

RR Donnelley & Sons Co
Form 10-K
February 22, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 1-4694

R. R. DONNELLEY & SONS COMPANY

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	36-1004130 (I.R.S. Employer Identification No.)
111 South Wacker Drive, Chicago, Illinois (Address of principal executive offices)	60606 (ZIP Code)
Registrant's telephone number (312) 326-8000	

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

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

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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

The aggregate market value of the shares of common stock (based on the closing price of these shares on the NASDAQ Stock Exchange Composite Transactions) on June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter, held by nonaffiliates was \$3,365,499,362.

As of February 17, 2011, 206,529,392 shares of common stock were outstanding.

Documents Incorporated By Reference

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Portions of the Registrant's proxy statement related to its annual meeting of stockholders scheduled to be held on May 19, 2011 are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

Company overview

R.R. Donnelley & Sons Company (RR Donnelley, the Company, we, us, and our) is a global provider of integrated communications. Founded 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 December 31, 2010, the Company acquired the assets of 8touches, an online provider of easy-to-use tools that allow real estate associates, brokers, Multiple Listing Service (MLS) associations and other marketers to create customized communications materials. 8touches' operations are located in Sealy, Texas and 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, headquartered in San Francisco, California. 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 headquartered in New York, New York, 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.

On June 18, 2009, the Company acquired Prospectus Central, LLC (Prospectus), an e-delivery company located in Fitzgerald, Georgia. Prospectus's operations are included in the U.S. Print and Related Services segment.

On January 2, 2009, the Company acquired the assets of PROSA, a web printing company located in Santiago, Chile. PROSA's operations, which produce magazines, catalogs, retail inserts and soft-cover textbooks, are included in the International segment.

On March 14, 2008, the Company acquired Pro Line Printing, Inc. (Pro Line), a multi-facility, privately held producer of newspaper inserts headquartered in Irving, Texas. Pro Line's operations are included in the U.S. Print and Related Services segment.

Segment descriptions

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 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 logistics, premedia and print management services. This segment's

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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.

The U.S. Print and Related Services segment accounted for approximately 75% of the Company's consolidated net sales in 2010.

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 magazine, catalogs, retail inserts, book, directories, financial printing and related services, forms, labels, 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.

The International segment accounted for approximately 25% of the Company's consolidated net sales in 2010.

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.

Financial and other information related to these segments is included in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and in Note 18, *Segment Information*, to the Consolidated Financial Statements. Additional information related to the Company's International operations is included in Note 19, *Geographic Area and Product Information*, to the Consolidated Financial Statements.

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. The excess capacity created by declines in industry volumes during the recession has resulted in intensified price competition in most product lines. Management expects that prices for the Company's products and services will continue to be a focal point for customers in coming years. The Company believes it needs to continue to lower its cost structure and differentiate its products 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

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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. The Company also believes that its strong financial condition is important to customers focused on establishing or growing long-term relationships with a stable provider of print and related services. Especially in an uncertain economic environment, the Company's financial strength is seen as a competitive advantage. The Company has made targeted acquisitions that offer customers greater capacity and flexibility and further secure the Company's position as a leader in the industry.

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 devalued 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. Despite rapid growth in the adoption of e-books, the Company does not believe there has been a significant impact on the volume of print. However, management does expect to see lower long-term growth in print book volume as e-book penetration continues to expand. The future impact of technology on the Company's business is difficult to predict and could result in additional expenditures to restructure impacted operations or develop new technologies.

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 acquisition of Bowne will continue 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 seasonal pattern in 2010 was in line with historical trends.

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 used in the manufacturing process may affect the Company's consolidated financial results. Recent strengthening of economic conditions, combined with paper industry capacity reductions, have caused prices to increase in 2010, and increases in future years are 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 substantially all 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.

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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 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 future operating costs or customer demand and the related impact either will have on the Company's consolidated annual results of operations, financial position or cash flows.

