1% and 5.0%, respectively. The discount rates for other postretirement benefits plans at December 31, 2014 and 2013 were 3.9% and 4.5%, respectively.

A one-percentage point change in the discount rates at December 31, 2014 would have the following effects on the accumulated benefit obligation and projected benefit obligation:

Pension Plans

	1.0% Increase	1.0% Decrease
	(in millions)	
Accumulated benefit obligation	$(523.7)	$ 661.7
Projected benefit obligation	(526.2)	669.2

Other Postretirement Benefits Plans

	1.0% Increase	1.0% Decrease
	(in millions)	
Accumulated benefit obligation	$(42.4)	$ 51.1

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

The expected long-term rate of return for plan assets is based upon many factors including expected asset allocations, historical asset returns, current and expected future market conditions and risk. In addition, the Company considered the impact of the current interest rate environment on the expected long-term rate of return for certain asset classes, particularly fixed income. The target asset allocation percentage for the primary U.S. pension plan was approximately 60.0% for return seeking investments and approximately 40.0% for hedging investments. The expected long-term rate of return on plan assets assumption used to calculate net pension and other postretirement benefits plan expense in 2014 was 7.75% and 7.25%, respectively, for the Company's major U.S. pension and other postretirement benefits plans. The expected long-term rate of return on plan assets assumption that will be used to calculate net pension and other postretirement benefits plan expense in 2015 is 7.50% and 7.25%, respectively, for the Company's major U.S. pension and other postretirement benefits plans.

A 0.25% change in the expected long-term rate on plan assets at December 31, 2014 would have the following effects on 2014 and 2015 pension and other postretirement benefit plan (income)/expense:

0.25% 0.25%

	Increase	Decrease
	(in millions)	
2014		
U.S. pension plans	$(7.3)	$ 7.3
Other postretirement benefit plans	(0.4)	0.4
2015		
U.S. pension plans	$(7.5)	$ 7.5
Other postretirement benefit plans	(0.5)	0.5

The Company also maintains several pension plans in other international locations. The expected returns on plan assets and discount rates for those plans are determined based on each plan's investment approach, local interest rates and plan participant profiles.

Accounting for Income Taxes

Significant judgment is required in determining the provision for income taxes and related accruals, deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. In the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. Additionally, the Company's tax returns are subject to audit by various U.S. and foreign tax authorities. The Company recognizes a tax position in its financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. This recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Although management believes that its estimates are reasonable, the final outcome of uncertain tax positions may be materially different from that which is reflected in the Company's historical financial statements.

The Company has recorded deferred tax assets related to future deductible items, including domestic and foreign tax loss and credit carryforwards. The Company evaluates these deferred tax assets by tax jurisdiction. The utilization of these tax assets is limited by the amount of taxable income expected to be generated within the allowable carryforward period and other factors. Accordingly, management has provided a valuation allowance to reduce certain of these deferred tax assets when management has concluded that, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be fully realized. If actual results differ from these estimates, or the estimates are adjusted in future periods, adjustments to the valuation allowance might need to be recorded. As of December 31, 2014 and 2013, valuation allowances of $257.8 million and $268.2 million, respectively, were recorded in the Company's Consolidated Balance Sheets.

Deferred U.S. income taxes and foreign taxes are not provided on the excess of the investment value for financial reporting over the tax basis of investments in those foreign subsidiaries for which such excess is considered to be permanently reinvested in those operations. The Company has recognized deferred tax liabilities of $2.6 million as of December 31, 2014 related to local taxes on certain foreign earnings that are not considered to be permanently reinvested. Management regularly evaluates whether foreign earnings are expected to be permanently reinvested. This evaluation requires judgment about the future operating and liquidity needs of the Company's foreign subsidiaries. Changes in economic and business conditions, foreign or U.S. tax laws, or the Company's financial situation could result in changes to these judgments and the need to record additional tax liabilities.

Commitments and Contingencies

The Company is subject to lawsuits, investigations and other claims related to environmental, employment, commercial and other matters, as well as preference claims related to amounts received from customers and others prior to their seeking bankruptcy protection. Periodically, the Company reviews the status of each significant matter and assesses potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the related liability is estimable, the Company accrues a liability for the estimated loss. Because of uncertainties related to these matters, accruals are based on the best information available at the time. As additional information becomes available, the Company reassesses the related potential liability and may revise its estimates.

With respect to claims made under the Company's third-party insurance for workers' compensation, automobile and general liability, the Company is responsible for the payment of claims below and above insured limits, and consulting actuaries are utilized to assist the Company in estimating the obligation associated with any such incurred losses, which are recorded in accrued and other non-current liabilities. Historical loss development factors for both the Company and the industry are utilized to project the future development of such incurred losses, and these amounts are adjusted based upon actual claims experience and settlements. If actual experience of claims development is significantly different from these estimates, an adjustment in future periods may be required. Expected recoveries of such losses are recorded in other current and other non-current assets.

Restructuring

The Company records restructuring charges when liabilities are incurred as part of a plan approved by management with the appropriate level of authority for the elimination of duplicative functions, the closure of facilities, or the exit of a line of business, generally in order to reduce the Company's overall cost structure. Total restructuring charges were $51.1 million for the year ended December 31, 2014. The restructuring liabilities might change in future periods based on several factors that could differ from original estimates and assumptions. These include, but are not limited to: contract settlements on terms different than originally expected; ability to sublease properties based on market conditions at rates or on timelines different than originally estimated; or changes to original plans as a result of acquisitions. Such changes might result in reversals of or additions to restructuring charges that could affect amounts reported in the Consolidated Statements of Operations of future periods.

Accounts Receivable

The Company maintains an allowance for doubtful accounts receivable, which is reviewed for estimated losses resulting from the inability of its customers to make required payments for products and services. Specific customer provisions are made when a review of significant outstanding amounts, utilizing information about customer creditworthiness and current economic trends, indicates that collection is doubtful. In addition, provisions are made at differing rates, based upon the age of the receivable and the Company's past collection experience. The allowance for doubtful accounts receivable was $44.3 million at December 31, 2014. The Company's estimates of the recoverability of accounts receivable could change, and additional changes to the allowance could be necessary in the future, if any major customer's creditworthiness deteriorates or actual defaults are higher than the Company's historical experience.

Share-Based Compensation

The amount of expense recognized for share-based awards is determined by the Company's estimates of several factors, including expected performance compared to target for performance share units, future forfeitures of awards, expected volatility of the Company's stock and the average life of options prior to expiration. The total compensation expense related to all share-based compensation plans was $17.7 million for the year ended December 31, 2014. See Note 17, Stock and Incentive Programs for Employees, to the Consolidated Financial Statements for further discussion.

Off-Balance Sheet Arrangements

Other than non-cancelable operating lease commitments, the Company does not have off-balance sheet arrangements, financings or special purpose entities.

Financial Review

In the financial review that follows, the Company discusses its consolidated results of operations, financial position, cash flows and certain other information. This discussion should be read in conjunction with the Company's Consolidated Financial Statements and related notes that begin on page F-1.

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

The following table shows the results of operations for the years ended December 31, 2014 and 2013, which reflects the results of acquired businesses from the relevant acquisition dates:

	2014	2013	$ Change	% Change
	(in millions, except percentages)			
Products net sales	$9,715.2	$8,765.8	$949.4	10.8 %
Services net sales	1,888.2	1,714.5	173.7	10.1 %
Total net sales	11,603.4	10,480.3	1,123.1	10.7 %
Products cost of sales (exclusive of depreciation and amortization)	7,581.6	6,816.9	764.7	11.2 %
Services cost of sales (exclusive of depreciation and amortization)	1,471.2	1,332.9	138.3	10.4 %
Total cost of sales	9,052.8	8,149.8	903.0	11.1 %
Products gross profit	2,133.6	1,948.9	184.7	9.5 %

Services gross profit	417.0	381.6	35.4	9.3	%
Total gross profit	2,550.6	2,330.5	220.1	9.4	%
Selling, general and administrative expenses (exclusive of depreciation and amortization)	1,427.0	1,181.5	245.5	20.8	%
Restructuring, impairment and other charges-net	133.7	133.5	0.2	0.1	%
Depreciation and amortization	474.0	435.8	38.2	8.8	%
Income from operations	$515.9	$579.7	$(63.8)	(11.0	%)

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

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

Products gross profit increased $184.7 million to $2,133.6 million for the year ended December 31, 2014 versus the same period in the prior year due to the acquisitions of Consolidated Graphics and Esselte and cost control initiatives, partially offset by price pressures, volume declines in the Publishing and Retail Services segment and wage and other inflation in the International segment. Products gross margin decreased slightly from 22.2% to 22.0% reflecting price pressures, wage and other inflation in the International segment and the impact of inventory purchase accounting adjustments, mostly offset by cost control initiatives.

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

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

For the year ended December 31, 2014, the Company recorded net restructuring, impairment and other charges of $133.7 million compared to $133.5 million in the same period in 2013. In 2014, these charges included $35.5 million of other charges as a result of its decision to withdraw from certain multi-employer pension plans serving facilities that are currently operating. Additionally, the Company incurred $30.3 million of employee termination costs for 654 employees, of whom 633 were terminated as of December 31, 2014. These charges were the result of the integration of Consolidated Graphics, including the closure of seven Consolidated Graphics facilities as well as one additional facility closure within the Variable Print segment, one facility closure in the Publishing and Retail Services segment and the reorganization of certain operations. The Company also recorded lease termination and other restructuring charges of $20.8 million for the year ended December 31, 2014, including charges related to multi-employer pension plan withdrawal obligations as a result of facility closures. In addition, the Company recorded $18.1 million of non-cash charges for the impairment of goodwill in the magazines, catalogs and retail inserts reporting unit within the Publishing and Retail Services segment. The goodwill impairment charge resulted from reductions in the estimated fair value of the reporting unit based on lower expectations for future revenue, profitability and cash flows as compared to expectations as of the last annual goodwill impairment test. The lower expectations were due to an expected increase in volume declines and increasing price pressures resulting from declining demand, primarily in catalogs and magazines. Revenue and income from operations in the magazines, catalogs and retail inserts reporting unit for the year ended December 31, 2014 were lower than previous expectations due to volume declines and price pressures. The negative trends experienced in 2014 are expected to continue in future years. The Company also recorded non-cash charges of $7.8 million, $4.1 million and $1.7 million related to the impairment of acquired customer relationship intangible assets in the Canada reporting unit within the International segment, the commercial and digital print reporting unit within the Variable Print segment and the financial reporting unit within the Strategic Services segment, respectively, for the year ended December 31, 2014. Additionally, the Company recorded $1.4 million of impairment charges related to acquired tradenames in the commercial and digital print reporting unit within the Variable Print segment and $14.0 million of impairment charges primarily related to buildings, machinery and equipment as a result of facility closures for the year ended December 31, 2014.

