RR Donnelley & Sons Co
Form 10-Q
August 03, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

Commission File Number 1-4694

R.R. DONNELLEY & SONS COMPANY

(Exact name of registrant as specified in its charter)

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

(312) 326-8000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

As of July 29, 2011, 187.8 million shares of common stock were outstanding.

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R.R. DONNELLEY & SONS COMPANY

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

(UNAUDITED)

	June 30, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 363.0	$ 519.1
Receivables, less allowance for doubtful accounts of $64.9 in 2011 (2010 $71.0)	2,011.0	1,922.9
Income taxes receivable	68.0	49.3
Inventories (Note 3)	580.0	560.6
Prepaid expenses and other current assets	145.7	115.4
Total current assets	3,167.7	3,167.3
Property, plant and equipment net (Note 4)	2,031.5	2,138.7
Goodwill (Note 5)	2,619.5	2,526.8
Other intangible assets net (Note 5)	727.3	775.0
Other noncurrent assets	480.2	475.4
Total assets	$ 9,026.2	$ 9,083.2
LIABILITIES		
Accounts payable	$ 924.7	$ 939.8
Accrued liabilities	815.8	902.2
Short-term and current portion of long-term debt (Note 14)	649.6	131.4
Total current liabilities	2,390.1	1,973.4
Long-term debt (Note 14)	3,427.7	3,398.6
Pension liability	530.0	533.0
Postretirement benefits	220.9	287.4
Deferred income taxes	190.7	174.5
Other noncurrent liabilities	460.1	470.9
Total liabilities	7,219.5	6,837.8
Commitments and contingencies (Note 13)		
EQUITY (Note 9)		
RR Donnelley shareholders equity		
Preferred stock, $1.00 par value		
Authorized: 2.0 shares; Issued: None		
Common stock, $1.25 par value		
Authorized: 500.0 shares;		
Issued: 243.0 shares in 2011 and 2010	303.7	303.7

Additional paid-in capital	2,779.6	2,907.0
Retained earnings	608.7	670.2
Accumulated other comprehensive loss	(375.7)	(490.4)
Treasury stock, at cost, 55.2 shares in 2011 (2010 36.4 shares)	(1,528.9)	(1,166.2)
Total RR Donnelley shareholders equity	1,787.4	2,224.3
Noncontrolling interests	19.3	21.1
Total equity	1,806.7	2,245.4
Total liabilities and equity	$ 9,026.2	$ 9,083.2

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Net sales				
Products	$ 2,356.9	$ 2,157.4	$ 4,623.3	$ 4,328.3
Services	266.5	251.2	583.6	495.4
Total net sales	$ 2,623.4	$ 2,408.6	$ 5,206.9	$ 4,823.7
Products cost of sales (exclusive of depreciation and amortization shown below)	1,777.2	1,636.1	3,504.0	3,296.9
Services cost of sales (exclusive of depreciation and amortization shown below)	204.4	183.5	433.8	364.4
Selling, general and administrative expenses (exclusive of depreciation and amortization shown below)	309.3	268.2	636.2	541.7
Restructuring and impairment charges net (Note 6)	75.7	10.7	126.5	26.2
Depreciation and amortization	140.7	134.8	280.9	273.4
Total operating expenses	2,507.3	2,233.3	4,981.4	4,502.6
Income from operations	116.1	175.3	225.5	321.1
Interest expense net	61.3	52.8	119.2	108.5
Investment and other income (expense) net	10.0	(0.8)	9.8	(9.8)
Loss on debt extinguishment	(68.6)		(68.6)	
Earnings (loss) before income taxes	(3.8)	121.7	47.5	202.8
Income tax expense (benefit)	(16.3)	32.2	0.7	64.6
Net earnings	12.5	89.5	46.8	138.2
Less: Income (loss) attributable to noncontrolling interests	0.3	0.7	0.7	(3.2)
Net earnings attributable to RR Donnelley common shareholders	$ 12.2	$ 88.8	$ 46.1	$ 141.4
Earnings per share attributable to RR Donnelley common shareholders (Note 10):				
Basic net earnings per share	$ 0.06	$ 0.43	$ 0.23	$ 0.69
Diluted net earnings per share	$ 0.06	$ 0.42	$ 0.23	$ 0.68
Dividends declared per common share	$ 0.26	$ 0.26	$ 0.52	$ 0.52
Weighted average number of common shares outstanding (Note 10):				
Basic	196.7	206.3	201.9	206.0
Diluted	199.5	209.9	204.5	209.4

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(UNAUDITED)

	Six Months Ended June 30,	
	2011	**2010**
OPERATING ACTIVITIES		
Net earnings	$ 46.8	$ 138.2
Adjustments to reconcile net earnings to cash provided by operating activities:		
Impairment charges	32.4	2.5
Depreciation and amortization	280.9	273.4
Provision for doubtful accounts receivable	7.5	4.7
Share-based compensation	16.4	16.0
Deferred taxes	(28.6)	(38.6)
Change in uncertain tax positions	(6.1)	
Gain on sale of investments and other assets - net	(12.8)	(0.6)
Loss related to Venezuela currency devaluation		8.9
Loss on debt extinguishment	68.6	
Other	15.1	19.3
Changes in operating assets and liabilities net of acquisitions:		
Accounts receivable net	(75.3)	(56.2)
Inventories	(13.2)	13.9
Prepaid expenses and other current assets	(14.8)	(5.6)
Accounts payable	(30.4)	(34.2)
Income taxes payable and receivable	(22.8)	20.9
Accrued liabilities and other	(95.6)	(93.5)
Net cash provided by operating activities	168.1	269.1
INVESTING ACTIVITIES		
Capital expenditures	(128.2)	(94.5)
Acquisition of businesses, net of cash acquired	(75.4)	1.8
Proceeds from return of capital and sale of investments and other assets	2.1	14.3
Purchases of investments	(7.0)	(23.7)
Transfers from restricted cash	0.1	0.1
Net cash used in investing activities	(208.4)	(102.0)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	600.0	400.0
Net change in short-term debt	4.6	(4.0)
Payments of current maturities and long-term debt	(481.6)	(326.6)
Net proceeds from credit facility borrowings	355.0	
Debt issuance costs	(9.6)	(2.6)
Issuance of common stock	7.1	6.6
Payments for the acquisition of common stock	(500.0)	
Dividends paid	(107.7)	(107.1)
Distributions to noncontrolling interests	(2.2)	(1.6)

Net cash used in financing activities	(134.4)	(35.3)
Effect of exchange rate on cash and cash equivalents	18.6	(15.2)
Net (decrease) increase in cash and cash equivalents	(156.1)	116.6
Cash and cash equivalents at beginning of period	519.1	499.2
Cash and cash equivalents at end of period	$ 363.0	$ 615.8

(See Notes to Condensed Consolidated Financial Statements)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

1. Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements include the accounts of R.R. Donnelley & Sons Company and its subsidiaries (the Company or RR Donnelley) and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the rules and regulations of the United States Securities and Exchange Commission (the SEC). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These unaudited condensed consolidated interim financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods and should be read in conjunction with the consolidated financial statements and the related notes thereto included in the Company s latest Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on February 22, 2011. Operating results for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2011. All significant intercompany transactions have been eliminated in consolidation. These unaudited condensed consolidated interim financial statements include estimates and assumptions of management that affect the amounts reported in the condensed consolidated financial statements. Actual results could differ from these estimates.

2. Acquisitions

2011 Acquisitions

On June 21, 2011, the Company acquired Helium, Inc. (Helium), an online community offering publishers, catalogers and other customers stock and custom content, as well as a comprehensive range of editorial solutions. As the Company previously held a 23.7% equity investment in Helium, the purchase price for the remaining equity of Helium was $57.0 million net of cash acquired of $0.1 million and included an amount due from Helium of $1.1 million. The fair value of the Company s previously held equity investment was $12.8 million, resulting in the recognition of a $10.0 million gain, which is reflected in investment and other income (expense) in the Condensed Consolidated Statements of Operations. The fair value of the previously held equity investment was determined based on the purchase price paid for the remaining equity less an estimated control premium and was determined to be Level 3 under the fair value hierarchy. Other than this gain, the Company s Condensed Consolidated Statements of Operations were not impacted by this acquisition for the three and six months ended June 30, 2011. Helium s operations are included in the U.S. Print and Related Services segment.

On March 24, 2011, the Company acquired Journalism Online, LLC (Journalism Online), an online provider of tools that allow consumers to purchase online subscriptions from publishers. The purchase price for Journalism Online was $19.6 million net of cash acquired of $0.4 million. Journalism Online s operations are included in the U.S. Print and Related Services segment.

The operations of these acquired businesses are complementary to the Company s existing products and services. Journalism Online s Press+ offering provides subscription management and online content payment services that increase the breadth of services the Company offers to its existing base of publishing customers. The ability to bundle Helium s content development solutions with the Company s complete offering of content delivery resources addresses customers needs across the full breadth of the supply chain.

The Journalism Online and Helium acquisitions were recorded by allocating the cost of the acquisitions to the assets acquired, including intangible assets, based on their estimated fair values at the acquisition date. The excess of the cost of the acquisitions and the fair value of the previously-held investments in Helium over the net

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

amounts assigned to the fair value of the assets acquired was recorded as goodwill. The goodwill related to Helium is not tax deductible. Based on the valuations, the final purchase price allocations for these 2011 acquisitions were as follows:

Accounts receivable	$ 0.6
Property, plant and equipment and other long-term assets	3.3
Amortizable intangible assets	0.5
Goodwill	78.8
Accounts payable and accrued liabilities	(0.8)
Deferred taxes-net	7.0
Total purchase price-net of cash acquired	89.4
Less: fair value of Company s previously-held investments in Helium	13.9
Net cash paid	$ 75.5

The fair values of property, plant and equipment, amortizable intangible assets and goodwill associated with the acquisitions of Journalism Online and Helium were determined to be Level 3 under the fair value hierarchy.

2010 Acquisitions

On December 31, 2010, the Company acquired the assets of 8touches, an online provider of tools that allow real estate associates, brokers, Multiple Listing Service (MLS) associations and other marketers to create customized communications materials. The purchase price for 8touches was $1.1 million. 8touches operations are included in the U.S. Print and Related Services segment.