Distribution

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

Postal costs are a significant component of many customers' cost structures and postal rate changes can influence the number of pieces that the Company's customers are willing to print and mail. On September 30, 2010, the Postal Regulatory Commission denied the U.S. Postal Service's (USPS) request for a rate increase which would have been effective on January 2, 2011. Even though the rate increase was denied, the USPS is expected to request another increase under the Postal Accountability and Enhancement Act (the law that governs postal rate increases) that could be effective in May 2011. For most classes of mail, this increase is likely to be between three and four percent. As a leading provider of print logistics and the largest mailer of standard mail in the U.S., the Company works closely with the USPS and its customers on programs to minimize costs and ensure the viability of postal distribution. 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 postal rates. In addition, the Company offers innovative products and services to minimize customers' postal costs and has invested in equipment and technology to meet customer demand for these services.

Customers

For each of the years ended December 31, 2010, 2009 and 2008, no customer accounted for 10% or more of the Company's consolidated net sales.

Technology, Research and Development

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

Environmental Compliance

It is the Company's policy to conduct its global operations in accordance with all applicable laws, regulations and other requirements. 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.

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Employees

As of December 31, 2010, the Company had approximately 58,700 employees.

Available Information

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

Special Note Regarding Forward-Looking Statements

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

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

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

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

successful execution and integration of acquisitions, including the integration of Bowne;

successful negotiation of future acquisitions; and the ability of the Company to integrate operations successfully and achieve enhanced earnings or effect cost savings;

the ability to implement comprehensive plans for the integration of sales forces, cost containment, asset rationalization, systems integration and other key strategies;

the ability to divest non-core businesses;

future growth rates in the Company's core businesses;

competitive pressures in all markets in which the Company operates;

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the Company's ability to access unsecured debt in the capital markets and the participants' ability to perform to our contractual lending and insurance agreements;

changes in technology, including the electronic substitution and migration of paper based documents to digital data formats;

factors that affect customer demand, including changes in postal rates and postal regulations, changes in the capital markets, changes in advertising markets, customers' budgetary constraints and changes in customers' short-range and long-range plans;

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the ability to gain customer acceptance of the Company's new products and technologies;

the ability to secure and defend intellectual property rights and, when appropriate, license required technology;

customer expectations and financial strength;

performance issues with key suppliers;

changes in the availability or costs of key materials (such as ink, paper and fuel) or in prices received for the sale of by-products;

changes in ratings of the Company's debt securities;

the ability to generate cash flow or obtain financing to fund growth;

the effect of inflation, changes in currency exchange rates and changes in interest rates;

the effect of changes in laws and regulations, including changes in accounting standards, trade, tax, environmental compliance (including the emission of greenhouse gases and other air pollution controls), health and welfare benefits (including the Patient Protection and Affordable Care Act, as modified by the Health Care and Education Reconciliation Act, and further healthcare reform initiatives), price controls and other regulatory matters and the cost, which could be substantial, of complying with these laws and regulations;

contingencies related to actual or alleged environmental contamination;

the retention of existing, and continued attraction of additional, customers and key employees;

the effect of a material breach of security of any of the Company's systems;

the effect of labor disruptions or labor shortages;

the effect of economic and political conditions on a regional, national or international basis;

the effect of economic weakness and constrained advertising;

uncertainty about future economic conditions;

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the possibility of future terrorist activities or the possibility of a future escalation of hostilities in the Middle East or elsewhere;

the possibility of a regional or global health pandemic outbreak;

adverse outcomes of pending and threatened litigation; and

other risks and uncertainties detailed from time to time in the Company's filings with the SEC.

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

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

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ITEM 1A. RISK FACTORS

The Company's consolidated results of operations, financial position and cash flows can be adversely affected by various risks. These risks include, but are not limited to, the principal factors listed below and the other matters set forth in this Annual Report on Form 10-K. You should carefully consider all of these risks.

Risks Relating to the Businesses of the Company

Global market and economic conditions, as well as the effects of these conditions on our customers' businesses, have adversely affected the Company and those effects could continue.