For the year ended December 31, 2013, the Company recorded net restructuring, impairment and other charges of $133.5 million. These charges included $40.4 million of employee termination costs for 1,382 employees, of whom 1,363 were terminated as of December 31, 2013. These charges were the result of the closure of two manufacturing facilities within the Publishing and Retail Services segment and one manufacturing facility within the Variable Print segment and the reorganization of certain operations. Additionally, the Company recorded $38.4 million of other charges for estimated obligations related to the decision to withdraw from certain multi-employer pension plans. For the year ended December 31, 2013, the Company also incurred lease termination and other restructuring charges of $33.8 million, of which $14.7 million related to multi-employer pension plan complete or partial withdrawal charges as a result of facility closures, and $17.6 million of impairment charges primarily related to buildings and machinery and equipment associated with facility closures. In addition, the Company recorded non-cash impairment charges of $3.3 million related to acquired customer relationship intangible assets in the financial reporting unit within the Strategic Services segment.

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

Income from operations for the year ended December 31, 2014 was $515.9 million, a decrease of $63.8 million, compared to the year ended December 31, 2013. The decrease was due to pension settlement charges, price pressures primarily in the International, Publishing and Retail Services and Variable Print segments, wage and other inflation in the International segment, an increase in depreciation and amortization expense and volume declines in the Publishing and Retail Services and Variable Print segments, partially offset by increases due to the acquisitions of Consolidated Graphics and Esselte, cost control initiatives, lower healthcare costs and increased volume in the Strategic Services segment.

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

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

Net investment and other expense for the year ended December 31, 2014 and 2013 was $9.6 million and $27.4 million, respectively. The loss related to the Venezuelan currency remeasurement, net of foreign exchange gains, for the year ended December 31, 2014, of $18.4 million and the loss on the bankruptcy liquidation of RRDA of $16.4 million were partially offset by a gain on the sale of Journalism Online of $11.2 million, a $9.5 million bargain purchase gain related to the Esselte acquisition and a gain of $3.0 million resulting from the sale of the Company's shares of a previously impaired equity investment. For the year ended December 31, 2013, the Company recorded a loss on the disposal of the MRM France direct mail business in the International segment of $17.9 million, impairment losses on equity investments of $5.5 million and a $3.2 million loss related to the devaluation of the Venezuelan currency.

Loss on debt extinguishment, related to the premiums paid, unamortized debt issuance costs and other expenses for year ended December 31, 2014 was $77.1 million due to the repurchase of $361.1 million of senior notes. Loss on debt extinguishment for the year ended December 31, 2013 was $81.9 million related to the premiums paid, unamortized debt issuance costs and other expenses due to the repurchase of $753.7 million of senior notes.

	2014	2013	$ Change	% Change
	(in millions, except percentages)			
Income before income taxes	$147.1	$209.0	$ (61.9)	(29.6 %)
Income tax expense (benefit)	26.3	(9.2)	35.5	nm
Effective income tax rate	17.9 %	(4.4 %)		

The effective income tax rate for the year ended December 31, 2014 was 17.9% compared to negative 4.4% in the same period in 2013. The tax rate in 2014 was impacted by a $15.2 million tax benefit related to the decline in value of an entity within the Strategic Services segment. The tax rate in 2013 was impacted by a $58.5 million benefit related to the decline in value and reorganization of certain entities within the Publishing and Retail Services segment, a benefit of $7.2 million for the recognition of previously unrecognized tax benefits related to the expected resolution of certain federal matters, the release of valuation allowances related to certain deferred tax assets and the recognition of previously unrecognized tax benefits related to the expected resolution of certain state tax matters.

Income attributable to noncontrolling interests was income of $3.4 million for the year ended December 31, 2014 and income of $7.0 million for the year ended December 31, 2013. For the year ended December 31, 2014 and 2013, the Venezuelan currency remeasurement, net of foreign exchange gains, resulted in losses attributable to noncontrolling interests of $5.6 million and $1.0 million, respectively. The impacts of the remeasurements were partially offset for the year ended December 31, 2014 and 2013 by increases in the Company’s operating earnings in Venezuela.

Net earnings attributable to RR Donnelley common shareholders for the year ended December 31, 2014 was $117.4 million, or $0.59 per diluted share, compared to $211.2 million, or $1.15 per diluted share, for the year ended December 31, 2013. In addition to the factors described above, the per share results reflect an increase in weighted average diluted shares outstanding of 16.5 million primarily as a result of shares issued in conjunction with the Consolidated Graphics and Esselte acquisitions.

Information by Segment

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

Publishing and Retail Services

	Year Ended December 31 2014	2013
	(in millions, except percentages)	
Net sales	$2,632.3	$2,774.8
Income from operations	86.1	109.6
Operating margin	3.3 %	3.9 %
Restructuring and impairment and other charges--net	50.7	73.7

Reporting unit	Net Sales for the Year Ended December 31 2014	2013	$ Change	% Change
	(in millions, except percentages)			
Magazines, catalogs and retail inserts	$ 1,646.0	$ 1,724.7	$ (78.7)	(4.6 %)
Books	841.9	875.2	(33.3)	(3.8 %)
Directories	144.4	174.9	(30.5)	(17.4 %)
Total Publishing & Retail Services	$ 2,632.3	$ 2,774.8	$ (142.5)	(5.1 %)

Net sales for the Publishing and Retail Services segment for the year ended December 31, 2014 were $2,632.3 million, a decrease of $142.5 million, or 5.1%, compared to 2013. Net sales decreased due to lower volume in magazines, catalogs and retail inserts and educational books, price pressures in magazines, catalogs and retail inserts, decreases in pass-through paper sales and lower volume in directories. An analysis of net sales by reporting unit follows:

- Magazines, catalogs and retail inserts: Sales decreased due to reduced volume, price pressures primarily in catalogs and magazines and a decrease in pass-through paper sales.
- Books: Sales decreased as a result of reduced volume in educational books primarily as a result of a shift in product types funded by states for educational materials, decreased volume in consumer books, partially offset by growth in packaging and book fulfillment.
- Directories: Sales decreased primarily as a result of lower volume as a result of electronic substitution, a decline in pass-through paper sales and price pressures.

Publishing and Retail Services segment income from operations decreased $23.5 million for the year ended December 31, 2014 due to price pressures primarily in magazines, catalogs and retail inserts and volume declines in magazines, catalogs and retail inserts, educational books and directories. These decreases were partially offset by cost control initiatives, lower restructuring, impairment and other charges and lower depreciation and amortization expense. Operating margins decreased from 3.9% for the year ended December 31, 2013 to 3.3% for the year ended December 31, 2014. While lower restructuring, impairment and other charges improved operating margins by 0.8 percentage points, the remaining decline in operating margins was due to price pressures primarily in magazines, catalogs and retail inserts and volume declines in magazines, catalogs and retail inserts, educational books and directories, partially offset by cost control initiatives and lower depreciation and amortization expense.

Variable Print

	Year Ended December 31 2014	2013
	(in millions, except percentages)	
Net sales	$3,767.9	$2,592.8
Income from operations	240.8	197.9
Operating margin	6.4 %	7.6 %
Purchase accounting inventory adjustments	14.3	-
Restructuring and impairment and other charges--net	44.8	15.6
Acquisition-related expenses	0.1	-

Reporting unit	Net Sales for the Year Ended December 31 2014	2013	$ Change	% Change
	(in millions, except percentages)			
Commercial and digital print	$1,616.4	$722.9	$893.5	123.6 %
Direct mail	599.5	548.7	50.8	9.3 %
Office products	496.3	238.9	257.4	107.7 %
Labels	436.4	432.5	3.9	0.9 %
Statement printing	390.4	396.5	(6.1)	(1.5 %)
Forms	228.9	253.3	(24.4)	(9.6 %)
Total Variable Print	$3,767.9	$2,592.8	$1,175.1	45.3 %

Net sales for the Variable Print segment for the year ended December 31, 2014 were $3,767.9 million, an increase of $1,175.1 million, or 45.3%, compared to 2013, including a $5.3 million, or 0.1% decrease due to changes in foreign exchange rates. Net sales increased due to the acquisitions of Consolidated Graphics and Esselte and higher volume in direct mail, in-store marketing materials and office products, partially offset by price pressures and lower volume in forms and statement printing. An analysis of net sales by reporting unit follows:

- Commercial and digital print: Sales increased due to the acquisition of Consolidated Graphics and higher volume of in-store marketing materials, partially offset by price pressures.
- Direct mail: Sales increased due to the acquisition of Consolidated Graphics and higher volume, partially offset by price pressures.
- Office products: Sales increased due to the acquisition of Esselte and higher volume in binder and note-taking products.
- Labels: Sales increased due to higher volume, partially offset by price pressures.
- Statement printing: Sales decreased as a result of price pressures and lower volume from existing customers, partially offset by higher pass-through postage sales.
- Forms: Sales decreased due to lower volume, primarily as a result of electronic substitution.

Variable Print segment income from operations increased $42.9 million for the year ended December 31, 2014 mainly due to higher volume resulting from the acquisitions of Consolidated Graphics and Esselte and cost control initiatives, partially offset by higher depreciation and amortization expense, higher restructuring, impairment and other charges, volume declines, price pressures, $14.3 million of charges resulting from purchase accounting inventory adjustments from the Consolidated Graphics and Esselte acquisitions and higher incentive compensation expense. Operating margins decreased from 7.6% for the year ended December 31, 2013 to 6.4% for the year ended December 31, 2014, of which 1.1 percentage points were due to higher restructuring, impairment and other charges and 0.6 percentage points were due to the purchase accounting inventory adjustments. These decreases were offset by higher volume resulting from the acquisitions of Consolidated Graphics and Esselte and cost control initiatives.

Strategic Services

	Year Ended December 31 2014	2013
	(in millions, except percentages)	
Net sales	$2,607.5	$2,453.0
Income from operations	257.4	232.8
Operating margin	9.9 %	9.5 %
Restructuring and impairment and other charges--net	11.6	19.2

Reporting unit	Net Sales for the Year Ended December 31 2014	2013	$ Change	% Change
	(in millions, except percentages)			
Logistics	$ 1,193.3	$ 1,084.3	$ 109.0	10.1 %
Financial	1,014.5	1,005.3	9.2	0.9 %
Sourcing	214.9	177.5	37.4	21.1 %
Digital and creative solutions	184.8	185.9	(1.1)	(0.6 %)
Total Strategic Services	$ 2,607.5	$ 2,453.0	$ 154.5	6.3 %

Net sales for the Strategic Services segment for the year ended December 31, 2014 were $2,607.5 million, an increase of $154.5 million, or 6.3%, compared to the year ended December 31, 2013, including a $1.7 million, or 0.1%, decrease due to changes in foreign exchange rates. Net sales increased primarily due to higher volume in logistics and commercial print sourcing products, partially offset by a decline in compliance volume. An analysis of net sales by reporting unit follows:

- Logistics: Sales increased primarily due to higher volume in freight brokerage services, international mail services, co-mail services and print logistics, partially offset by lower pass through postage sales, a decrease in fuel surcharges and lower volume in expedited mail services.
- Financial: Sales increased slightly due to an increase in capital markets transactions activity, translation services and investment management products volume, largely offset by lower compliance volume.
- Sourcing: Sales increased due to higher print-management volume primarily in commercial print.
- Digital and creative solutions: Sales decreased slightly due to lower volume in digital content creation and distribution, creative and photo services.