On December 14, 2010, the Company acquired the assets of Nimblefish Technologies (Nimblefish), a provider of multi-channel marketing services to leading retail, technology, telecom, hospitality and other customers. The purchase price for Nimblefish was $3.9 million, including debt assumed of $2.0 million. The Company subsequently repaid $1.9 million of the debt assumed in December 2010. Nimblefish s operations are included in the U.S. Print and Related Services segment.

On November 24, 2010, the Company acquired Bowne & Co., Inc. (Bowne), a provider of shareholder and marketing communication services, with operations in North America, Latin America, Europe and Asia. The purchase price for Bowne was $465.2 million, including debt assumed of $26.2 million and net of cash acquired of $41.4 million. Immediately following the acquisition, the Company subsequently repaid $25.4 million of the debt assumed. Bowne s operations are included in both the U.S. Print and Related Services and International segments.

The operations of these acquired businesses are complementary to the Company s existing products and services. As a result, the additions of these businesses are expected to improve the Company s ability to serve customers and reduce management, real estate and manufacturing costs.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

The Bowne, Nimblefish and 8touches acquisitions were recorded by allocating the cost of the acquisitions to the assets acquired, including intangible assets, based on their estimated fair values at the acquisition date. The excess of the cost of the acquisitions over the net amounts assigned to the fair value of the assets acquired was recorded as goodwill, most of which is not tax deductible. Based on the valuations, the final purchase price allocations for these 2010 acquisitions were as follows:

Accounts receivable	$ 129.0
Inventories	32.1
Prepaid expenses and other current assets	18.1
Property, plant and equipment and other long-term assets	127.3
Amortizable intangible assets	159.8
Goodwill	257.9
Accounts payable and accrued liabilities	(159.7)
Pension benefits and other long-term liabilities	(76.7)
Deferred taxes net	(17.6)
Total purchase price net of cash acquired	470.2
Less: debt assumed	28.2
Net cash paid	$ 442.0

The fair values of property, plant and equipment, goodwill and intangible assets associated with the acquisitions of Bowne, Nimblefish and 8touches were determined to be Level 3 under the fair value hierarchy. Property, plant and equipment values were estimated using dealer quotes and other indicators of current market place conditions. Customer relationships intangible asset values were estimated based on future cash flows and customer attrition rates discounted using an estimated weighted-average cost of capital. The tradename intangible asset value was estimated based on the relief of royalty method.

Pro forma results

The following unaudited pro forma financial information for the three and six months ended June 30, 2011 and 2010 presents the combined results of operations of the Company, Helium, Journalism Online, Bowne, Nimblefish and 8touches as if the acquisitions had occurred at January 1, 2010.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net sales	$ 2,624.2	$ 2,616.4	$ 5,208.6	$ 5,210.5
Net earnings attributable to RR Donnelley common shareholders	20.6	80.2	79.7	116.4

Net earnings per share attributable to RR Donnelley common shareholders:				
Basic	$ 0.10	$ 0.39	$ 0.39	$ 0.57
Diluted	$ 0.10	$ 0.38	$ 0.39	$ 0.56

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

The unaudited pro forma financial information for the three months ended June 30, 2011 and 2010 included $28.8 million and $28.5 million, respectively, for the amortization of purchased intangibles. Amortization of purchased intangibles for the six months ended June 30, 2011 and 2010 was $57.3 million and $57.5 million, respectively. In addition, the unaudited pro forma financial information includes restructuring and impairment charges from operations of $47.8 million and $37.8 million for the three months ended June 30, 2011 and 2010, respectively. Restructuring and impairment charges for the six months ended June 30, 2011 and 2010 were $62.0 million and $89.6 million, respectively. The pro forma adjustments affecting net earnings attributable to RR Donnelley common shareholders for the three and six months ended June 30, 2011 and 2010 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Depreciation and amortization of purchased assets, pre-tax	$ (0.2)	$ (0.1)	$ 1.4	$ (1.5)
Acquisition expenses, pre-tax	0.7	3.1	0.8	5.9
Restructuring and impairment charges, pre-tax	27.9	(24.9)	64.5	(57.1)
Inventory fair value adjustment, pre-tax			3.6	(5.7)
Other pro forma adjustments, pre-tax	(8.1)	(0.6)	(7.2)	6.9
Income taxes	(11.2)	9.7	(27.2)	25.1

3. Inventories

	June 30, 2011	December 31, 2010
Raw materials and manufacturing supplies	$ 258.0	$ 259.6
Work in process	200.5	184.3
Finished goods	215.5	204.7
LIFO reserve	(94.0)	(88.0)
Total	$ 580.0	$ 560.6

4. Property, Plant and Equipment

	June 30, 2011	December 31, 2010
Land	$ 109.9	$ 111.4
Buildings	1,213.6	1,197.9
Machinery and equipment	6,174.8	6,098.8
Property, plant and equipment gross cost	7,498.3	7,408.1
Less: Accumulated depreciation	(5,466.8)	(5,269.4)
Total	$ 2,031.5	$ 2,138.7

During the three and six months ended June 30, 2011, depreciation expense was $106.1 million and $212.3 million, respectively. During the three and six months ended June 30, 2010, depreciation expense was $106.5 million and $216.5 million, respectively.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Assets Held for Sale

Primarily as a result of restructuring actions, certain facilities and equipment are considered held for sale. The net book value of assets held for sale was $7.3 million at June 30, 2011 and $6.5 million at December 31, 2010. These assets were included in other current assets in the Condensed Consolidated Balance Sheets at June 30, 2011 and December 31, 2010 at the lower of their historical net book value or their estimated fair value, less estimated costs to sell.

5. Goodwill and Other Intangible Assets

Goodwill at June 30, 2011 and December 31, 2010 and changes during the six months ended June 30, 2011 were as follows:

Goodwill	U.S. Print and Related Services	International	Total
Net book value at December 31, 2010			
Goodwill	$ 3,141.7	$ 1,298.5	$ 4,440.2
Accumulated impairment losses	(939.2)	(974.2)	(1,913.4)
Total	2,202.5	324.3	2,526.8
Acquisitions	78.8		78.8
Foreign exchange and other adjustments	(0.2)	14.1	13.9
Net book value at June 30, 2011			
Goodwill	3,220.3	1,343.5	4,563.8
Accumulated impairment losses	(939.2)	(1,005.1)	(1,944.3)
Total	$ 2,281.1	$ 338.4	$ 2,619.5

The components of other intangible assets at June 30, 2011 and December 31, 2010 were as follows:

	June 30, 2011			December 31, 2010		
Other Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trademarks, licenses and agreements	$ 29.4	$ (23.6)	$ 5.8	$ 25.7	$ (23.0)	$ 2.7
Patents	98.3	(89.7)	8.6	98.3	(83.6)	14.7
Customer relationship intangibles	1,257.7	(577.6)	680.1	1,244.3	(519.8)	724.5
Trade names	23.3	(8.6)	14.7	22.7	(7.7)	15.0
Total amortizable purchased intangible assets	1,408.7	(699.5)	709.2	1,391.0	(634.1)	756.9
Indefinite-lived trade names	18.1		18.1	18.1		18.1

Total purchased intangible assets	$ 1,426.8	$	(699.5)	$ 727.3	$ 1,409.1	$	(634.1)	$ 775.0

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

During the six months ended June 30, 2011, the Company recorded the following additions to intangible assets:

	Amount	Weighted Average Amortization Period
Trademarks, licenses and agreements	$ 3.8	4.5
Trade names	0.5	5.0
Total additions	$ 4.3	

Amortization expense for other intangible assets was $28.8 million and $24.3 million for the three months ended June 30, 2011 and 2010, respectively, and $57.3 million and $49.0 million for the six months ended June 30, 2011 and 2010, respectively. The estimated annual amortization expense related to intangible assets as of June 30, 2011 is as follows:

For the year ending December 31,	Amount
2011	$ 114.1
2012	101.1
2013	98.4
2014	96.0
2015	88.5
2016 and thereafter	268.4
Total	$ 766.5

6. Restructuring and Impairment Charges

Restructuring and Impairment Costs Charged to Results of Operations

For the three months ended June 30, 2011 and 2010, the Company recorded the following net restructuring and impairment charges:

	Three Months Ended June 30, 2011				Three Months Ended June 30, 2010			
	Employee Terminations	Other Charges	Impairment	Total	Employee Terminations	Other Charges	Impairment	Total
U.S. Print and Related Services	$ 22.0	$ 19.5	$ 23.6	$ 65.1	$ 1.2	$ 1.3	$ 1.0	$ 3.5
International	6.7	2.6	0.5	9.8	4.9	1.3	0.3	6.5
Corporate	0.5	0.1	0.2	0.8		0.5	0.2	0.7
Total	$ 29.2	$ 22.2	$ 24.3	$ 75.7	$ 6.1	$ 3.1	$ 1.5	$ 10.7

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

For the six months ended June 30, 2011 and 2010, the Company recorded the following net restructuring and impairment charges:

	Six Months Ended June 30, 2011				Six Months Ended June 30, 2010			
	Employee Terminations	Other Charges	Impairment	Total	Employee Terminations	Other Charges	Impairment	Total
U.S. Print and Related Services	$ 36.8	$ 36.0	$ 30.5	$ 103.3	$ 4.1	$ 3.3	$ 2.0	$ 9.4
International	14.6	3.4	1.0	19.0	11.3	4.4	0.3	16.0
Corporate	2.6	0.7	0.9	4.2	(0.1)	0.7	0.2	0.8
Total	$ 54.0	$ 40.1	$ 32.4	$ 126.5	$ 15.3	$ 8.4	$ 2.5	$ 26.2

For the three and six months ended June 30, 2011, the Company recorded net restructuring charges of $29.2 million and $54.0 million, respectively, related to employee termination costs for 1,859 employees, of whom 1,106 were terminated as of June 30, 2011. These charges related to the closings of certain facilities and headcount reductions due to the Bowne acquisition, as well as the completed or announced closing of three book and directories manufacturing facilities and one commercial manufacturing facility within the U.S. Print and Related Services segment. Additionally, the Company incurred multi-employer pension plan partial withdrawal charges, lease termination and other restructuring charges of $22.2 million and $40.1 million for the three and six months ended June 30, 2011, respectively. Of this amount, $15.8 million related to multi-employer pension plan partial withdrawal charges primarily attributable to the announced closing of three manufacturing facilities within the U.S. Print and Related Services segment. For the three and six months ended June 30, 2011, the Company also recorded $24.3 million and $32.4 million, respectively, of impairment charges primarily for machinery and equipment and leasehold improvements associated with the facility closings. The fair values of the machinery and equipment and leasehold improvements were determined to be Level 3 under the fair value hierarchy and were estimated based on discussions with machinery and equipment brokers, dealer quotes and internal expertise related to the equipment and current marketplace conditions.

