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, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 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)

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(UNAUDITED)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 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

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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)

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.

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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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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

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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)

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

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			