Strategic Services segment income from operations increased $24.6 million for the year ended December 31, 2014 due to higher volume in logistics, lower restructuring and impairment charges, a gain on the sale of a building and royalties for the licensing of intellectual property, partially offset by higher costs of transportation, the prior year reversals of earnouts from acquisitions and higher depreciation and amortization expense. Operating margins increased from 9.5% to 9.9% of which 0.3 percentage points were due to lower restructuring, impairment and other charges. The remainder of the increase was due to a favorable mix in logistics, a gain on the sale of a building and royalties for the licensing of intellectual property, partially offset by an increase in transportation costs.

International

	Year Ended December 31 2014		2013	
	(in millions, except percentages)			
Net sales	$ 2,595.7		2,659.7	
Income from operations	106.7		147.3	
Operating margin	4.1	%	5.5	%
Restructuring and impairment and other charges--net	22.3		18.9	
Acquisition related expenses	0.4		0.2	

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Reporting unit	Net Sales for the Year Ended December 31 2014	2013	$ Change	% Change
	(in millions, except percentages)			
Asia	$ 743.7	$ 743.4	$ 0.3	0.0 %
Business process outsourcing	467.0	491.7	(24.7)	(5.0 %)
Latin America	440.6	511.7	(71.1)	(13.9 %)
Europe	383.7	373.6	10.1	2.7 %
Global Turnkey Solutions	341.7	305.4	36.3	11.9 %
Canada	219.0	233.9	(14.9)	(6.4 %)
Total International	$ 2,595.7	$ 2,659.7	$ (64.0)	(2.4 %)

Net sales in the International segment for the year ended December 31, 2014 were $2,595.7 million, a decrease of $64.0 million, or 2.4%, compared to the same period in 2013, including a $40.8 million, or 1.5%, decrease due to changes in foreign exchange rates. The net sales decrease was due to price pressures in Asia, the impact of dispositions in business process outsourcing, the bankruptcy liquidation of RRDA and lower pass-through print management volume in business process outsourcing. These decreases were partially offset by price increases driven by inflation in Latin America, higher volume in Global Turnkey Services, increased volume in Asia, the acquisition of Consolidated Graphics and higher pass-through paper sales in Europe. An analysis of net sales by reporting unit follows:

- Asia: Sales increased slightly due to higher volume in labels, book exports and packaging products, mostly offset by price pressures.
- Business process outsourcing: Sales decreased due to a decrease in pass-through print management volume in part due to customer losses, the sale of GRES in the first quarter of 2014, the sale of MRM France during the fourth quarter of 2013 and price pressures, partially offset by higher outsourcing volume and changes in foreign exchanges rates.
- Latin America: Sales decreased due to changes in foreign exchange rates across the region and the bankruptcy liquidation of RRDA, a subsidiary of the Company, partially offset by price increases driven by inflation primarily in Venezuela.
- Europe: Sales increased due to the acquisition of Consolidated Graphics and an increase in pass-through paper sales, partially offset by price pressures.
- Global Turnkey Solutions: Sales increased due to higher volume in part due to a new customer, partially offset by price pressures.
- Canada: Sales decreased primarily due to changes in foreign exchange rates, partially offset by higher labels volume.

International segment income from operations decreased $40.6 million primarily due to price pressures primarily in Asia, wage inflation primarily in Latin America and Asia and changes in foreign exchange rates, partially offset by higher volume in Asia, higher outsourcing volume in business process outsourcing, the acquisition of Consolidated Graphics and cost control initiatives. Operating margins decreased from 5.5% to 4.1% due to price pressures and wage inflation in Latin America and Asia, partially offset by higher volume resulting from the acquisition of Consolidated Graphics and cost control initiatives.

Corporate

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

	Year Ended December 31	
	2014	2013
	(in millions)	
Operating expenses	$ 175.1	$ 107.9
Restructuring and impairment charges	4.3	6.1
Acquisition-related expenses	8.1	5.7
Pension settlement charges	95.7	-

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Corporate operating expenses in the year ended December 31, 2014 were $175.1 million, an increase of $67.2 million compared to the same period in 2013. The increase was driven by pension settlement charges of $95.7 million, higher bad debt expense and long-term compensation expense offset by lower healthcare costs.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2013 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2012

	Income from Operations	Operating Margin	Net Earnings Attributable to RR Donnelley Common Shareholders	Net Earnings Attributable to RR Donnelley Shareholders Per Diluted Share
	(in millions, except margin and per share data)			
For the year ended December 31, 2012	$(369.8)	(3.6%)	$(651.4)	$(3.61)
2013 restructuring, impairment and other charges - net	(133.5)	(1.3%)	(88.2)	(0.48)
2012 restructuring, impairment and other charges - net	1,118.5	10.9%	981.9	5.44
Acquisition-related expenses	(3.4)	(0.1%)	(3.0)	(0.02)
2012 gain on pension curtailment	(3.7)	(0.0%)	(2.8)	(0.02)
2013 loss on disposal of business	—	—	(12.3)	(0.07)
Loss on investments	—	—	(1.0)	(0.01)
2013 Venezuela devaluation	—	—	(1.0)	(0.01)
Loss on debt extinguishment	—	—	(43.3)	(0.23)
Income tax adjustments	—	—	60.9	0.33
Operations	(28.4)	(0.4%)	(28.6)	(0.17)
For the year ended December 31, 2013	$579.7	5.5%	$ 211.2	$ 1.15

2013 restructuring, impairment and other charges—net: included pre-tax charges of $40.4 million for employee termination costs primarily related to the closing of two manufacturing facilities within the Publishing and Retail Services segment and one manufacturing facility within the Variable Print segment and the reorganization of certain operations; $38.4 million for other estimated charges related to the decision to partially withdraw from certain multi-employer pension plans; $33.8 million of lease termination and other restructuring costs, of which $14.7 million related to multi-employer pension plan withdrawal charges primarily attributable to manufacturing facility closures; $17.6 million for impairment of other long-lived assets, primarily for buildings and machinery and equipment associated with facility closures and charges of $3.3 million for the impairment of other intangible assets in the financial reporting unit within the Strategic Services segment.

2012 restructuring, impairment and other charges—net: included charges of $848.4 million for the impairment of goodwill within the magazines, catalogs and retail inserts, books, digital and creative solutions, Europe, financial and commercial and digital print reporting units; $158.0 million for the impairment of other intangible assets within the books, magazines, catalogs and retail inserts, Latin America and commercial and digital print reporting units; pre-tax charges of $66.6 million for employee termination costs primarily related to the reorganization of sales and administrative functions across all segments and the closing of three manufacturing facilities within the Variable Print segment, two manufacturing facilities within the Publishing and Retail Services segment and one manufacturing facility within the International segment; $25.3 million of lease termination and other restructuring costs; and $20.2 million for impairment of other long-lived assets, primarily for machinery and equipment associated with facility closures and other asset disposals.

Acquisition-related expenses: included pre-tax charges of $5.9 million ($5.2 million after-tax) related to legal, accounting and other expenses for the year ended December 31, 2013 associated with acquisitions contemplated or completed in subsequent periods. For the year ended December 31, 2012, these pre-tax charges were $2.5 million ($2.2 million after-tax).

2012 gain on pension curtailment: included a pre-tax gain of $3.7 million ($2.8 million after-tax) for the year ended December 31, 2012, related to the remeasurement of the U.K. pension plan's assets and obligations that was required with the announced freeze on further benefit accruals as of December 31, 2012.

2013 loss on disposal of business: included a pre-tax loss on the disposal of the MRM France direct mail business in the International segment of $17.9 million ($12.3 million after-tax).

Loss on investments: included pre-tax impairment losses on equity investments of $5.5 million ($3.6 million after-tax) for the year ended December 31, 2013 and $4.1 million ($2.6 million after-tax) for the year ended December 31, 2012.

2013 Venezuela devaluation: currency devaluation in Venezuela resulted in a pre-tax loss of $3.2 million ($2.0 million after-tax), of which $1.0 million was included in income attributable to noncontrolling interests.

Loss on debt extinguishment: included a pre-tax loss of $81.9 million ($53.9 million after-tax) for the year ended December 31, 2013, related to the premiums paid, unamortized debt issuance costs and other expenses due to the repurchase of $273.5 million of the 6.125% senior notes due January 15, 2017, $250.0 million of the 7.25% senior notes due May 15, 2018, $130.2 million of the 8.60% senior notes due August 15, 2016 and $100.0 million of the 5.50% senior notes due May 15, 2015. For the year ended December 31, 2012, a pre-tax loss on debt extinguishment of $16.1 million ($10.6 million after-tax) was recognized due to the repurchase of $341.8 million of the 4.95% senior notes due April 1, 2014 and $100.0 million of the 5.50% senior notes due May 15, 2015 as well as the termination of the Previous Credit Agreement. The loss consisted of $27.2 million related to the premiums paid, unamortized debt issuance costs and other expenses, partially offset by the elimination of $11.1 million of the fair value adjustment on the 4.95% senior notes.

Income tax adjustments: included the recognition of a $58.5 million benefit related to the decline in value and reorganization of certain entities within the Publishing and Retail Services segment and a $7.2 million benefit for previously unrecognized tax benefits related to the expected resolution of certain federal tax matters for the year ended December 31, 2013. For the year ended December 31, 2012, income tax adjustments included the recognition of $26.1 million of previously unrecognized tax benefits due to the resolution of certain U.S. federal uncertain tax positions and a $22.4 million benefit related to the decline in value and reorganization of certain entities within the International segment, partially offset by a valuation allowance provision of $32.7 million on certain deferred tax assets in Latin America and an $11.0 million provision related to certain foreign earnings no longer considered to be permanently reinvested.

Operations: reflected price pressures, wage and other inflation in Latin America and Asia, an increase in incentive compensation expense, a decline in pension and other postretirement benefits plan income, the $22.7 million prior year adjustments to net sales to correct an over-accrual of rebates owed to certain office products customers, lower volume and unfavorable mix within commercial and digital print and directories and lower recoveries on print-related by-products, partially offset by price increases driven by inflation in Latin America, lower depreciation and amortization expense, an increase in capital markets transactions activity, the suspension of the Company’s 401(k) match, cost savings from restructuring activities, higher volume and favorable mix within Asia, books and logistics and reduced healthcare costs. Income tax expense for the year ended December 31, 2013 reflected the release of valuation allowances on certain deferred tax assets and the recognition of previously unrecognized tax benefits related to certain state tax matters. See further details in the review of operating results by segment that follows below.