For the three and six months ended June 30, 2010, the Company recorded net restructuring charges of $6.1 million and $15.3 million, respectively, for employee termination costs for 851 employees, all of whom were terminated as of June 30, 2011. These terminations were associated with actions resulting from the reorganization of certain operations, including those within the business process outsourcing and Latin America reporting units. In addition, continuing charges resulting from the closing of two Global Turnkey Solutions manufacturing facilities in 2009 within the International segment were recorded in 2010. These actions also included the reorganization of certain operations within the magazine, catalog and retail insert and variable print reporting units and the closing of one forms and labels manufacturing facility within the U.S. Print and Related Services segment. Additionally, the Company incurred other restructuring charges, including lease termination and other facility closure costs, of $3.1 million and $8.4 million, respectively, for the three and six months ended June 30, 2010. For the three and six months ended June 30, 2010, the Company also recorded $1.5 million and $2.5 million, respectively, of impairment charges primarily for machinery and equipment and leasehold improvements associated with the facility closings. The fair values of the machinery and equipment and leasehold improvements were determined to be Level 3 under the fair value hierarchy and were estimated based on discussions with machinery and equipment brokers, dealer quotes and internal expertise related to the equipment and current marketplace conditions.

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Restructuring Reserve

The restructuring reserve as of June 30, 2011 and December 31, 2010 and changes during the six months ended June 30, 2011 were as follows:

	December 31, 2010	Restructuring Costs Charged to Results of Operations	Foreign Exchange and Other	Cash Paid	June 30, 2011
Employee terminations	$ 11.2	$ 54.0	$ 0.1	$ (24.3)	$ 41.0
Lease terminations	28.1	14.9	0.7	(14.0)	29.7
Multi-employer pension withdrawal obligations	13.6	15.8		(0.2)	29.2
Other	1.1	9.4	(1.1)	(7.8)	1.6
Total	$ 54.0	$ 94.1	$ (0.3)	$ (46.3)	$ 101.5

The current portion of restructuring reserves of $58.2 million was included in accrued liabilities at June 30, 2011, while the long-term portion of $43.3 million, primarily related to multi-employer pension plan partial withdrawal charges and lease termination costs, was included in other noncurrent liabilities at June 30, 2011.

The Company anticipates that payments associated with the employee terminations reflected in the above table will be substantially completed by June of 2012.

Payments on certain of the lease obligations are scheduled to continue until 2026 and payments on certain of the multi-employer pension plan partial withdrawal charges are scheduled to continue until 2021. Market conditions and the Company s ability to sublease these properties could affect the ultimate charge related to the lease obligations. Any potential recoveries or additional charges could affect amounts reported in the Condensed Consolidated Financial Statements of future periods.

7. Employee Benefits

The components of the estimated pension and postretirement benefits expense for the three and six months ended June 30, 2011 and 2010 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Pension expense				
Service cost	$ 21.5	$ 20.1	$ 42.8	$ 40.2
Interest cost	48.9	45.9	97.0	91.9
Expected return on assets	(67.3)	(64.4)	(134.4)	(128.9)
Amortization, net	12.8	6.4	25.0	12.7
Net pension expense	$ 15.9	$ 8.0	$ 30.4	$ 15.9

Postretirement benefits expense				
Service cost	$ 2.3	$ 3.0	$ 4.6	$ 6.1
Interest cost	6.2	7.1	12.4	14.2
Expected return on assets	(3.8)	(3.9)	(7.6)	(7.8)
Amortization, net	(1.3)	(2.3)	(2.5)	(4.7)
Net postretirement benefits expense	$ 3.4	$ 3.9	$ 6.9	$ 7.8

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As a result of the adoption of the Patient Protection and Affordable Care Act, the Company decided to convert its current prescription drug program for certain medicare-eligible retirees to a group-based Company sponsored Medicare Part D program, or Employer Group Waiver Program (EGWP). Beginning January 1, 2013, EGWP subsidies to or for the benefit of this program will be used to reduce the Company s net retiree medical and prescription drug costs until such Company net costs are eliminated, and any EGWP subsidies received in excess of the amount necessary to offset such net costs will be used to reduce the included group of retirees premiums. This change became effective in the second quarter of 2011 and is accounted for as a plan amendment, which resulted in the Company reducing its postretirement benefits liability by $81.5 million to $220.9 million.

8. Share-Based Compensation

The Company recognizes compensation expense, based on estimated grant date fair values, for all share-based awards issued to employees and directors, including stock options and restricted stock units. The total compensation expense related to all share-based compensation plans was $9.9 million and $16.4 million for the three and six months ended June 30, 2011, respectively. The total compensation expense related to all share-based compensation plans was $7.8 million and $16.0 million for the three and six months ended June 30, 2010, respectively.

Stock Options

The Company granted 200,000 and 540,000 stock options during the six months ended June 30, 2011 and 2010, respectively. The fair market value of each stock option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The fair market value of these stock options was determined using the following assumptions:

	2011	2010
Expected volatility	36.69%	35.61%
Risk-free interest rate	2.54%	2.75%
Expected life (years)	6.25	6.25
Expected dividend yield	4.57%	4.19%

The grant date fair market value of these options was $4.39 and $4.81 per stock option for the six months ended June 30, 2011 and 2010, respectively.

Stock options as of June 30, 2011 and December 31, 2010 and changes during the six months ended June 30, 2011 were as follows:

	Shares Under Option (thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (millions)
Outstanding at December 31, 2010	4,155	$ 20.80	6.3	$ 14.4
Granted	200	18.62	9.7	
Exercised	(108)	9.25		
Cancelled/forfeited/expired	(202)	24.96		
Outstanding at June 30, 2011	4,045	20.73	6.3	$ 16.9

Exercisable at June 30, 2011	1,056	$ 11.48	5.3	$ 8.6

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The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company s closing stock price on June 30, 2011 and December 31, 2010, respectively, and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2011 and December 31, 2010. This amount will change in future periods based on the fair market value of the Company s stock and the number of options outstanding. Total intrinsic value of options exercised for the three and six months ended June 30, 2011 was less than $0.1 million and $1.0 million, respectively. Total intrinsic value of options exercised for the three and six months ended June 30, 2010 was $0.1 million and $2.1 million, respectively.

Compensation expense related to stock options for the three and six months ended June 30, 2011 was $0.6 million and $1.4 million, respectively. Compensation expense related to stock options for the three and six months ended June 30, 2010 was $0.8 million and $1.5 million, respectively. As of June 30, 2011, $4.2 million of total unrecognized share-based compensation expense related to stock options is expected to be recognized over a weighted average period of 2.3 years.

Restricted Stock Units

Nonvested restricted stock unit awards as of June 30, 2011 and December 31, 2010 and changes during the six months ended June 30, 2011 were as follows:

	Shares (thousands)	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2010	5,430	$ 12.96
Granted	1,524	16.37
Vested	(1,858)	12.93
Forfeited	(49)	15.42
Nonvested at June 30, 2011	5,047	$ 13.97

Compensation expense related to restricted stock units for the three and six months ended June 30, 2011 was $9.0 million and $14.4 million, respectively. Compensation expense related to restricted stock units for the three and six months ended June 30, 2010 was $7.0 million and $14.5 million, respectively. As of June 30, 2011, there was $37.6 million of unrecognized share-based compensation expense related to approximately 4.8 million restricted stock unit awards, with a weighted-average grant date fair market value of $13.87, which are expected to vest over a weighted-average period of 2.3 years.

Performance Share Units

During the six months ended June 30, 2011, a total of 235,000 performance share unit awards were granted to certain executive officers, payable upon the achievement of certain established performance targets for the three years ending December 31, 2013. Distributions under these awards are payable at the end of the performance period, which is January 1, 2011 through December 31, 2013, in common stock or cash, at the Company s discretion. The total potential payouts range from 117,500 shares to 235,000 shares should certain performance targets be achieved. These awards are subject to forfeiture upon termination of employment prior to vesting, subject in some cases to early vesting upon specified events, including death or permanent disability of the grantee or a change in control of the Company.

Compensation expense is currently being recognized based on an estimated payout of 235,000 shares. Compensation expense related to performance share unit awards for the three and six months ended June 30,

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2011 was $0.3 million and $0.6 million, respectively. As of June 30, 2011, there was $3.0 million of unrecognized share-based compensation expense related to performance share unit awards, which is expected to be recognized over a period of 2.5 years.

9. Equity

The following table summarizes the Company s equity activity for the six months ended June 30, 2011:

	RR Donnelley Shareholders Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2010	$ 2,224.3	$ 21.1	$ 2,245.4
Net earnings	46.1	0.7	46.8
Other comprehensive income	114.7	0.2	114.9
Share-based compensation	16.4		16.4
Withholdings for share-based awards and other	(6.4)		(6.4)
Cash dividends paid	(107.7)		(107.7)
Payments for the acquisition of common stock	(500.0)		(500.0)
Distributions to noncontrolling interests		(2.7)	(2.7)
Balance at June 30, 2011	$ 1,787.4	$ 19.3	$ 1,806.7

The following table summarizes the Company s equity activity for the six months ended June 30, 2010:

	RR Donnelley Shareholders Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2009	$ 2,134.0	$ 27.0	$ 2,161.0
Net earnings (loss)	141.4	(3.2)	138.2
Other comprehensive loss	(66.8)	(0.1)	(66.9)
Share-based compensation	16.0		16.0
Withholdings for share-based awards and other	(1.9)		(1.9)
Cash dividends paid	(107.1)		(107.1)
Distributions to noncontrolling interests		(1.6)	(1.6)
Balance at June 30, 2010	$ 2,115.6	$ 22.1	$ 2,137.7

Share Repurchase Program

On May 3, 2011, the Board of Directors of the Company approved a program that authorizes the repurchase of up to $1.0 billion of the Company s common stock through December 31, 2012. Share repurchases under the program may be made from time to time through a variety of methods as determined by the Company s management. The repurchase authorizations do not obligate the Company to acquire any particular amount of common stock or adopt any particular method of repurchase and may be modified, suspended or terminated at any time at the

Company s discretion. The Company terminated its existing authorization of October 29, 2008 for the repurchase of up to 10 million shares of the Company s common stock.

Accelerated Share Repurchase Program

As part of the share repurchase program, on May 5, 2011 the Company entered into an accelerated share repurchase agreement (ASR) with an investment bank under which the Company agreed to repurchase $500

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million of its common stock. On May 10, 2011 the Company paid the $500 million purchase price and received an initial delivery of 19.9 million shares from the investment bank subject to a 20%, or $100 million, holdback. At the conclusion of the ASR, the Company may receive additional shares or be required to pay additional cash or deliver shares (at the Company s option) based upon the volume weighted average price of the Company s common stock (subject to a discount agreed upon with the investment bank) over an averaging period, which is expected to end around the end of the year. The investment bank will deliver any remaining shares to the Company shortly after the end of the averaging period.

The ASR was accounted for as an initial stock purchase transaction and a forward stock purchase contract. The initial delivery of shares resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted net earnings per share from the effective date of the ASR. The forward stock purchase contract is classified as an equity instrument.

As of June 30, 2011, based on the volume weighted average price of the Company s common stock since the effective date of the ASR, $20.07, the investment bank would be required to deliver an additional 5.0 million shares to the Company. Increases in the volume weighted average price of the Company s common stock over the averaging period would decrease the number of shares the investment bank would be required to deliver, or increase the amount of cash or number of shares the Company would be required to deliver to the investment bank. Decreases in the volume weighted average price of the Company s common stock over the averaging period would increase the number of shares the investment bank would be required to deliver to the Company. As of June 30, 2011, the $100 million holdback was recorded as a reduction in additional paid-in capital in the Condensed Consolidated Balance Sheet.

10. Earnings per Share Attributable to RR Donnelley Common Shareholders

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Numerator:				
Net earnings attributable to RR Donnelley common shareholders	$ 12.2	$ 88.8	$ 46.1	$ 141.4
Denominator:				
Weighted average number of common shares outstanding	196.7	206.3	201.9	206.0
Dilutive options and awards (a)	2.8	3.6	2.6	3.4
Diluted weighted average number of common shares outstanding	199.5	209.9	204.5	209.4
Net earnings per share attributable to RR Donnelley common shareholders:				
Basic	$ 0.06	$ 0.43	$ 0.23	$ 0.69
Diluted	$ 0.06	$ 0.42	$ 0.23	$ 0.68
Cash dividends paid per common share	$ 0.26	$ 0.26	$ 0.52	$ 0.52

(a) Diluted net earnings per share attributable to RR Donnelley common shareholders takes into consideration the dilution of certain unvested restricted stock awards and unexercised stock option awards. For the three and six months ended June 30, 2011, restricted stock units of 2.8 million and 3.0 million, respectively, were excluded as their effect would be anti-dilutive. For the three and six months ended June 30, 2011, options to purchase 3.5 million shares were anti-dilutive because the option exercise price exceeded the fair value of the stock.

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For the three and six months ended June 30, 2010, restricted stock units of 2.8 million and 3.0 million, respectively, were excluded as their effect would be anti-dilutive. For the three and six months ended June 30, 2010, options to purchase 3.6 million shares were anti-dilutive because the option exercise price exceeded the fair value of the stock.

As discussed in Note 9, on May 10, 2011, the Company received an initial delivery of 19.9 million shares under the ASR. The initial delivery of shares resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted net earnings per share from the effective date of the agreement. Based upon the volume weighted average price of the Company s common stock through June 30, 2011, the shares related to the forward stock purchase component of the ASR were anti-dilutive for the three and six months ended June 30, 2011.

11. Comprehensive Income (Loss)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net earnings	$ 12.5	$ 89.5	$ 46.8	$ 138.2
Translation adjustments	26.1	(65.6)	52.2	(72.0)
Adjustment for net periodic pension and postretirement benefit cost, net of tax	55.5	2.5	62.2	4.9
Change in fair value of derivatives, net of tax	0.4	0.1	0.5	0.2
Comprehensive income	94.5	26.5	161.7	71.3
Less: comprehensive income (loss) attributable to noncontrolling interests	0.5	0.7	0.9	(3.3)
Comprehensive income attributable to RR Donnelley common shareholders	$ 94.0	$ 25.8	$ 160.8	$ 74.6

For the three and six months ended June 30, 2011, the changes in other comprehensive income were net of tax provisions of $0.3 million, in each respective period, related to the change in fair value of derivatives and $35.9 million and $39.9 million, respectively, related to the adjustment for net periodic pension and postretirement benefit costs. For the three and six months ended June 30, 2010, the changes in other comprehensive income were net of tax provisions of less than $0.1 million, in each respective period, related to the change in fair value of derivatives and tax benefits of $1.4 million and $2.8 million, respectively, for the adjustment for net periodic pension and postretirement benefit costs.

12. Segment Information

The Company operates primarily in the printing industry, with related service offerings designed to offer customers complete solutions for communicating their messages to target audiences. The Company s reportable segments reflect the management reporting structure of the organization and the manner in which the chief operating decision-maker regularly assesses information for decision-making purposes, including the allocation of resources. The Company s segments and their products and service offerings are summarized below:

U.S. Print and Related Services

The U.S. Print and Related Services segment includes the Company s U.S. printing operations, managed as one integrated platform, along with related print and other logistics, premedia, print management and other

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services. This segment s products and related service offerings include magazines, catalogs, retail inserts, books, directories, financial printing and related services, direct mail, forms, labels, office products, statement printing, premedia and logistics services.

International

The International segment includes the Company s non-U.S. printing operations in Asia, Europe, Latin America and Canada. This segment s products and related service offerings include magazines, catalogs, retail inserts, books, directories, financial printing and related services, direct mail, forms, labels, packaging and manuals, statement printing, premedia and logistics services. 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 services through its operations in Europe, Asia and North America. Global Turnkey Solutions provides outsourcing capabilities, including product configuration, customized kitting and order fulfillment for technology, medical device and other companies around the world through its operations in Europe, North America and Asia.

Corporate

Corporate consists of unallocated general and administrative activities and associated expenses including, in part, executive, legal, finance, information technology, human resources, certain facility costs and LIFO inventory provisions. In addition, certain costs and earnings of employee benefit plans, primarily components of net pension and postretirement benefits expense other than service cost, are included in Corporate and not allocated to operating segments. In addition, Corporate manages the Company s cash pooling structure, which enables participating international locations to draw on the Company s overseas cash resources to meet local liquidity needs.

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

	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Depreciation and Amortization	Capital Expenditures
Three months ended June 30, 2011						
U.S. Print and Related Services	$ 1,927.1	$ (6.2)	$ 1,920.9	$ 132.8	$ 98.9	$ 38.1
International	718.6	(16.1)	702.5	43.6	31.6	21.1
Total operating segments	2,645.7	(22.3)	2,623.4	176.4	130.5	59.2
Corporate				(60.3)	10.2	21.9
Total operations	$ 2,645.7	$ (22.3)	$ 2,623.4	$ 116.1	$ 140.7	$ 81.1

	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Depreciation and Amortization	Capital Expenditures
Three months ended June 30, 2010						
U.S. Print and Related Services	$ 1,818.3	$ (9.0)	$ 1,809.3	$ 179.5	$ 98.7	$ 18.5
International	611.7	(12.4)	599.3	42.7	28.1	17.7

Total operating segments	2,430.0	(21.4)	2,408.6	222.2	126.8	36.2
Corporate				(46.9)	8.0	18.4
Total operations	$ 2,430.0	$ (21.4)	$ 2,408.6	$ 175.3	$ 134.8	$ 54.6

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	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Assets of Operations	Depreciation and Amortization	Capital Expenditures
Six months ended June 30, 2011							
U.S. Print and Related Services	$ 3,885.7	$ (23.7)	$ 3,862.0	$ 274.7	$ 6,407.2	$ 198.8	$ 55.4
International	1,379.7	(34.8)	1,344.9	87.7	2,483.3	62.0	46.9
Total operating segments	5,265.4	(58.5)	5,206.9	362.4	8,890.5	260.8	102.3
Corporate				(136.9)	135.7	20.1	25.9
Total operations	$ 5,265.4	$ (58.5)	$ 5,206.9	$ 225.5	$ 9,026.2	$ 280.9	$ 128.2

	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Assets of Operations	Depreciation and Amortization	Capital Expenditures
Six months ended June 30, 2010							
U.S. Print and Related Services	$ 3,660.6	$ (14.5)	$ 3,646.1	$ 343.3	$ 6,151.1	$ 199.7	$ 44.6
International	1,202.1	(24.5)	1,177.6	76.4	2,062.7	57.8	30.1
Total operating segments	4,862.7	(39.0)	4,823.7	419.7	8,213.8	257.5	74.7
Corporate				(98.6)	392.0	15.9	19.8
Total operations	$ 4,862.7	$ (39.0)	$ 4,823.7	$ 321.1	$ 8,605.8	$ 273.4	$ 94.5

13. Commitments and Contingencies

The Company is subject to laws and regulations relating to the protection of the environment. The Company provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. Such accruals are adjusted as new information develops or circumstances change and are not discounted. The Company has been designated as a potentially responsible party in fourteen active federal and state Superfund and other multiparty remediation sites. In addition to these sites, the Company may also have the obligation to remediate seven other previously owned facilities and three other currently owned facilities. At the Superfund sites, the Comprehensive Environmental Response, Compensation and Liability Act provides that the Company s liability could be joint and several, meaning that the Company could be required to pay an amount in excess of its proportionate share of the remediation costs. The Company s understanding of the financial strength of other potentially responsible parties at the multiparty sites and of other liable parties at the previously owned facilities has been considered, where appropriate, in the determination of the Company s estimated liability. The Company established reserves, recorded in accrued liabilities and other noncurrent liabilities, that it believes are adequate to cover its share of the potential costs of remediation at each of the multiparty sites and the previously and currently owned facilities. While 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, 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.