Consolidated

	2013	2012	$ Change	% Change
	(in millions, except percentages)			
Products net sales	$8,765.8	$8,835.1	$(69.3)	(0.8%)
Services net sales	1,714.5	1,386.8	327.7	23.6%
Total net sales	10,480.3	10,221.9	258.4	2.5%
Products cost of sales (exclusive of depreciation and amortization)	6,816.9	6,874.2	(57.3)	(0.8%)
Services cost of sales (exclusive of depreciation and amortization)	1,332.9	1,014.8	318.1	31.3%
Total cost of sales	8,149.8	7,889.0	260.8	3.3%
Products gross profit	1,948.9	1,960.9	(12.0)	(0.6%)
Services gross profit	381.6	372.0	9.6	2.6%
Total gross profit	2,330.5	2,332.9	(2.4)	(0.1%)

Selling, general and administrative expenses (exclusive of depreciation and amortization)	1,181.5	1,102.6	78.9	7.2 %
Restructuring, impairment and other charges—net	133.5	1,118.5	(985.0)	(88.1 %)
Depreciation and amortization	435.8	481.6	(45.8)	(9.5 %)
Income (loss) from operations	$ 579.7	$ (369.8)	$ 949.5	nm

Net sales of products for the year ended December 31, 2013 decreased $69.3 million, or 0.8%, to $8,765.8 million versus the same period in the prior year, including a $14.2 million, or 0.2%, decrease due to the impact of changes in foreign exchange rates. Net sales of products decreased primarily due to lower sales in the Publishing and Retail Services and Variable Print segments, as a result of lower volume and unfavorable mix, price pressures, lower pass-through paper sales and the $22.7 million prior year adjustments to net sales to correct for an over-accrual of rebates owed to certain office products customers. Net sales of products increased in the International segment due to price increases driven by inflation in Latin America, higher volume and increased pass-through paper sales in Asia and favorable mix and higher volume in Global Turnkey Solutions, partially offset by customer losses, primarily resulting in a decline in pass-through print management volume within business process outsourcing. Net sales of products also increased in the Strategic Services segment due to an increase in capital markets transactions activity.

Net sales from services for the year ended December 31, 2013 increased $327.7 million, or 23.6%, to $1,714.5 million versus the same period in the prior year, including a $2.4 million, or 0.2%, impact of unfavorable changes in foreign exchange rates. The increase in net sales from services was primarily due to the acquisitions of Presort and XPO. Net sales from services also increased as a result of higher freight brokerage services and print logistics volume, an increase in digital and creative solutions volume and higher courier services volume, partially offset by a decline in compliance volume in financial services.

Products gross profit decreased $12.0 million to $1,948.9 million for the year ended December 31, 2013 versus the same period in 2012. During the fourth quarter of 2013, the Company reallocated certain costs between products cost of sales and services cost of sales, resulting in a $40.2 million increase in products gross profit for the year ended December 31, 2013 and corresponding decrease in services gross profit. The remaining decrease in products gross profit was primarily due to price pressures, wage and other inflation in Latin America and Asia, lower volume and unfavorable mix within commercial and digital print and directories, the prior year rebate adjustments, higher incentive compensation expense and lower recoveries on print-related by-products, partially offset by price increases driven by inflation in Latin America, higher volume in Asia and Latin America, an increase in capital markets transactions activity, the suspension of the Company’s 401(k) match, higher volume and favorable mix within books, cost savings from restructuring activities and reduced healthcare costs due to favorable claims experience and lower enrollment. Products gross margin remained constant at 22.2%, reflecting price pressures, wage and other inflation in Latin America and Asia, the prior year rebate adjustments, higher incentive compensation expense, lower recoveries on print-related by-products and unfavorable mix in certain products, offset by higher prices driven by inflation in Latin America, the change in allocation between products and services cost of sales, the suspension of the Company’s 401(k) match, cost savings from restructuring activities, reduced healthcare costs and lower pass-through print management and paper sales.

Services gross profit increased $9.6 million to $381.6 million for the year ended December 31, 2013 versus the same period in 2012 primarily due to higher sales in logistics as a result of volume increases in freight brokerage services and print logistics and the acquisition of XPO, as well as the suspension of the Company’s 401(k) match, reduced healthcare costs due to favorable claims experience and lower enrollment and cost savings from restructuring activities. These increases were partially offset by the change in allocation between products and services cost of sales described above, wage and other inflation and lower volume within business process outsourcing, higher incentive compensation expense and lower compliance volume in financial services. Services gross margin decreased from 26.8% to 22.3%, of which 2.9 percentage points resulted from pass-through postage sales from the acquisition of Presort and 2.3 percentage points resulted from the change in allocation between products and services cost of sales. The resulting increase was due to the suspension of the Company’s 401(k) match, reduced healthcare costs and cost savings from restructuring activities, largely offset by higher incentive compensation expense, wage and other inflation in business process outsourcing and higher organic pass-through postage sales in international mail services.

Selling, general and administrative expenses increased $78.9 million to $1,181.5 million, and from 10.8% to 11.3% as a percentage of net sales, for the year ended December 31, 2013 versus the prior year reflecting a decline in pension and other postretirement benefits plan income, higher incentive compensation expense, wage and other inflation in Latin America and Asia and an increase in bad debt expense, partially offset by the suspension of the Company’s 401(k) match, cost savings from restructuring activities, lower share-based compensation expense and reduced healthcare costs.

For the year ended December 31, 2013, the Company recorded net restructuring, impairment and other charges of $133.5 million compared to $1,118.5 million in 2012. In 2013, these charges included $40.4 million of employee termination costs for 1,382 employees, of whom substantially all were terminated as of December 31, 2014. These charges were the result of the closing of two manufacturing facilities within the Publishing and Retail Services segment and one manufacturing facility within the Variable Print segment and the reorganization of certain operations. Additionally, the Company recorded $38.4 million of other charges for estimated obligations related to the decision to withdraw from certain multi-employer pension plans. For the year ended December 31, 2013, the Company also incurred lease termination and other restructuring charges of $33.8 million, of which $14.7 million related to multi-employer pension plan complete or partial withdrawal charges as a result of facility closures, and $17.6 million of impairment charges primarily related to buildings and machinery and equipment associated with facility closings. In addition, the Company recorded non-cash impairment charges of $3.3 million related to acquired customer relationship intangible assets in the financial reporting unit within the Strategic Services segment.

For the year ended December 31, 2012, the Company recorded net restructuring, impairment and other charges of $1,118.5 million. These charges included non-cash pre-tax charges of $848.4 million for the impairment of goodwill for the magazines, catalogs and retail inserts, books and directories and Europe reporting units under the Previous Organization Structure. The goodwill impairment charges resulted from reductions in the estimated fair value of these reporting units, based on lower expectations for future revenue, profitability and cash flows as compared to expectations as of the previous annual goodwill impairment test. The lower expectations for the magazines, catalogs and retail inserts reporting unit were due to price pressures driven by excess capacity in the industry and erosion of ad pages and circulation for magazines. The lower expectations for the books and directories reporting unit were due to lower demand for educational books as a result of state and local budget constraints, the impact of electronic substitution on consumer book and directory volumes and price pressure driven by excess capacity in the industry. The lower expectations for the Europe reporting unit were due to lower volumes from existing customers and price pressures driven by excess capacity in the industry. Of the $848.4 million goodwill impairment charge recorded in the magazines, catalogs and retail inserts, books and directories and Europe reporting units under the Previous Organization Structure, $669.9 million, $129.9 million, $44.9 million and $3.7 million is now included in the Publishing and Retail Services, Strategic Services, International and Variable Print segments, respectively. In addition, the Company recorded non-cash impairment charges of $158.0 million related to acquired customer relationship intangible assets in the books and directories, magazines, catalogs and retail inserts and Latin America reporting units, under the Previous Organization Structure. For the year ended December 31, 2012, the Company also recorded $66.6 million for workforce reductions of 2,200 employees (all of whom were terminated as of December 31, 2014) associated with actions resulting from the reorganization of sales and administrative functions across all segments, the closing of three manufacturing facilities within the Variable Print segment, two manufacturing facilities within the Publishing and Retail Services segment and one manufacturing facility within the International segment and the reorganization of certain operations. Additionally, the Company incurred other restructuring charges, including lease termination and other facility closure costs of $25.3 million and impairment charges of $20.2 million, primarily related to machinery and equipment associated with facility closings and other asset disposals.

Depreciation and amortization decreased $45.8 million to $435.8 million for the year ended December 31, 2013 compared to the prior year, primarily due to the impairment of $158.0 million of other intangible assets in the fourth quarter of 2012 and the impact of lower capital spending in recent years compared to historical levels. Depreciation and amortization included $64.0 million and $87.6 million of amortization of other intangible assets related to customer relationships, patents, trademarks, licenses and agreements and trade names for the years ended December 31, 2013 and 2012, respectively.

Income from operations for the year ended December 31, 2013 was $579.7 million compared to a loss from operations of $369.8 million for the year ended December 31, 2012. The increase was primarily due to lower restructuring, impairment and other charges, as well as price increases driven by inflation in Latin America, reduced depreciation and amortization expense, an increase in capital markets transactions activity, the suspension of the Company’s 401(k) match, cost savings from restructuring activities, higher volume and favorable mix within Asia, books and logistics and reduced healthcare costs, partially offset by price pressures, wage and other inflation in Latin America and Asia, higher incentive compensation expense, a decline in pension and other postretirement benefits plan income, the prior year rebate adjustments, lower volume and unfavorable mix within commercial and digital print and directories and lower recoveries on print-related by-products.

	2013	2012	$ Change	% Change
	(in millions, except percentages)			
Interest expense—net	$261.4	$251.8	$ 9.6	3.8 %
Investment and other expense—net	27.4	2.3	25.1	1,091.3 %

Loss on debt extinguishment	81.9	16.1	65.8	408.7	%

Net interest expense increased by $9.6 million for the year ended December 31, 2013 versus the prior year, primarily due to lower interest income, higher average interest rates on senior notes and the increase in long-term debt from the issuances of $1,200.0 million of senior notes, net of repurchases of $753.7 million during 2013, partially offset by lower average credit facility borrowings and associated fees.

Net investment and other expense for the years ended December 31, 2013 and 2012 was $27.4 million and $2.3 million, respectively. For the year ended December 31, 2013, the Company recorded a loss on the disposal of the MRM France direct mail business in the International segment of $17.9 million, impairment losses on equity investments of $5.5 million and a $3.2 million loss related to the devaluation of the Venezuelan currency. The year ended December 31, 2012 included an impairment loss on an equity investment of $4.1 million.

Loss on debt extinguishment for the year ended December 31, 2013 was $81.9 million related to the premiums paid, unamortized debt issuance costs and other expenses due to the repurchase of $753.7 million of senior notes. Loss on debt extinguishment for the year ended December 31, 2012 was $16.1 million due to the repurchase in 2012 of $441.8 million of senior notes as well as the termination of the Previous Credit Agreement. The loss consisted of $27.2 million related to the premiums paid, unamortized debt issuance costs and other expenses, partially offset by the elimination of $11.1 million of the fair value adjustment on the repurchased 4.95% senior notes.