From time to time, the Company s customers and others file voluntary petitions for reorganization under United States bankruptcy laws. In such cases, certain pre-petition payments received by the Company from these

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parties could be considered preference items and subject to return. In addition, the Company may be party to certain litigation arising in the ordinary course of business. Management believes that the final resolution of these preference items and litigation will not have a material adverse effect on the Company s consolidated annual results of operations, financial position or cash flows.

14. Debt

The Company s debt consists of the following:

	June 30, 2011	December 31, 2010
Credit facility borrowings	$ 475.0	$ 120.0
5.625% senior notes due January 15, 2012	158.6	158.6
4.95% senior notes due April 1, 2014	599.4	599.2
5.50% senior notes due May 15, 2015	399.7	499.6
8.60% senior notes due August 15, 2016	346.4	346.0
6.125% senior notes due January 15, 2017	522.7	622.0
7.25% senior notes due May 15, 2018	600.0	
11.25% senior notes due February 1, 2019 (a)	183.8	400.0
7.625% senior notes due June 15, 2020	400.0	400.0
8.875% debentures due April 15, 2021	80.9	80.9
6.625% debentures due April 15, 2029	199.3	199.3
8.820% debentures due April 15, 2031	69.0	68.9
Other, including capital leases	42.5	35.5
Total debt	4,077.3	3,530.0
Less: current portion	(649.6)	(131.4)
Long-term debt	$ 3,427.7	$ 3,398.6

(a) On May 17, 2011, the interest rate on the 11.25% senior notes due February 1, 2019 was increased to 11.75%, as a result of downgrades in the ratings of the notes by the rating agencies.

The fair values of the senior notes and debentures, which were based upon the interest rates available to the Company for borrowings with similar terms and maturities, were determined to be Level 2 under the fair value hierarchy. The fair value of the Company s debt was greater than its book value by approximately $78.8 million and $259.3 million at June 30, 2011 and December 31, 2010, respectively.

On June 1, 2011, the Company issued $600.0 million of 7.25% senior notes due May 15, 2018. Interest on the notes is payable semi-annually on May 15 and November 15 of each year, commencing on November 15, 2011. The net proceeds from the offering were used to repurchase $216.2 million of the 11.25% senior notes due February 1, 2019, $100 million of the 6.125% senior notes due January 15, 2017 and $100 million of the 5.50% senior notes due May 15, 2015. The repurchases resulted in a pre-tax loss on debt extinguishment of $68.6 million. The remaining net proceeds were used for general corporate purposes and to repay outstanding borrowings under the Company s unsecured and committed revolving credit agreement (the Credit Agreement).

Interest income was $3.6 million and $6.2 million for the three and six months ended June 30, 2011, respectively. Interest income was $1.7 million and $3.6 million for the three and six months ended June 30, 2010, respectively.

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15. Derivatives

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

The Company is exposed to the impact of foreign currency fluctuations in certain countries in which it operates. The exposure to foreign currency movements is limited in most countries because the operating revenues and expenses of its various subsidiaries and business units are substantially in the local currency of the country in which they operate. To the extent borrowings, sales, purchases, revenues, expenses or other transactions are not in the local currency of the operating unit, the Company is exposed to currency risk. Periodically, the Company uses foreign exchange forward contracts and cross-currency swaps to hedge exposures resulting from foreign exchange fluctuations. Accordingly, the implied gains and losses associated with the fair values of foreign currency exchange contracts and cross-currency swaps are generally offset by gains and losses on underlying payables, receivables and net investments in foreign subsidiaries. The Company does not use derivative financial instruments for trading or speculative purposes.

The Company has entered into foreign exchange forward contracts in order to manage the currency exposure of certain receivables and liabilities. The foreign exchange forward contracts were not designated as hedges, and accordingly, the fair value gains or losses from these foreign currency derivatives are recognized currently in the Condensed Consolidated Statements of Operations, generally offsetting the foreign exchange gains or losses on the exposures being managed. The aggregate notional value of the forward contracts at June 30, 2011 and December 31, 2010 was $102.5 million and $100.9 million, respectively. The fair values of foreign exchange forward contracts were determined to be Level 2 under the fair value hierarchy and are valued using market exchange rates.

On April 9, 2010, the Company entered into interest rate swap agreements to manage interest rate risk exposure. The interest rate swap agreements effectively changed the interest rate on $600 million of its fixed-rate senior notes to floating rate LIBOR plus a basis point spread. These interest rate swaps, with a notional value of $600 million, are designated as fair value hedges against changes in the value of the Company s 4.95% senior notes due April 1, 2014, which are attributable to changes in the benchmark interest rate. The Company evaluates the credit value adjustments of the interest rate swap agreements, which take into account the possibility of counterparty and the Company s own default, on at least a quarterly basis. The Company s agreements with each of its counterparties contain a provision where the Company could be declared in default on its derivative obligations if it either defaults or, in certain cases, is capable of being declared in default on any of its indebtedness greater than specified thresholds. These agreements also contain a provision where the Company

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could be declared in default subsequent to a merger or restructuring type event if the creditworthiness of the resulting entity is materially weaker. The fair values of the interest rate swaps were determined to be Level 2 under the fair value hierarchy and are valued using market interest rates.

At June 30, 2011 and December 31, 2010, the total fair value of the Company s forward contracts, which were the only derivatives not designated as hedges, and fair value hedges and the accounts on the Condensed Consolidated Balance Sheets in which the fair value amounts are included are shown in the table below:

	June 30, 2011	December 31, 2010
Derivatives not designated as hedges		
Prepaid expenses and other current assets	$ 0.3	$ 0.5
Accrued liabilities	0.3	0.3
Derivatives designated as fair value hedges		
Other noncurrent assets	$ 20.2	$ 16.8

The pre-tax gains (losses) related to derivatives not designated as hedges recognized in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2010 are shown in the table below:

	Classification of Gain (Loss) Recognized in the Condensed Consolidated Statements of Operations	Three months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
Derivatives not designated as hedges					
Foreign exchange forward contracts	Selling, general and administrative expenses	$ 0.1	$ (8.5)	$ 1.7	$ (4.4)
Total gain (loss) recognized in the condensed consolidated statements of operations	Selling, general and administrative expenses	$ 0.1	$ (8.5)	$ 1.7	$ (4.4)

For derivatives designated as fair value hedges, the pre-tax gains (losses) related to the hedged items, attributable to changes in the hedged benchmark interest rate, and the offsetting gain or loss on the related interest rate swaps for the three and six months ended June 30, 2011 and 2010 are shown in the table below:

	Classification of Gain (Loss) Recognized in the Condensed Consolidated Statements of Operations	Three months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
Fair Value Hedges					
Interest rate swaps	Investment and other income (expense)	$ 7.2	$ 14.2	$ 3.3	$ 14.2
Hedged items	Investment and other income (expense)	(6.7)	(13.0)	(2.6)	(13.0)
Total gain recognized as ineffectiveness in the condensed consolidated statements of	Investment and other income (expense)	$ 0.5	$ 1.2	$ 0.7	$ 1.2

operations

The Company also recognized a net reduction to interest expense of $2.5 million and $5.1 million for the three and six months ended June 30, 2011, respectively, and $2.2 million in each respective period for the three and six months ended June 30, 2010, related to the Company s fair value hedges, which includes interest accruals on the derivatives and amortization of the basis in the hedged items.

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The pre-tax losses related to derivatives designated as cash flow hedges for the three months ended June 30, 2011 and 2010 are shown in the table below:

	Loss Recognized in OCI (Effective Portion)		Classification of Loss Reclassified from AOCI into Income (Effective Portion)	Loss Reclassified from AOCI into Income (Effective Portion)		Classification of Loss Recognized in Income (Ineffective Portion)	Loss Recognized in Income (Ineffective Portion)	
	2011	2010		2011	2010		2011	2010
Cash Flow Hedges								
Interest rate lock	$	$	Interest expense net	$ (0.1)	$ (0.1)	Loss on debt extinguishment	$ (0.5)	$

The pre-tax losses related to derivatives designated as cash flow hedges for the six months ended June 30, 2011 and 2010 are shown in the table below:

	Loss Recognized in OCI (Effective Portion)		Classification of Loss Reclassified from AOCI into Income (Effective Portion)	Loss Reclassified from AOCI into Income (Effective Portion)		Classification of Loss Recognized in Income (Ineffective Portion)	Loss Recognized in Income (Ineffective Portion)	
	2011	2010		2011	2010		2011	2010
Cash Flow Hedges								
Interest rate lock	$	$	Interest expense net	$ (0.3)	$ (0.3)	Loss on debt extinguishment	$ (0.5)	$

Terminated Derivatives

In May 2005, the Company terminated its interest rate lock agreements which were designated as cash flow hedges and used to hedge against fluctuations in interest rates. This termination resulted in a loss of $12.9 million recorded in accumulated other comprehensive loss, which was being recognized in interest expense over the term of the hedged forecasted interest payments. On June 15, 2011, the Company repurchased $100 million of the 5.50% senior notes due May 15, 2015 which were hedged as part of the interest rate lock agreements. Pre-tax losses of $0.5 million were reclassified from accumulated other comprehensive loss to loss on debt extinguishment in the Consolidated Statement of Operations as a result of the change in expected forecasted interest payments. In addition, during the third quarter of 2009, the Company repurchased $174.2 million of the 4.95% senior notes due May 15, 2010 which were also hedged as part of the interest rate lock agreements. Pre-tax losses of $2.7 million were reclassified from accumulated other comprehensive loss to loss on debt extinguishment in the Consolidated Statement of Operations as a result of the change in expected forecasted interest payments. At June 30, 2011, a balance of $1.2 million remained in accumulated other comprehensive loss, of which $0.3 million is expected to be reclassified to earnings over the next twelve months.

16. Fair Value Measurement

Certain assets and liabilities are required to be recorded at fair value on a recurring basis. The Company s only assets and liabilities adjusted to fair value on a recurring basis are pension and other postretirement plan assets, foreign exchange forward contracts and interest rate swaps. See

Note 15 for further discussion on the fair

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value of the Company s foreign exchange forward contracts and interest rate swaps as of June 30, 2011 and December 31, 2010.

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company is required to record certain assets and liabilities at fair value on a nonrecurring basis, generally as a result of acquisitions or the remeasurement of assets resulting in impairment charges. See Note 2 for further discussion on the fair value of assets and liabilities associated with acquisitions. Assets measured at fair value on a nonrecurring basis subsequent to initial recognition and still held at June 30, 2011 are summarized below:

	Impairment Charge	Fair Value Measurement (Level 3)	June 30, 2011 Net Book Value
Long-lived assets held and used (1)	$ 14.1	$ 68.5	$ 65.8
Long-lived assets held for sale or disposal (2)	18.2	1.3	1.3
Total	$ 32.3	$ 69.8	$ 67.1

(1) Long-lived assets held and used with a carrying amount of $82.6 million were written down to their fair value of $68.5 million, resulting in an impairment charge of $14.1 million for the six months ended June 30, 2011. The fair values used for measuring impairment of land, buildings, machinery and equipment and leasehold improvements were determined using Level 3 inputs. These fair values were estimated based on discussions with real estate brokers, review of comparable properties, if available, discussions with machinery and equipment brokers, dealer quotes and internal expertise related to equipment and current marketplace conditions.

(2) Long-lived assets held for sale or disposal with a carrying amount of $19.5 million were written down to their fair value of $1.3 million, resulting in an impairment charge of $18.2 million. The fair values of the land, buildings and machinery and equipment classified as held for sale or disposal were determined using Level 3 inputs and estimated based on discussions with real estate brokers, review of comparable properties, if available, discussions with machinery and equipment brokers, dealer quotes and internal expertise related to equipment and current marketplace conditions.

See Note 14 for the fair value of the Company s debt.

17. Income Taxes

The Company s unrecognized tax benefits at June 30, 2011 and December 31, 2010 were as follows:

Balance at December 31, 2010	$ 157.1
Additions for tax positions of the current year	3.0
Additions for tax positions of the prior year	0.1
Reductions for tax positions of prior years	(9.5)
Settlements during the year	(1.7)
Balance at June 30, 2011	$ 149.0

As of June 30, 2011, it is reasonably possible that the total amounts of unrecognized tax benefits will decrease within twelve months by as much as $70.8 million due to the resolution of audits or expirations of statutes of limitations related to U.S. federal and state tax positions.

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18. New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05 Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05), which prohibits the presentation of other comprehensive income in stockholders equity and requires the presentation of net income, items of other comprehensive income and total comprehensive income in one continuous statement or two separate but consecutive statements. ASU 2011-05 will be effective for the Company in the first quarter of 2012 and will impact the Company s financial statement presentation, but otherwise is not expected to have a material impact on the Company s consolidated financial position, annual results of operations or cash flows.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04 Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), which amends the definition of fair value measurement principles and disclosure requirements to eliminate differences between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 requires new quantitative and qualitative disclosures about the sensitivity of recurring Level 3 measurement disclosures, as well as transfers between Level 1 and Level 2 of the fair value hierarchy. ASU 2011-04 will be effective for the Company in the first quarter of 2012 and will primarily impact the Company s disclosures, but otherwise is not expected to have a material impact on the Company s consolidated financial position, annual results of operations or cash flows.

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

Company Overview

R.R. Donnelley & Sons Company (RR Donnelley, the Company, we, us, and our) is a global provider of integrated communications. Founde more than 146 years ago, the Company works collaboratively with more than 60,000 customers worldwide to develop custom communications solutions that reduce costs, enhance return on investment and ensure compliance. Drawing on a range of proprietary and commercially available digital and conventional technologies deployed across four continents, the Company employs a suite of leading Internet-based capabilities and other resources to provide premedia, printing, logistics and business process outsourcing products and services to leading clients in virtually every private and public sector.

Business Acquisitions

On June 21, 2011, the Company acquired Helium, Inc. (Helium), an online community offering publishers, catalogers and other customers stock and custom content, as well as a comprehensive range of editorial solutions, in which the Company previously held an equity investment. Helium s operations are included in the U.S. Print and Related Services segment.

On March 24, 2011, the Company acquired Journalism Online, LLC (Journalism Online), an online provider of tools that allow consumers to purchase online subscriptions from publishers. Journalism Online s operations are included in the U.S. Print and Related Services segment.

On December 31, 2010, the Company acquired the assets of 8touches, an online provider of tools that allow real estate associates, brokers, Multiple Listing Service (MLS) associations and other marketers to create customized communications materials. 8touches operations are included in the U.S. Print and Related Services segment.

On December 14, 2010, the Company acquired the assets of Nimblefish Technologies (Nimblefish), a provider of multi-channel marketing services to leading retail, technology, telecommunications, hospitality and other customers. Nimblefish s operations are included in the U.S. Print and Related Services segment.

On November 24, 2010, the Company acquired Bowne & Co., Inc. (Bowne), a provider of shareholder and marketing communication services, with operations in North America, Latin America, Europe and Asia. Bowne s operations are included in both the U.S. Print and Related Services and International segments.

Segment Description

The Company operates primarily in the commercial print portion of the printing industry, with related product and service offerings designed to offer customers complete solutions for communicating their messages to target audiences. The Company s segments and their product and service offerings are summarized below:

U.S. Print and Related Services

The U.S. Print and Related Services segment includes the Company s U.S. printing operations, managed as one integrated platform, along with related print and other logistics, premedia, print management and other services. This segment s products and related service offerings include magazines, catalogs, retail inserts, books, directories, financial printing and related services, direct mail, forms, labels, office products, statement printing, premedia and logistics services.

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International

The International segment includes the Company s non-U.S. printing operations in Asia, Europe, Latin America and Canada. This segment s products and related service offerings include magazines, catalogs, retail inserts, books, directories, financial printing and related services, direct mail, forms, labels, packaging and manuals, statement printing, premedia and logistics services. 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 services through its operations in Europe, Asia and North America. Global Turnkey Solutions provides outsourcing capabilities including product configuration, customized kitting and order fulfillment for technology, medical device and other companies around the world through its operations in Europe, North America and Asia.

Corporate

Corporate consists of unallocated general and administrative activities and associated expenses including, in part, executive, legal, finance, information technology, human resources, certain facility costs and LIFO inventory provisions. In addition, certain costs and earnings of employee benefit plans, primarily components of net pension and postretirement benefits expense other than service cost, are included in Corporate and not allocated to operating segments.

Executive Summary

Financial Performance: Three Months Ended June 30, 2011

The changes in the Company s income from operations, operating margin, net earnings attributable to RR Donnelley common shareholders and net earnings attributable to RR Donnelley common shareholders per diluted share for the three months ended June 30, 2011, from the three months ended June 30, 2010, were due primarily to the following (in millions, except margin and per share data):

	Income from Operations	Operating Margin	Net Earnings Attributable to RR Donnelley Common Shareholders	Net Earnings Attributable to RR Donnelley Common Shareholders Per Diluted Share
For the three months ended June 30, 2010	$ 175.3	7.3%	$ 88.8	$ 0.42
2011 restructuring and impairment charges	(75.7)	(2.9%)	(57.8)	(0.29)
2010 restructuring and impairment charges	10.7	0.4%	7.6	0.04
Acquisition-related expenses	2.4	0.1%	2.3	0.01
2011 gain on Helium investment			9.5	0.05
2011 loss on debt extinguishment			(44.3)	(0.22)
Operations	3.4	(0.5%)	6.1	0.05
For the three months ended June 30, 2011	$ 116.1	4.4%	$ 12.2	$ 0.06

2011 pre-tax restructuring and impairment charges: included charges of $29.2 million for employee termination costs, substantially all of which were associated with restructuring actions resulting from the reorganization of certain operations; $22.2 million of other restructuring costs, which consisted primarily of $15.8 million related to multi-employer pension plan partial withdrawal charges, as well as lease termination costs; and $24.3 million for impairment of long-lived assets. The majority of the restructuring and impairment charges related to the closings of certain facilities and headcount reductions due to the Bowne acquisition, as well as charges related to the closings of two book and directories facilities and one commercial manufacturing facility, all within the U.S. Print and Related Services segment.

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2010 pre-tax restructuring and impairment charges: included charges of $6.1 million for employee termination costs, substantially all of which were associated with restructuring actions resulting from the reorganization of certain operations and the exiting of certain business activities; $3.1 million of other restructuring costs; and $1.5 million for impairment of long-lived assets.

Acquisition-related expenses: included pre-tax charges of $0.9 million ($0.8 million after-tax) related to legal, accounting and other expenses for the three months ended June 30, 2011, primarily associated with acquisitions completed. For the three months ended June 30, 2010, these pre-tax charges were $3.3 million ($3.1 million after-tax).

2011 gain on Helium investment: included a pre-tax gain of $9.8 million as a result of the acquisition of Helium, in which the Company previously held an equity investment. The pre-tax gain is net of the Company s portion of the transaction costs incurred by Helium as a result of the acquisition.

2011 loss on debt extinguishment: included a pre-tax loss of $68.6 million on the repurchases of $216.2 million of the 11.25% senior notes due February 1, 2019, $100 million of the 6.125% senior notes due January 15, 2017 and $100 million of the 5.50% senior notes due May 15, 2015. The $68.6 million pre-tax loss also includes the reclassification of a $0.5 million pre-tax loss from accumulated other comprehensive loss to loss on debt extinguishment due to the change in the hedged forecasted interest payments resulting from the repurchase of the 5.50% senior notes.

Operations: reflected higher volume in the International segment, logistics and financial print, as well as cost savings from restructuring actions and productivity efforts, which were partially offset by higher pension and other benefits-related expenses, a decrease in books and directories volume and continued price pressures. Additionally, income tax expense decreased due to the release of reserves related to the resolution of certain state audits and the release of valuation allowances on certain deferred tax assets. See further details in the review of operating results by segment that follows below.