	2013	2012	$ Change	% Change
	(in millions, except percentages)			
Income (loss) before income taxes	$209.0	$(640.0)	$849.0	nm
Income tax expense (benefit)	(9.2)	13.6	(22.8)	nm
Effective income tax rate	(4.4%)	(2.1%)		

The effective income tax rate for the year ended December 31, 2013 was negative 4.4% compared to negative 2.1% in 2012. The tax rate in 2013 reflected a $58.5 million benefit related to the decline in value and reorganization of certain entities within the Publishing and Retail Services segment, a benefit of $7.2 million for the recognition of previously unrecognized tax benefits related to the expected resolution of certain federal matters, the release of valuation allowances related to certain deferred tax assets and the recognition of previously unrecognized tax benefits related to the expected resolution of certain state tax matters. Additionally, substantially all the international jurisdictions have a statutory tax rate lower than the U.S. federal tax rate and foreign income constitutes a significant portion of total income before income taxes in 2013, resulting in a decrease in the effective tax rate for the year ended December 31, 2013. The 2012 effective tax rate was impacted by the non-deductible goodwill impairment charges, the recognition of $26.1 million of previously unrecognized tax benefits due to the resolution of certain U.S. federal uncertain tax positions and a $22.4 million benefit related to the decline in value and reorganization of certain entities within the International segment, partially offset by a valuation allowance provision of $32.7 million on certain deferred tax assets in Latin America and a provision of $11.0 million related to certain foreign earnings no longer considered to be permanently reinvested.

Income (loss) attributable to noncontrolling interests was income of $7.0 million for the year ended December 31, 2013 and a loss of $2.2 million for the year ended December 31, 2012. The increase in income attributable to noncontrolling interests was primarily due to an increase in earnings of the Company’s 50.1% owned Venezuelan subsidiary, which included the impact of inflation on prices, partially offset by wage and other cost inflation.

Net income attributable to RR Donnelley common shareholders for the year ended December 31, 2013 was $211.2 million, or $1.15 per diluted share, compared to a net loss attributable to RR Donnelley common shareholders of $651.4 million, or $3.61 per diluted share, for the year ended December 31, 2012. In addition to the factors described above, the per share results reflect an increase in weighted average diluted shares outstanding of 3.1 million.

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 amounts included in the net sales by reporting unit tables and the descriptions of the reporting units included therein generally reflect the primary products or services provided by each reporting unit. Included in these net sales amounts are sales of other products or services that may be produced within a reporting unit to meet customer needs and improve operating efficiency.

Publishing and Retail Services

	Year Ended December 31,			
	2013		2012	
	(in millions, except percentages)			
Net sales	$ 2,774.8		$ 2,919.5	
Income (loss) from operations	109.6		(659.4	)
Operating margin	3.9	%	(22.6	%)
Restructuring, impairment and other charges—net	73.7		846.2	

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Reporting unit	2013 Net Sales	2012 Net Sales	$ Change	% Change
	(in millions, except percentages)			
Magazines, catalogs and retail inserts	$1,724.7	$1,815.4	$(90.7)	(5.0%)
Books	875.2	868.0	7.2	0.8%
Directories	174.9	236.1	(61.2)	(25.9%)
Total Publishing and Retail Services	$2,774.8	$2,919.5	$(144.7)	(5.0%)

Net sales for the Publishing and Retail Services segment for the year ended December 31, 2013 were $2,774.8 million, a decrease of $144.7 million, or 5.0%, compared to 2012. Net sales decreased due to price pressures in catalogs, magazines and retail inserts, decreases in pass-through paper sales and lower volume and unfavorable mix in directories, magazines and educational books, partially offset by volume increases in book fulfillment and packaging and consumer books and favorable pricing in directories and books. An analysis of net sales by reporting unit follows:

- Magazines, catalogs and retail inserts: Sales declined due to price pressures, primarily in magazines and catalogs, reduced volume and unfavorable mix in magazines and decreases in pass-through paper sales.
- Books: Sales increased primarily as a result of volume increases in book fulfillment and packaging and consumer books as well as favorable pricing, partially offset by lower volume and unfavorable mix in educational books.
- Directories: Sales decreased primarily as a result of a decline in pass-through paper sales and lower volume as a result of electronic substitution, partially offset by favorable pricing.

Publishing and Retail Services segment income from operations increased $769.0 million for the year ended December 31, 2013 due to lower restructuring, impairment and other charges, as well as lower depreciation and amortization expense, higher volume and favorable mix in consumer books and book fulfillment and packaging, the suspension of the Company’s 401(k) match, reduced healthcare costs and cost savings from restructuring activities. These increases were partially offset by price pressures, a decline in directories volume, lower recoveries on print-related by-products and higher incentive compensation expense. Operating margins increased from negative 22.6% for the year ended December 31, 2012 to positive 3.9% for the year ended December 31, 2013, of which 26.5 percentage points were due to lower restructuring, impairment and other charges. The remaining change in operating margin was due to price declines, lower recoveries on print-related by-products, higher incentive compensation expense and unfavorable mix, largely offset by lower depreciation and amortization expense, the suspension of the Company’s 401(k) match, reduced healthcare costs, cost savings from restructuring activities and a decline in pass-through paper sales.

Variable Print

	Year Ended December 31, 2013	2012
	(in millions, except percentages)	
Net sales	$ 2,592.8	$ 2,637.2
Income from operations	197.9	202.1
Operating margin	7.6%	7.7%
Restructuring, impairment and other charges—net	15.6	29.6

Reporting unit	2013 Net Sales	2012 Net Sales	$ Change	% Change
	(in millions, except percentages)			
Commercial and digital print	$722.9	$743.9	$(21.0)	(2.8%)
Direct mail	548.7	534.4	14.3	2.7%
Labels	432.5	422.7	9.8	2.3%
Statement printing	396.5	396.5	—	—%
Forms	253.3	277.2	(23.9)	(8.6%)
Office products	238.9	262.5	(23.6)	(9.0%)
Total Variable Print	$2,592.8	$2,637.2	$(44.4)	(1.7%)

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Net sales for the Variable Print segment for the year ended December 31, 2013 were $2,592.8 million, a decrease of $44.4 million, or 1.7%, compared to 2012. Net sales decreased due to lower volume and unfavorable mix within commercial and digital print and forms, the $22.7 million prior year adjustments to net sales to correct for an over-accrual of rebates owed to certain office products customers and price declines. These decreases were partially offset by sales from the acquisition of Meisel and an increase in labels and direct mail volume. An analysis of net sales by reporting unit follows:

- Commercial and digital print: Sales decreased due to lower commercial products volume from existing customers and unfavorable mix, lower print and fulfillment volume and a decline in pass-through postage sales, partially offset by sales from the acquisition of Meisel.
- Direct mail: Sales increased as a result of higher volume and increased pass-through postage sales, partially offset by price declines.
- Labels: Sales increased due to higher volume, primarily for consumer goods, partially offset by price pressures.
- Statement printing: Sales remained constant as a result of higher volume, offset by lower pass-through postage sales and price declines.
- Forms: Sales decreased due to lower volume, primarily as a result of electronic substitution, and price pressures.
- Office products: Sales decreased as a result of the prior year rebate adjustments and price declines, partially offset by an increase in binder products volume.

Variable Print segment income from operations decreased $4.2 million for the year ended December 31, 2013 mainly driven by the prior year rebate adjustments, lower volume and unfavorable mix within commercial and digital print, price pressures and higher incentive compensation expense, partially offset by lower restructuring, impairment and other charges, cost savings from restructuring activities, lower information technology expense, the suspension of the Company’s 401(k) match and reduced healthcare costs. Operating margins decreased slightly from 7.7% for the year ended December 31, 2012 to 7.6% for the year ended December 31, 2013, due to the prior year rebate adjustments, price declines, unfavorable mix and higher incentive compensation expense, largely offset by lower restructuring, impairment and other charges, cost savings from restructuring activities, reduced information technology expense, the suspension of the Company’s 401(k) match and reduced healthcare costs.

Strategic Services

	Year Ended December 31,			
	2013		2012	
	(in millions, except percentages)			
Net sales	$ 2,453.0		$ 2,065.4	
Income from operations	232.8		59.0	
Operating margin	9.5	%	2.9	%
Restructuring, impairment and other charges—net	19.2		146.6	
Gain on pension curtailment	—		1.0	

Reporting unit	2013 Net Sales	2012 Net Sales	$ Change	% Change	
	(in millions, except percentages)				
Logistics	$ 1,084.3	$754.1	$ 330.2	43.8	%
Financial	1,005.3	970.4	34.9	3.6	%
Digital and creative	185.9	173.1	12.8	7.4	%

solutions					
Sourcing	177.5	167.8	9.7	5.8	%
Total Strategic Services	$ 2,453.0	$ 2,065.4	$ 387.6	18.8	%

Net sales for the Strategic Services segment for the year ended December 31, 2013 were $2,453.0 million, an increase of $387.6 million, or 18.8%, compared to 2012, including a $2.9 million, or 0.1%, decrease due to changes in foreign exchange rates. Net sales increased primarily due to sales from acquisitions, including incremental pass-through postage revenue, as well as an increase in capital markets transactions activity and volume increases in freight brokerage services, print logistics, digital and creative solutions and courier services, partially offset by a decline in compliance volume in financial. An analysis of net sales by reporting unit follows:

- Logistics: Sales increased primarily due to the acquisition of Presort, which included pass-through postage sales, the acquisition of XPO, higher volume in freight brokerage services, print logistics and courier services, higher pass-through postage sales for international mail services and higher co-mail services volume, partially offset by a decrease in expedited and organic international mail services volume.

· Financial: Sales increased due to an increase in capital markets transactions activity and sales from the acquisition of Edgar Online, partially offset by lower compliance volume, lower volume and price pressures in investment management products, a decline in pass-through postage sales and changes in foreign exchange rates.
· Digital and creative solutions: Sales increased due to higher photography, creative and prepress services volume, partially offset by price pressures in prepress services.
· Sourcing: Sales increased due to higher print-management volume in labels and commercial and digital print products.

Strategic Services segment income from operations increased $173.8 million for the year ended December 31, 2013 mainly driven by lower restructuring, impairment and other charges, an increase in capital markets transactions activity, higher volume in logistics, cost savings from restructuring activities and the suspension of the Company's 401(k) match. These increases were partially offset by higher incentive compensation expense, higher depreciation and amortization expense, primarily due to an increase in software amortization expense and an increase in depreciation expense for acquired assets, and unfavorable mix in digital and creative solutions. Operating margins increased from 2.9% to 9.5%, of which 6.2 percentage points were due to lower restructuring, impairment and other charges. Additionally, changes in operating margin reflected a decrease of 0.8 percentage points resulting from the impact of pass-through postage sales from the acquisition of Presort. The remaining increase in operating margins reflected cost savings from restructuring activities and the suspension of the Company's 401(k) match, partially offset by higher incentive compensation expense, higher depreciation and amortization expense and unfavorable mix in digital and creative solutions.

International

	Years Ended December 31,	
	2013	2012
	(in millions, except percentages)	
Net sales	$ 2,659.7	$ 2,599.8
Income from operations	147.3	91.6
Operating margin	5.5 %	3.5 %
Restructuring, impairment and other charges—net	18.9	65.7
Gain on pension curtailment	—	2.7
Acquisition-related expenses	0.2	—

Reporting unit	2013 Net Sales	2012 Net Sales	$ Change	% Change
	(in millions, except percentages)			
Asia	$743.4	$650.9	$92.5	14.2 %
Latin America	511.7	474.2	37.5	7.9 %
Business process outsourcing	491.7	596.3	(104.6)	(17.5 %)
Europe	373.6	358.3	15.3	4.3 %
Global Turnkey Solutions	305.4	289.8	15.6	5.4 %
Canada	233.9	230.3	3.6	1.6 %
	$2,659.7	$2,599.8	$59.9	2.3 %

Total
International

Net sales in the International segment for the year ended December 31, 2013 were $2,659.7 million, an increase of $59.9 million, or 2.3%, compared to the same period in 2012, including a $13.4 million, or 0.5%, decrease due to changes in foreign exchange rates. The net sales increase was due to price increases driven by inflation and higher volume in Latin America, increased book export and packaging products and technology manuals volume in Asia, higher pass-through paper sales in Asia and Europe and favorable mix and increased volume within Global Turnkey Solutions, partially offset by lower pass-through print management sales and lower volume within business process outsourcing and price pressures. An analysis of net sales by reporting unit follows:

Asia: Sales increased due to higher book export volume, increased pass-through paper sales, higher volume in packaging products and technology manuals and changes in foreign exchange rates, partially offset by price pressures.
Latin America: Sales increased primarily due to price increases driven by inflation, as well as higher volume in security products, catalogs, magazines and labels, partially offset by changes in foreign exchange rates.
Business process outsourcing: Sales decreased due to customer losses, primarily impacting pass-through print management volume, as well as in real estate and outsourcing services, lower volume in direct mail, including the impact of the disposition of the MRM France business, and changes in foreign exchange rates.

Europe: Sales increased due to higher volume in print and packaging, retail inserts and magazines, changes in foreign exchange rates and an increase in pass-through paper sales, partially offset by a decline in technology manuals and directories volume and price pressures.
Global Turnkey Solutions: Sales increased due to favorable mix, higher volume and changes in foreign exchange rates, partially offset by price pressures.
Canada: Sales increased due to an increase in labels and statement printing volume, largely offset by changes in foreign exchange rates.

International segment income from operations increased $55.7 million primarily due to price increases driven by inflation and higher volume in Latin America, lower restructuring, impairment and other charges, higher volume in Asia, cost savings from restructuring activities and reduced depreciation and amortization expense, partially offset by wage and other inflation in Latin America, Asia and business process outsourcing, price pressures, higher incentive compensation expense, higher information technology costs and an increase in bad debt expense. Operating margins increased from 3.5% for the year ended December 31, 2012 to 5.5% for the year ended December 31, 2013, of which 1.8 percentage points were due to lower restructuring, impairment and other charges. The remainder of the increase reflected price increases driven by inflation in Latin America, cost savings from restructuring activities, lower pass-through print management sales, reduced depreciation and amortization expense and favorable mix, partially offset by wage and other inflation, price pressures and an increase in incentive compensation expense.

Corporate

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

	Years Ended December 31,	
	2013	2012
	(in millions)	
Operating expenses	$ 107.9	$ 63.1
Restructuring, impairment and other charges—net	6.1	30.4
Acquisition-related expenses	5.7	2.5

Corporate operating expenses in the year ended December 31, 2013 were $107.9 million, an increase of $44.8 million compared to the same period in 2012. The increase was driven by lower pension and other postretirement benefits plan income, an increase in workers' compensation expense, higher LIFO inventory provisions, an increase in bad debt expense and higher incentive compensation expense, partially offset by lower restructuring, impairment and other charges, lower share-based compensation expense and the suspension of the Company's 401(k) match.

LIQUIDITY AND CAPITAL RESOURCES

The Company believes it has sufficient liquidity to support its ongoing operations and to invest in future growth to create value for its shareholders. Operating cash flows and the Company's $1.5 billion senior secured revolving credit facility (the "Credit Agreement") are the Company's primary sources of liquidity and are expected to be used for, among other things, payment of interest and principal on the Company's long-term debt obligations, distributions to shareholders that may be approved by the Board of Directors, acquisitions, capital expenditures necessary to support productivity improvement and growth and completion of restructuring programs.

The following describes the Company's cash flows for the years ended December 31, 2014, 2013 and 2012.

Cash Flows From Operating Activities

Operating cash inflows are largely attributable to sales of the Company's products and services. Operating cash outflows are largely attributable to recurring expenditures for raw materials, labor, rent, interest, taxes and other operating activities.

2014 compared to 2013

Net cash provided by operating activities was $722.7 million for the year ended December 31, 2014, compared to $694.8 million for the year ended December 31, 2013. The increase in net cash provided by operating activities reflected timing of supplier payments and cash collections, partially offset by an increase in pension and other postretirement benefits plan contributions and higher payments in 2014 related to 2013 incentive compensation.

2013 compared to 2012

Net cash provided by operating activities for the year ended December 31, 2013 was $694.8 million as compared to $691.9 million for the year ended December 31, 2012. The slight increase in net cash provided by operating activities primarily reflected lower pension and other postretirement benefits plan contributions, lower payments in 2013 related to 2012 incentive compensation and the 2013 suspension of the Company’s 401(k) match, partially offset by working capital changes. The Company had a modest increase in working capital in 2013 compared to a significant reduction in 2012. Despite an increase in year-end working capital, the Company’s average working capital requirements in 2013 were lower than in 2012 due to ongoing focus on billing cycle improvement, collections efficiency and inventory management.

Cash Flows From Investing Activities

2014 compared to 2013

Net cash used in investing activities for the year ended December 31, 2014 was $577.2 million compared to $212.4 million for the year ended December 31, 2013. Net cash used for acquisitions was $380.8 million during the year ended December 31, 2014, substantially all related to the acquisitions of Consolidated Graphics, Esselte and MultiCorpora. Capital expenditures were $223.6 million during the year ended December 31, 2014, an increase of $7.0 million as compared to the same period of 2013. Net cash used for dispositions of businesses was $1.6 million for the year ended December 31, 2014, which included cash incentive payments made in connection with the disposal of MRM France offset by net cash proceeds from the dispositions of GRES, Journalism Online and RRDA. Cash provided by investing activities included proceeds from the sale of investments and other assets of $42.7 million, primarily related to facility closures and related property. Cash used in investing activities for the year ended December 31, 2013 included $12.0 million related to cash incentive payments made to the purchaser in connection with the disposal of MRM France.

2013 compared to 2012

Net cash used in investing activities for the year ended December 31, 2013 was $212.4 million compared to $284.8 million for the year ended December 31, 2012. Capital expenditures were $216.6 million during the year ended December 31, 2013, an increase of $10.7 million as compared to the same period of 2012. Additionally, cash used in investing activities reflected $12.0 million related to cash incentive payments made to the purchaser in connection with the disposal of MRM France during the year ended December 31, 2013. Cash used in investing activities for the year ended December 31, 2012 included $126.9 million for the acquisitions of Edgar Online, Meisel, XPO and Presort, partially offset by cash proceeds from the sale of investments and other assets of $50.7 million, primarily related to the sale-leaseback of an office building and related property.

Cash Flows From Financing Activities

2014 compared to 2013

Net cash used in financing activities for the year ended December 31, 2014 was $605.1 million compared to $122.8 million provided in financing activities in the same period in 2013. Cash on hand and borrowings under the Credit Agreement were used to pay $258.2 million of the 4.95% senior notes that matured during the second quarter of 2014. Additionally, during the year ended December 31, 2014, the Company received proceeds of $400.0 million from the issuance of 6.00% senior notes due April 1, 2024, which were used, along with borrowings under the Credit Agreement, to repurchase $211.1 million of the 8.25% senior notes due March 15, 2019, $100.0 million of the 7.25% senior notes due May 15, 2018 and $50.0 million of the 7.625% senior notes due June 15, 2020. The Company also repaid $118.4 million of debt and interest assumed from the Consolidated Graphics acquisition during the year ended December 31, 2014. During the year ended December 31, 2013, the Company received proceeds of $1,197.8 million from the issuance of 7.875% senior notes due March 15, 2021, 7.00% senior notes due February 15, 2022 and 6.50% senior notes due November 15, 2023. Proceeds from the issuances were used to repurchase $273.5 million of the 6.125% senior notes due January 15, 2017, $250.0 million of the 7.25% senior notes due May 15, 2018, $130.2 million of the 8.60% senior notes due August 15, 2016 and $100.0 million of the 5.50% senior notes due May 15, 2015, to reduce borrowing under the Credit Agreement, for general corporate purposes, as well as to provide cash on hand in anticipation of the acquisition of Consolidated Graphics.

2013 compared to 2012

Net cash provided by financing activities for the year ended December 31, 2013 was $122.8 million compared to net cash used in financing activities of $438.0 million in the same period in 2012. During the year ended December 31, 2013, the Company received proceeds of $1,197.8 million from the issuance of 7.875% senior notes due March 15, 2021, 7.00% senior notes due February 15, 2022 and 6.50% senior notes due November 15, 2023. Proceeds from the issuances were used to repurchase $273.5 million of the 6.125% senior notes due January 15, 2017, $250.0 million of the 7.25% senior notes due May 15, 2018, $130.2 million of the 8.60% senior notes due August 15, 2016 and $100.0 million of the 5.50% senior notes due May 15, 2015, to reduce borrowings under the Credit Agreement, for general corporate purposes, as well as to provide cash on hand in anticipation of the acquisition of Consolidated Graphics. Additionally, the Company made payments of $38.0 million for the settlement of foreign exchange forward contracts during the year ended December 31, 2013. During the year ended December 31, 2012, the Company received proceeds of $450.0 million from the issuance of 8.25% senior notes due March 15, 2019, which, along with cash on hand, were used to repurchase $341.8 million of the 4.95% senior notes due April 1, 2014 and $100.0 million of the 5.50% senior notes due May 15, 2015. Additionally, during the year ended December 31, 2012, proceeds from borrowings under the Previous Credit Agreement were used to pay $158.6 million of the 5.625% senior notes that matured during the first quarter of 2012.

Dividends

Cash dividends paid to shareholders totaled $203.1 million, $188.5 million and $187.1 million in 2014, 2013 and 2012, respectively. On January 15, 2015, the Board of Directors of the Company declared a quarterly cash dividend of $0.26 per common share, payable on March 2, 2015 to shareholders of record on February 13, 2015.

The April 11, 2014 amendment to the Credit Agreement increased the allowable annual dividend from $200.0 million to $225.0 million. Additional dividends continue to be allowed subject to certain conditions. The Company's Board of Directors must review and approve future dividend payments and will determine whether to declare additional dividends based on the Company's operating performance, expected future cash flows, debt levels, liquidity needs and investment opportunities.