Financial Performance: Six Months Ended June 30, 2011

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 six months ended June 30, 2011, from the six months ended June 30, 2010, were due primarily to the following (in millions, except margin and per share data):

	Income from Operations	Operating Margin	Net Earnings Attributable to RR Donnelley Common Shareholders	Net Earnings Attributable to RR Donnelley Common Shareholders Per Diluted Share
For the six months ended June 30, 2010	$ 321.1	6.7%	$ 141.4	$ 0.68
2011 restructuring and impairment charges	(126.5)	(2.4%)	(92.1)	(0.45)
2010 restructuring and impairment charges	26.2	0.5%	18.2	0.09
Acquisition-related expenses	4.0	0.1%	3.7	0.02
2011 gain on Helium investment			9.5	0.05
2011 loss on debt extinguishment			(44.3)	(0.22)
2010 Venezuela devaluation			4.5	0.02
Operations	0.7	(0.6%)	5.2	0.04
For the six months ended June 30, 2011	$ 225.5	4.3%	$ 46.1	$ 0.23

2011 pre-tax restructuring and impairment charges: included charges of $54.0 million for employee termination costs, substantially all of which were associated with restructuring actions resulting from the reorganization of certain operations; $40.1 million of other restructuring costs, which consisted primarily of

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$15.8 million related to multi-employer pension plan partial withdrawal charges, as well as lease termination costs; and $32.4 million for impairment of long-lived assets. The majority of the restructuring and impairment charges related to the closings of certain facilities and headcount reductions due to the Bowne acquisition, as well as charges related to the closing of three book and directories facilities and one commercial manufacturing facility, all within the U.S. Print and Related Services segment.

2010 pre-tax restructuring and impairment charges: included charges of $15.3 million for employee termination costs, substantially all of which were associated with restructuring actions resulting from the reorganization of certain operations and the exiting of certain business activities; $8.4 million of other restructuring costs; and $2.5 million for impairment of long-lived assets.

Acquisition-related expenses: included pre-tax charges of $1.3 million ($1.2 million after-tax) related to legal, accounting and other expenses for the six months ended June 30, 2011, primarily associated with acquisitions completed. For the six months ended June 30, 2010, these pre-tax charges were $5.3 million ($4.9 million after-tax).

2011 gain on Helium investment: included a pre-tax gain of $9.8 million as a result of the acquisition of Helium, in which the Company previously held an equity investment. The pre-tax gain is net of the Company s portion of the transaction costs incurred by Helium as a result of the acquisition.

2011 loss on debt extinguishment: included a pre-tax loss of $68.6 million on the repurchases of $216.2 million of the 11.25% senior notes due February 1, 2019, $100 million of the 6.125% senior notes due January 15, 2017 and $100 million of the 5.50% senior notes due May 15, 2015. The $68.6 million pre-tax loss also includes the reclassification of a $0.5 million pre-tax loss from accumulated other comprehensive loss to loss on debt extinguishment due to the change in the hedged forecasted interest payments resulting from the repurchase of the 5.50% senior notes.

2010 Venezuela devaluation: currency devaluation in Venezuela resulted in a pre-tax loss of $8.9 million ($8.1 million after-tax) and an increase in loss attributable to noncontrolling interest of $3.6 million.

Operations: reflected higher volume in the International segment, logistics and financial print, as well as cost savings from restructuring actions and productivity efforts, which were partially offset by higher pension and other benefits-related expenses, a decrease in books and directories and variable print volume, along with continued price pressures. Additionally, income tax expense decreased due to the release of reserves related to the resolution of certain state audits and the release of valuation allowances on certain deferred tax assets. See further details in the review of operating results by segment that follows below.

Overview

During the second quarter of 2011, the Company s net sales benefited from the acquisition of Bowne. On a consolidated basis, net sales increased $214.8 million, or 8.9%, from the second quarter of 2010. However, pro forma for acquisitions, net sales remained relatively constant (See Note 2 to the Condensed Consolidated Financial Statements). Changes in foreign exchange rates increased reported net sales $46.0 million, or 1.9%. The increase in reported net sales was also due to volume growth in the International segment and logistics reporting unit, as well as an increase in pass-through paper sales and capital market transactions. These increases were partially offset by a decrease in books and directories volume, continued price pressure, as well as the slowdown in growth of the U.S. economy.

The Company continued to make significant progress in the integration of Bowne during the second quarter. 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.

On May 3, 2011, the Board of Directors of the Company approved a program that authorizes the repurchase of up to $1.0 billion of the Company s common stock through December 31, 2012. Share repurchases under the program may be made from time to time through a variety of methods as determined by the Company s

management. The repurchase authorizations do not obligate the Company to acquire any particular amount of common stock or adopt any particular method of repurchase and may be modified, suspended or terminated at any time at the Company s discretion. The Company terminated its existing authorization for the repurchase of up to 10 million shares of the Company s common stock.

As part of the share repurchase program, on May 5, 2011, the Company entered into an accelerated share repurchase agreement (ASR) with an investment bank under which the Company agreed to repurchase $500 million of its common stock. On May 10, 2011, the Company paid the $500 million purchase price and received an initial delivery of 19.9 million shares from the investment bank subject to a 20%, or $100 million, holdback. At the conclusion of the ASR, the Company may receive additional shares or be required to pay additional cash or deliver shares (at the Company s option) based upon the volume weighted average price of the Company s common stock (subject to a discount agreed upon with the investment bank) over an averaging period, which is expected to end around the end of the year. The investment bank will deliver any remaining shares to the Company shortly after the end of the averaging period. As of June 30, 2011, the Company had 187.8 million shares outstanding.

On June 1, 2011, the Company issued $600.0 million of 7.25% senior notes due May 15, 2018. The net proceeds from the offering were used to repurchase $216.2 million of the 11.25% senior notes due February 1, 2019, $100 million of the 6.125% senior notes due January 15, 2017 and $100 million of the 5.50% senior notes due May 15, 2015. The remaining net proceeds were used for general corporate purposes and to repay outstanding borrowings under the unsecured and committed revolving credit agreement (the Credit Agreement). The repurchases resulted in a pre-tax loss on debt extinguishment of $68.6 million.

OUTLOOK

Competition and Strategy

The print and related services industry, in general, continues to have excess capacity and remains highly competitive. Despite some consolidation in recent years, the printing 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 differentiate its product and service offerings.

Technological changes, including the electronic distribution of documents and data, online distribution and hosting of media content, advances in digital printing, print-on-demand and Internet technologies, continue to impact the market for the Company s products and services. The Company seeks to leverage the distinctive capabilities of its products and services to improve its customers communications, whether in paper form or through electronic communications. The Company s goal remains to help its customers succeed by delivering effective and targeted communications in the right format to the right audiences at the right time. Management believes that with the Company s competitive strengths, including its broad range of complementary print-related services, strong logistics capabilities, technology leadership, depth of management experience, customer relationships and economies of scale, the Company has developed and can further develop valuable, differentiated solutions for its customers. The Company seeks to leverage its unified platform and strong customer relationships in order to serve a larger share of its customers print and related services needs.

As a substitute for print, the impact of digital technologies has been felt mainly in directories, forms and statement printing, as electronic communication and transaction technology has eliminated or reduced the role of many traditional paper forms. Electronic substitution has continued to accelerate in directory printing in part driven by environmental concerns and cost pressures at key customers. In addition, rapid growth in the adoption of e-books is having an increasing impact on consumer print book volume, though only a limited impact on educational and specialty books. 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

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technologies. In addition, the Company has made targeted acquisitions and organic investments to offer customers innovative services and solutions that further secure the Company s position as a technology leader in the industry.

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. In addition, the continued integration of Bowne is expected to result in additional restructuring charges.

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 catalog, retail insert and book volumes. This typical seasonal pattern can be impacted by overall trends in the U.S. and world economy. The Company expects the seasonality impact in 2011 and future years to be in line with historical patterns.

Raw Materials

The primary raw materials the Company uses in its print businesses are paper and ink. The Company negotiates with leading suppliers to maximize its purchasing efficiencies and uses a wide variety of paper grades, formats, ink formulations and colors. In addition, a substantial amount of paper used by the Company is supplied directly by customers. Variations in the cost and supply of certain paper grades and ink formulations used in the manufacturing process may affect the Company s consolidated financial results. Paper prices increased during the first half of 2011, and volatility in future years 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 increases and decreases through to its customers. Contractual arrangements and industry practice should support the Company s continued ability to pass on any future paper price increases to a large extent, but there is no assurance that market conditions will continue to enable the Company to successfully do so. In addition, management believes that 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 continues to monitor the impact of changes in the price of crude oil and other energy costs, which impacts 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. The Company generally cannot pass on to customers the impact of higher energy prices on its manufacturing costs. The Company cannot predict sudden changes in energy prices and the impact that possible future energy price increases or decreases might have upon either 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 efficiencies 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 April 17, 2011, new postage rates went into effect for certain classes of mail in the United States. The new rates increased the cost of mailing these classes of mail by approximately 1.7%, which is the cap under the Postal Accountability and Enhancement Act (the Act). Under the Act, it is anticipated that postage will increase annually by an amount equal to or slightly less than the Consumer Price Index. As a leading provider of print logistics and the largest mailer of standard mail in the U.S., the Company works closely with the U.S. Postal Service and its customers to offer innovative products and services to minimize 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 is expected to be impacted by changes in the postal rates.

Risks Related to Market Conditions

The Company performs its annual goodwill impairment tests as of October 31, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. As part of its interim review for indicators of impairment, management analyzed potential changes in value of individual reporting units based on each reporting unit s operating results for the six months ended June 30, 2011 compared to expected results as of October 31, 2010. In addition, management considered how other key assumptions, including discount rates and expected long-term growth rates, used in last year s impairment analysis, could be impacted by changes in market conditions and economic events. Based on this interim assessment, management concluded that as of June 30, 2011, 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. Significant changes in global economic conditions could result in changes to expectations of future financial results and key valuation assumptions. These changes could result in revisions of management s estimates of the fair value of the Company s reporting units and could result in a review for impairment of goodwill prior to October 31, 2011, the Company s next annual measurement date. Any required interim impairment reviews could result in a material goodwill impairment charge.

Financial Review

In the financial review that follows, the Company discusses its consolidated results of operations, financial position, cash flows and certain other information. This discussion should be read in conjunction with the Company s condensed consolidated financial statements and related notes.

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RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2011 AS

COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2010

The following table shows the results of operations for the three months ended June 30, 2011 and 2010:

	Three Months Ended June 30,			
	2011	2010 (in millions)	$ Change	% Change
Net sales				
Products	$ 2,356.9	$ 2,157.4	$ 199.5	9.2%
Services	266.5	251.2	15.3	6.1%
Total net sales	2,623.4	2,408.6	214.8	8.9%
Products cost of sales (exclusive of depreciation and amortization shown below)	1,777.2	1,636.1	141.1	8.6%
Services cost of sales (exclusive of depreciation and amortization shown below)	204.4	183.5	20.9	11.4%
Selling, general and administrative expenses (exclusive of depreciation and amortization shown below)	309.3	268.2	41.1	15.3%
Restructuring and impairment charges	75.7	10.7	65.0	607.5%
Depreciation and amortization	140.7	134.8	5.9	4.4%
Total operating expenses	2,507.3	2,233.3	274.0	12.3%
Income from operations	$ 116.1	$ 175.3	$ (59.2)	(33.8%)

Consolidated

Net sales of products for the three months ended June 30, 2011 increased $199.5 million, or 9.2%, to $2,356.9 million versus the same period in the prior year. Changes in foreign exchange rates increased net sales by $41.2 million, or 1.9%. The increase in net sales of products was due to the acquisition of Bowne, higher volume driven by increased business in Latin America and Asia, volume growth in the logistics reporting unit, as well as an increase in pass-through paper sales and capital market transactions. These increases were partially offset by a decrease in books and directories volume and continued price pressures.

Net sales from services for the three months ended June 30, 2011 increased $15.3 million, or 6.1%, to $266.5 million versus the same period in the prior year. Net sales from services increased due to the acquisition of Bowne and higher logistics volumes, driven in part by higher print and other logistics services, along with growth in mail center and commingling services. Changes in foreign exchange rates resulted in increases to net sales of $4.8 million, or 1.9%.

Products cost of sales increased $141.1 million to $1,777.2 million for the three months ended June 30, 2011 versus the same period in the prior year primarily due to the acquisition of Bowne, increased volume in capital market transactions and higher pricing on materials. Products cost of sales as a percentage of products net sales decreased from 75.8% to 75.4%, reflecting continued productivity efforts and a higher recovery on print-related by-products, partially offset by continued price pressures.

Services cost of sales increased $20.9 million to $204.4 million for the three months ended June 30, 2011 versus the same period in the prior year primarily due to the acquisition of Bowne and higher logistics volume. Services cost of sales as a percentage of net sales increased from 73.0% to 76.7%, reflecting an increase in logistics costs of transportation and an unfavorable mix in compliance services in the financial print reporting unit.

Selling, general and administrative expenses increased $41.1 million to $309.3 million for the three months ended June 30, 2011 versus the same period in the prior year due to the acquisition of Bowne and higher pension

and other benefits-related expenses, partially offset by cost savings from restructuring activities. Selling, general and administrative expenses as a percentage of net sales increased from 11.1% to 11.8%, reflecting the acquisition of Bowne and increased pension and other benefits-related expenses.

For the three months ended June 30, 2011, the Company recorded net restructuring and impairment charges of $75.7 million compared to $10.7 million in the same period of 2010. In 2011, these charges included $29.2 million for workforce reductions of 1,150 employees (of whom 452 were terminated as of June 30, 2011) associated with actions resulting from the reorganization of certain operations. These charges related to the closings of certain facilities and headcount reductions due to the Bowne acquisition, as well as the closing of two book and directories manufacturing facilities and one commercial manufacturing facility within the U.S. Print and Related Services segment. Additionally, the Company incurred other restructuring charges, including lease termination and other facility closure costs of $22.2 million, of which $15.8 million related to multi-employer pension plan partial withdrawal charges primarily related to the closing of three manufacturing facilities, and $24.3 million of impairment charges primarily for machinery and equipment and leasehold improvements associated with the announced facility closings.

Restructuring charges for the three months ended June 30, 2010 included $6.1 million for workforce reductions of 412 employees (all of whom were terminated as of June 30, 2011) associated with actions resulting from the reorganization of certain operations. These charges primarily related to the reorganization of certain operations within the business process outsourcing and Latin America reporting units within the International segment and the reorganization of certain operations within the magazine, catalog and retail insert reporting unit within the U.S. Print and Related Services segment. In addition, the Company recorded $3.1 million of other restructuring costs, including lease termination and other facility closure costs, as well as $1.5 million of impairment charges of other long-lived assets. Management believes that certain restructuring activities will continue throughout the remainder of 2011, as the Company continues to integrate Bowne and streamline the manufacturing, sales and administrative operations. Restructuring activities related to Bowne are expected to benefit selling, general and administrative expenses and cost of sales in future periods.

Depreciation and amortization increased $5.9 million to $140.7 million for the three months ended June 30, 2011 compared to the same period in 2010, primarily due to higher amortization expense associated with customer relationship intangible assets resulting from the acquisition of Bowne. Depreciation and amortization included $28.8 million and $24.3 million of amortization of purchased intangibles related to customer relationships, patents, trade names, licenses and non-compete agreements for the three months ended June 30, 2011 and 2010, respectively.

Income from operations for the three months ended June 30, 2011 was $116.1 million, a decrease of 33.8% compared to the three months ended June 30, 2010. The decrease was primarily driven by higher restructuring and impairment charges, continued price pressure and higher pension and other benefits-related expenses, partially offset by higher volume, primarily related to the Bowne acquisition, procurement savings and benefits achieved from restructuring activities.

Net interest expense increased by $8.5 million for the three months ended June 30, 2011 versus the same period in 2010, primarily due to the issuance of $400 million of 7.625% senior notes on June 21, 2010 and $600 million of 7.25% senior notes on June 1, 2011, partially offset by the repayment of $325.7 million of 4.95% senior notes that matured on May 15, 2010. Additionally, net interest expense increased due to borrowings under the Credit Agreement used to finance the Company s accelerated share repurchase.

Net investment and other income (expense) for the three months ended June 30, 2011 and 2010 was income of $10.0 million and expense of $0.8 million, respectively. The three months ended June 30, 2011 included a $10.0 million gain recognized on the acquisition of Helium, in which the Company previously held an equity investment.

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Loss on debt extinguishment for the three months ended June 30, 2011 was $68.6 million. The loss was due to the repurchases of $216.2 million of the 11.25% senior notes due February 1, 2019, $100 million of the 6.125% senior notes due January 15, 2017 and $100 million of the 5.50% senior notes due May 15, 2015.

The effective income tax rate for the three months ended June 30, 2011 was a benefit of 428.9% compared to a provision of 26.5% for the same period in 2010. The rate in 2011 reflects the release of reserves due to the resolution of certain state audits within the U.S. Print and Related Services segment and the release of valuation allowances on certain deferred tax assets within the U.S. Print and Related Services segment and the Europe reporting unit within the International segment. The 2010 tax rate reflects the release of a valuation allowance on deferred tax assets due to the forecasted increase in net earnings for certain operations within the Latin America reporting unit within the International segment.

Net earnings attributable to RR Donnelley common shareholders for the three months ended June 30, 2011 was $12.2 million, or $0.06 per diluted share, compared to $88.8 million, or $0.42 per diluted share, for the three months ended June 30, 2010. In addition to the factors described above, the per share results reflect a decrease in weighted average diluted shares outstanding of 10.4 million due to the repurchase of the Company s shares during the three months ended June 30, 2011, as a result of the accelerated share repurchase.

U.S. Print and Related Services

The following table summarizes net sales, income from operations and certain items impacting comparability within the U.S. Print and Related Services segment:

	Three Months Ended June 30, 2011	2010
	(in millions)	
Net sales	$ 1,920.9	$ 1,809.3
Income from operations	132.8	179.5
Operating margin	6.9%	9.9%
Restructuring and impairment charges	65.1	3.5

Reporting unit	Net Sales for the Three Months Ended June 30, 2011	2010	$ Change	% Change
		(in millions)		
Magazines, catalogs and retail inserts	$ 442.4	$ 443.0	$ (0.6)	(0.1%)
Books and directories	312.4	370.0	(57.6)	(15.6%)
Financial print	283.7	153.3	130.4	85.1%
Variable print	282.3	269.6	12.7	4.7%
Forms and labels	193.6	199.3	(5.7)	(2.9%)
Logistics	162.5	141.5	21.0	14.8%
Commercial	156.1	143.9	12.2	8.5%
Office products	52.9	51.6	1.3	2.5%
Premedia	35.0	37.1	(2.1)	(5.7%)
Total U.S. Print and Related Services	$ 1,920.9	$ 1,809.3	$ 111.6	6.2%

Net sales for the U.S. Print and Related Services segment for the three months ended June 30, 2011 were $1,920.9 million, an increase of $111.6 million, or 6.2%, compared to the same period in 2010. Net sales increased due to the acquisition of Bowne, higher commercial and logistics volumes, as well as higher volume in capital market transactions. These increases were partially offset by lower volume and continued price pressures in both books and directories. An analysis of net sales by reporting unit follows:

Magazines, catalogs and retail inserts: Sales remained relatively constant with continued price pressures and lower volume, partially offset by higher pass-through paper sales.

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Books and directories: Sales decreased primarily as a result of lower volume in consumer books, educational books and directories and decreases in pass-through paper sales in directories. The decrease in the volume of consumer books is due to the increasing popularity of e-books, a decline in popular titles and the bankruptcy of a large bookstore chain, while the decrease in the volume of educational books is due primarily to the timing of state funding.

Financial print: Sales increased as a result of the acquisition of Bowne and higher volume in capital market transactions, partially offset by lower investment management volume.

Variable print: Sales increased as a result of the acquisition of Bowne, partially offset by lower statement printing volume and reduction in pass-through postage sales.