Contractual Cash Obligations and Other Commitments and Contingencies

The following table quantifies the Company's future contractual obligations as of December 31, 2014:

	Payments Due In						
	Total	2015	2016	2017	2018	2019	Thereafter
	(in millions)						
Debt (a)	$3,636.8	$203.5	$220.7	$251.5	$250.0	$411.1	$ 2,300.0
Interest due on debt (b)	1,702.8	264.5	259.0	232.4	215.7	183.5	547.7
Operating leases (c)	518.0	155.3	106.1	74.3	42.8	31.5	108.0
Multi-employer pension plan withdrawal obligations	260.3	19.5	15.9	15.8	15.8	15.8	177.5
Deferred compensation	120.0	20.1	10.6	18.4	8.4	8.3	54.2
Outsourced services	90.7	57.9	19.8	8.6	2.4	1.9	0.1
Incentive compensation	72.5	72.5	—	—	—	—	—
	60.0	30.0	30.0	—	—	—	—

Pension and other postretirement benefits plan contributions (d)							
Other (e)	79.0	64.6	7.9	4.3	1.1	1.1	—
Total as of December 31, 2014	$6,540.1	$887.9	$670.0	$605.3	$536.2	$653.2	$3,187.5

(a) Excludes a discount of $3.5 million and an adjustment for fair value hedges of $0.8 million related to the Company's 8.25% senior notes due March 15, 2019, which do not represent contractual commitments with a fixed amount or maturity date.

(b) Interest due on debt includes scheduled interest payments, net of $13.1 million of estimated cash receipts from interest rate swaps.

(c) Operating leases include obligations to landlords.

(d) Includes the high end of the estimated range for 2015 and 2016 pension and other postretirement benefits plan contributions and does not include the obligations for subsequent periods, as the Company is unable to reasonably estimate the ultimate amounts.

(e) Other represents contractual obligations for purchases of natural gas ($15.0 million), employee restructuring-related severance payments ($13.0 million) and purchases of property, plant and equipment ($36.5 million). Additionally, the Company has included $2.2 million of uncertain tax liabilities that are classified as current liabilities in the Consolidated Balance Sheets as payments due in 2015. Excluded from the table are $56.3 million of uncertain tax liabilities, as the Company is unable to reasonably estimate the ultimate amount or timing of settlement or other resolution.

LIQUIDITY

The Company maintains cash pooling structures that enable participating international locations to draw on the pools' cash resources to meet local liquidity needs. Foreign cash balances may be loaned from certain cash pools to U.S. operating entities on a temporary basis in order to reduce the Company's short-term borrowing costs or for other purposes.

Cash and cash equivalents were $527.9 million as of December 31, 2014, a decrease of $500.5 million as compared to December 31, 2013. The December 31, 2013 cash and cash equivalents balance included proceeds from the issuance of $350.0 million of 6.50% senior notes in anticipation of the acquisition of Consolidated Graphics.

The Company's cash balances are held in numerous locations throughout the world, including substantial amounts held outside of the United States. Cash and cash equivalents as of December 31, 2014 included $64.4 million in the U.S. and $463.5 million at international locations. During 2015, the Company's foreign subsidiaries are expected to make intercompany payments to the U.S. of approximately $30.0 million from foreign cash balances available at December 31, 2014. These payments, and additional payments up to approximately $250.0 million are expected to be made in 2015 and in future years, will be made in satisfaction of intercompany obligations. The Company has recognized deferred tax liabilities of $2.6 million as of December 31, 2014 related to local taxes on certain foreign earnings that are not considered to be permanently reinvested. Certain other cash balances of foreign subsidiaries may be subject to U.S. or local country taxes if repatriated to the U.S. In addition, repatriation of some foreign cash balances is further restricted by local laws. Management regularly evaluates whether foreign earnings are expected to be permanently reinvested. This evaluation requires judgment about the future operating and liquidity needs of the Company and its foreign subsidiaries. Changes in economic and business conditions, foreign or U.S. tax laws, or the Company's financial situation could result in changes to these judgments and the need to record additional tax liabilities.

Included in cash and cash equivalents of $527.9 million at December 31, 2014 were short-term investments in the amount of $36.2 million, which primarily consist of short-term deposits and money market funds. These investments are with institutions with sound credit ratings and are expected to be highly liquid.

The Company has a senior secured revolving Credit Agreement which was amended effective September 9, 2014 to increase the aggregate revolving commitments of the lenders from $1.15 billion to $1.5 billion and to extend the expiration date from October 15, 2017 to September 9, 2019. Additionally, in order to provide greater flexibility due to the increased size of the Company as a result of the acquisitions of Consolidated Graphics and Esselte, certain terms of the Credit Agreement were amended effective April 11, 2014. For more detail refer to the Credit Agreement and its amendments filed as exhibits to this Annual Report on Form 10-K.

Borrowings under the Credit Agreement bear interest at a base or Eurocurrency rate plus an applicable margin determined at the time of the borrowing. In addition, the Company pays facility commitment fees which fluctuate dependent on the Credit Agreement's credit ratings. The Credit Agreement is used for general corporate purposes, including acquisitions and letters of credit. The Company's obligations under the Credit Agreement are guaranteed by its material and certain other domestic subsidiaries and are secured by a pledge of the equity interests of certain subsidiaries, including most of its domestic subsidiaries, and a security interest in substantially all of the domestic current assets and mortgages of certain domestic real property of the Company.

The Credit Agreement is subject to a number of covenants, including a minimum Interest Coverage Ratio and a maximum Leverage Ratio, as defined 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. There were no borrowings under the Credit Agreement as of December 31, 2014. Based on the Company's results of operations for the year ended December 31, 2014 and existing debt, the

Company would have had the ability to utilize $1.3 billion of the $1.5 billion Credit Agreement and not have been in violation of the terms of the agreement.

The current availability under the Credit Agreement and net available liquidity as of December 31, 2014 is shown in the table below:

Availability	December 31, 2014 (in millions)
Committed Credit Agreement	$ 1,500.0
Availability reduction from covenants	237.3
	$ 1,262.7
Usage	
Borrowings under the Credit Agreement	-
Impact on availability related to outstanding letters of credit	-
	$ -
Current availability at December 31, 2014	$ 1,262.7
Cash	527.9
Net Available Liquidity (a)	$ 1,790.6

(a) Net available liquidity does not include credit facilities of non-U.S. subsidiaries, which are uncommitted facilities

The Company was in compliance with its debt covenants as of December 31, 2014, and expects to remain in compliance based on management's estimates of operating and financial results for 2015 and the foreseeable future. However, declines in market and economic conditions or demand for certain of the Company's products and services could impact the Company's ability to remain in compliance with its debt covenants in future periods. As of December 31, 2014, the Company met all the conditions required to borrow under the Credit Agreement and management expects the Company to continue to meet the applicable borrowing conditions.

The failure of a financial institution supporting the Credit Agreement would reduce the size of the Company's committed facility unless a replacement institution were added. Currently, the Credit Agreement is supported by seventeen U.S. and international financial institutions.

As of December 31, 2014, the Company had $93.7 million in outstanding letters of credit and bank guarantees, of which $56.5 million were issued under the Credit Agreement. The letters of credit issued under the Credit Agreement did not reduce availability under the Credit Agreement as of December 31, 2014, as the amounts issued were less than the reduction in availability from the Leverage Ratio covenant. As of December 31, 2014, the Company also had $178.3 million in other uncommitted credit facilities, primarily outside the U.S. (the "Other Facilities"). As of December 31, 2014, bank acceptance drafts, letters of credit and guarantees of $91.7 million were issued, and reduced availability, under the Company's Other Facilities. Total borrowings under the Credit Agreement and the Other Facilities (the "Combined Facilities") were $2.5 million as of December 31, 2014.

The Company's Standard and Poor's Rating Services ("S&P") and Moody's Investor Service ("Moody's") credit ratings as of December 31, 2014 are shown in the table below:

	S&P	Moody's

Long-term corporate credit rating	BB-, stable outlook	Ba2, negative outlook
Senior unsecured debt	BB-	Ba3
Credit Agreement	BB+	Baa2

As a result of previous downgrades by Moody’s and S&P, the interest rate on the Company’s 11.25% senior notes due February 1, 2019 was 12.75% as of December 31, 2014 and 2013. The applicable margin used in the calculation of interest on borrowings under the Credit Agreement and rate for the related facility commitment fees fluctuate dependent on the Credit Agreement’s credit ratings. The terms and conditions of future borrowings may also be impacted as a result of ratings downgrades.

Acquisitions and Dispositions

During the year ended December 31, 2014, the Company paid $380.8 million of total cash purchase prices, net of cash acquired, substantially all for the acquisitions of Consolidated Graphics, Esselte and MultiCorpora. The Company financed the cash portion of these acquisitions with a combination of cash on hand, including net proceeds from the $350.0 million 6.50% senior note issuance on November 12, 2013, and borrowings under the Credit Agreement.

During the year ended December 31, 2014, the Company sold the assets and liabilities of Journalism Online, a provider of online subscription management services, for net proceeds of $10.7 million, of which $9.5 million was received as of December 31, 2014. The Company also sold the assets and liabilities of GRES, its commercial and residential real estate advisory services, for net proceeds of $1.8 million.

During the year-ended December 31, 2013, the Company sold the assets and liabilities of MRM France, resulting in cash incentive payments due to the purchaser of $18.8 million, of which $16.4 million was paid as of December 31, 2014 with the remaining balance to be paid by January 2016.

Debt Issuances

On March 20, 2014, the Company issued $400.0 million of 6.00% senior notes due April 1, 2024. Interest on the notes is payable semi-annually on April 1 and October 1, and commenced on October 1, 2014. The net proceeds from the offering along with borrowings under the Credit Agreement were used to repurchase $211.1 million of the 8.25% senior notes due March 15, 2019, $100.0 million of the 7.25% senior notes due May 15, 2018 and $50.0 million of the 7.625% senior notes due June 15, 2020.

On November 12, 2013, the Company issued $350.0 million of 6.50% senior notes due November 15, 2023. Interest on the notes is payable semi-annually on May 15 and November 15, and commenced on May 15, 2014. The net proceeds from the offering, along with cash on hand and borrowings under the Credit Agreement, were used to finance the cash portion of the acquisition of Consolidated Graphics.

On August 26, 2013, the Company issued $400.0 million of 7.00% senior notes due February 15, 2022. Interest on the notes is payable semi-annually on February 15 and August 15 of each year, and commenced on February 15, 2014. The net proceeds from the offering were used to repurchase $200.0 million of the 7.25% senior notes due May 15, 2018, $100.0 million of the 5.50% senior notes due May 15, 2015 and $100.0 million of the 6.125% senior notes due January 15, 2017.

On March 14, 2013, the Company issued $450.0 million of 7.875% senior notes due March 15, 2021. Interest on the notes commenced on September 15, 2013 and is payable semi-annually on March 15 and September 15 of each year. The net proceeds from the offering were used to repurchase $173.5 million of the 6.125% senior notes due January 15, 2017, $130.2 million of the 8.60% senior notes due August 15, 2016 and $50.0 million of the 7.25% senior notes due May 15, 2018 and to reduce borrowings under the Credit Agreement.

On March 13, 2012, the Company issued $450.0 million of 8.25% senior notes due March 15, 2019. Interest on the notes commenced on September 15, 2012 and is payable semi-annually on March 15 and September 15 of each year. The net proceeds from the offering and cash on hand were used to repurchase $341.8 million of the 4.95% senior notes due April 1, 2014 and $100.0 million of the 5.50% senior notes due May 15, 2015.

Risk Management

The Company is exposed to interest rate risk on its variable debt and price risk on its fixed-rate debt. At December 31, 2014, the Company’s exposure to rate fluctuations on variable-interest borrowings was $192.5 million, including $190.0 million notional value of interest rate swap agreements (See Note 14, Derivatives, to the Consolidated Financial Statements) and $2.5 million in borrowings under the Company’s Other Facilities. Including the effect of the fixed to floating interest rate swaps, approximately 95% of the Company’s outstanding term debt was comprised of fixed-rate debt as of December 31, 2014.

The Company assesses market risk based on changes in interest rates utilizing a sensitivity analysis that measures the potential loss in earnings, fair values and cash flows based on a hypothetical 10% change in interest rates. Using this sensitivity analysis, such changes would not have a material effect on interest income or expense and cash flows and would change the fair values of fixed-rate debt at December 31, 2014 and 2013 by approximately $102.3 million and $107.3 million, respectively.

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 that borrowings, sales, purchases, revenues, expenses or other transactions are not in the local currency of the subsidiary, the Company is exposed to currency risk and may enter into foreign exchange spot and forward contracts to hedge the currency risk. As of December 31, 2014 and 2013, the aggregate notional amount of outstanding foreign exchange forward contracts was approximately $377.2 million and $372.1 million, respectively (see Note 14, Derivatives, to the Consolidated Financial Statements). Net unrealized gains from these foreign exchange forward contracts were $6.5 million at December 31, 2014. Net unrealized losses from these exchange forward contracts were $1.1 million at December 31, 2013. The Company does not use derivative financial instruments for trading or speculative purposes.

OTHER INFORMATION

Environmental, Health and Safety

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

Litigation and Contingent Liabilities

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

New Accounting Pronouncements

Recently issued accounting standards and their estimated effect on the Company's consolidated financial statements are also described in Note 22, New Accounting Pronouncements, to the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

The Company is exposed to interest rate risk on its variable-rate debt, price risk on its fixed-rate debt and the impact of foreign currency fluctuations in certain countries in which it operates. The Company discusses risk management in various places throughout this document, including discussions in Item 7 of Part II of this Annual Report on Form 10-K concerning Liquidity and Capital Resources and in Note 14, Derivatives, to Consolidated Financial Statements.

Credit Risk

The Company is exposed to credit risk on accounts receivable balances. This risk is mitigated due to the Company's large, diverse customer base, dispersed over various geographic regions and industrial sectors. No single customer comprised more than 10% of the Company's consolidated net sales in 2014, 2013 or 2012. The Company maintains provisions for potential credit losses and such losses to date have normally been within the Company's expectations. The Company evaluates the solvency of its customers on an ongoing basis to determine if additional allowances for doubtful accounts receivable need to be recorded. Significant economic disruptions or a slowdown in the economy could result in significant additional charges.

Commodities

The primary raw materials used by the Company are paper and ink. To reduce price risk caused by market fluctuations, the Company has incorporated price adjustment clauses in certain sales contracts. Management believes a hypothetical 10% change in the price of paper and other raw materials would not have a significant effect on the Company's consolidated annual results of operations or cash flows because these costs are generally passed through to its customers.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial information required by Item 8 is contained in Item 15 of Part IV of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15(b) and Rule 15d-15(e) of the Securities Exchange Act of 1934, the Company's management, including the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of December 31, 2014, an evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that disclosure controls and procedures as of December 31, 2014 were effective in ensuring information required to be disclosed in the Company's SEC reports was recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information was accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that occurred during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Management on Internal Control Over Financial Reporting

The management of the Company, including the Company's Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

Management of the Company, including the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. Management based this assessment on criteria for effective internal control over financial reporting described in the "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management determined that, as of December 31, 2014, the Company maintained effective internal control over financial reporting.

Deloitte & Touche LLP, an independent registered public accounting firm, who audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K , has also audited the effectiveness of the Company's internal control over financial reporting as stated in its report appearing below.

February 25, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

R.R. Donnelley & Sons Company

Chicago, Illinois

We have audited the internal control over financial reporting of R.R. Donnelley & Sons Company and subsidiaries (the "Company") as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014 of the Company and our report dated February 25, 2015 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois

February 25, 2015

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF R.R. DONNELLEY & SONS COMPANY AND CORPORATE GOVERNANCE

Information regarding directors and executive officers of the Company is incorporated herein by reference to the descriptions under "Proposal 1: Election of Directors," "The Board's Committees and their Functions" and "Section 16(a) Beneficial Ownership Reporting Compliance" of the Company's Proxy Statement for the Annual Meeting of Shareholders scheduled to be held May 21, 2015 (the "2015 Proxy Statement"). See also the information with respect to the Company's executive officers at the end of Part I of this Annual Report on Form 10-K under the caption "Executive Officers of R.R. Donnelley & Sons Company."

The Company has adopted a policy statement entitled Code of Ethics that applies to its chief executive officer and senior financial officers. In the event that an amendment to, or a waiver from, a provision of the Code of Ethics is made or granted, the Company intends to post such information on its web site, www.rrdonnelley.com. A copy of the Company's Code of Ethics has been filed as Exhibit 14 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive and director compensation is incorporated by reference to the material under the captions "Compensation Discussion and Analysis," "Human Resources Committee Report," "Executive Compensation," "Potential Payments Upon Termination or Change in Control," and "Director Compensation" of the 2015 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference to the material under the heading "Stock Ownership" of the 2015 Proxy Statement.

Equity Compensation Plan Information

Information as of December 31, 2014 concerning compensation plans under which RR Donnelley's equity securities are authorized for issuance was as follows:

Equity Compensation Plan Information

	Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities

Plan Category	Rights (in thousands) (1)	(2)	Reflected in Column (1)) (in thousands) (3)
Equity compensation plans approved by security holders(a)	7,504.8	$19.43	6,908.9(c)

(a) Includes 3,658,253 shares issuable upon the vesting of restricted stock units.

(b) Restricted stock units were excluded when determining the weighted-average exercise price of outstanding options, warrants and rights.

(c) All of these shares are available for issuance under the 2012 Performance Incentive Plan. The 2012 Performance Incentive Plan allows grants in the form of cash or bonus awards, stock options, stock appreciation rights, restricted stock, stock units or combinations thereof. The maximum number of shares of common stock that may be granted with respect to bonus awards, including performance awards or fixed awards in the form of restricted stock or other form, is 10,000,000 in the aggregate, of which 6,908,926 remain available for issuance.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions and director independence is incorporated herein by reference to the material under the heading “Certain Transactions,” “The Board’s Committees and Their Functions” and “Corporate Governance—Independence of Directors” of the 2015 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding principal accounting fees and services is incorporated herein by reference to the material under the heading “The Company’s Independent Registered Public Accounting Firm” of the 2015 Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

The financial statements listed in the accompanying index (page F-1) to the financial statements are filed as part of this Annual Report on Form 10-K.

(b) Exhibits

The exhibits listed on the accompanying index (pages E-1 through E-3) are filed as part of this Annual Report on Form 10-K.

(c) Financial Statement Schedules omitted

Certain schedules have been omitted because the required information is included in the consolidated financial statements and notes thereto or because they are not applicable or not required.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 25th day of February 2015.

R.R. DONNELLEY & SONS COMPANY

By: / S / Daniel N. Leib
Daniel N. Leib

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on the 25th day of February 2015.

Signature and Title	Signature and Title
/ S / THOMAS J. QUINLAN, III Thomas J. Quinlan, III President and Chief Executive Officer, Director (Principal Executive Officer)	/ S / JUDITH H. HAMILTON * Judith H. Hamilton Director
/ S / DANIEL N. LEIB Daniel N. Leib Executive Vice President and Chief Financial Officer (Principal Financial Officer)	/ S / JEFFREY G. KATZ * Jeffrey G. Katz Director
/ S / ANDREW B. COXHEAD	/ S / RICHARD K. PALMER *

Andrew B. Coxhead	Richard K. Palmer
Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	Director
/ S / SUSAN M. CAMERON * Susan M. Cameron	/ S / JOHN C. POPE * John C. Pope
Director	Chairman of the Board, Director
/ S / RICHARD L. CRANDALL * Richard L. Crandall	/ S / MICHAEL T. RIORDAN * Michael T. Riordan
Director	Director
/ S / SUSAN M. GIANINNO * Susan M. Gianinno	/ S / OLIVER R. SOCKWELL * Oliver R. Sockwell
Director	Director

By: / S / Suzanne S. Bettman
Suzanne S. Bettman

As Attorney-in-Fact

* By Suzanne S. Bettman as Attorney-in-Fact pursuant to Powers of Attorney executed by the directors listed above, which Powers of Attorney have been filed with the Securities and Exchange Commission

ITEM 15(a). INDEX TO FINANCIAL STATEMENTS

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	Year Ended December 31,		
	2014	2013	2012
Products net sales	$9,715.2	$8,765.8	$8,835.1
Services net sales	1,888.2	1,714.5	1,386.8
Total net sales	11,603.4	10,480.3	10,221.9
Products cost of sales (exclusive of depreciation and amortization)	7,581.6	6,816.9	6,874.2
Services cost of sales (exclusive of depreciation and amortization)	1,471.2	1,332.9	1,014.8
Total cost of sales	9,052.8	8,149.8	7,889.0
Products gross profit	2,133.6	1,948.9	1,960.9
Services gross profit	417.0	381.6	372.0
Total gross profit	2,550.6	2,330.5	2,332.9
Selling, general and administrative expenses (exclusive of depreciation and amortization)	1,427.0	1,181.5	1,102.6
Restructuring, impairment and other charges-net (Note 3)	133.7	133.5	1,118.5
Depreciation and amortization	474.0	435.8	481.6
Income (loss) from operations	515.9	579.7	(369.8)
Interest expense-net (Note 13)	282.1	261.4	251.8
Investment and other expense-net	9.6	27.4	2.3
Loss on debt extinguishment	77.1	81.9	16.1
Earnings (loss) before income taxes	147.1	209.0	(640.0)
Income tax expense (benefit) (Note 12)	26.3	(9.2)	13.6
Net earnings (loss)	120.8	218.2	(653.6)
Less: Income (loss) attributable to noncontrolling interests	3.4	7.0	(2.2)
Net earnings (loss) attributable to RR Donnelley common shareholders	$117.4	$	