Global economic conditions affect our customers' businesses and the markets they serve. Demand for advertising tends to correlate with changes in the level of economic activity in the markets our customers serve. Because a significant part of our business relies on our customers' advertising spending, a prolonged downturn in the global economy and an uncertain economic outlook has and could further reduce the demand for printing and related services that we provide these customers. Economic weakness and constrained advertising spending have resulted, and may in the future result, in decreased revenue, operating margin, earnings and growth rates and difficulty in managing inventory levels and collecting accounts receivable. We have experienced, and expect to experience in the future, reduced demand for our businesses due to economic conditions and other macroeconomic factors affecting consumers' and businesses' spending behavior. In addition, customer difficulties have resulted in, and might result in the future, increases in bad debt write-offs and our allowance for doubtful accounts receivable. In particular, our exposure to certain industries currently experiencing financial difficulties and certain financially troubled customers could have an adverse effect on our results of operations. We also have experienced, and expect to experience in the future, operating margin declines in certain businesses, reflecting the effect of items such as competitive pricing pressures, inventory write-downs and increases in pension and postretirement benefit expenses and funding requirements. Economic downturns may also result in restructuring actions and associated expenses and impairment of long-lived assets, including goodwill and other intangibles. Uncertainty about future economic conditions makes it difficult for us to forecast operating results and to make decisions about future investments. Delays or reductions in our customers' spending are expected to have an adverse effect on demand for our products and services, and consequently our results of operations, financial position and cash flow and those adverse effects could be material. Finally, economic downturns may affect our credit ratings, which, if downgraded, would cause an increase in borrowing costs.

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

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

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

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

The financial condition of our customers may deteriorate.

Many of our customers participate in highly competitive markets, and their financial condition may deteriorate as a result. A decline in the financial condition of our customers would hinder the Company's ability to collect amounts owed by customers. In addition, such a decline would result in lower demand for the

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Company's products and services. A lack of liquidity in the capital markets or a sustained period of unfavorable economic conditions will increase our exposure to credit risks and result in increases in bad debt write-offs and our allowance for doubtful accounts.

The Company may not be able to improve its operating efficiency rapidly enough to meet market conditions.

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

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

Achieving the anticipated benefits of acquisitions, including the 2010 acquisition of Bowne, will depend in part upon the Company's ability to integrate these businesses in an efficient and effective manner. The integration of companies that have previously operated independently may result in significant challenges, and the Company may be unable to accomplish the integration smoothly or successfully. In particular, the coordination of geographically dispersed organizations with differences in corporate cultures and management philosophies may increase the difficulties of integration. The integration of acquired businesses may also require the dedication of significant management resources, which may temporarily distract management's attention from the day-to-day operations of the Company. In addition, the process of integrating operations may cause an interruption of, or loss of momentum in, the activities of one or more of the Company's businesses and the loss of key personnel from the Company or the acquired businesses. Further, employee uncertainty and lack of focus during the integration process may disrupt the businesses of the Company or the acquired businesses. The Company's strategy is, in part, predicated on our ability to realize cost savings and to increase revenues through the acquisition of businesses that add to the breadth and depth of the Company's products and services. Achieving these cost savings and revenue increases is dependent upon a number of factors, many of which are beyond our control. In particular, the Company may not be able to realize the benefits of more comprehensive product and service offerings, anticipated integration of sales forces, asset rationalization and systems integration.

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

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

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

The Company provides health care and other benefits to both employees and retirees. In recent years, costs for health care have increased more rapidly than general inflation in the U.S. economy. If this trend in health care

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costs continues, the Company's cost to provide such benefits could increase, adversely impacting the Company's profitability. Changes to health care regulations in the U.S. may also increase the Company's cost of providing such benefits. In addition, the funded status of the Company's pension plans is dependent upon many factors, including returns on invested assets and the level of certain market interest rates. Declines in the market value of the securities held by plans, as experienced in prior years, have reduced and could again in the future materially reduce the funded status of the plans. These reductions have increased the level of expected pension expense and required contributions in future years and further increases in these costs could occur. Market conditions may lead to changes in the discount rate used to value the year-end benefit obligations of the plans, which could partially mitigate or worsen the effects of the lower asset returns. If an economic crisis were to continue for an extended period of time, our costs and required cash contributions associated with pension plans may substantially increase in future periods.

There are risks associated with operations outside the United States.

The Company has significant operations outside the United States. Revenues from the Company's operations outside the United States accounted for approximately 23% of the Company's consolidated net sales for the year ended December 31, 2010. As a result, the Company is subject to the risks inherent in conducting business outside the United States, including the impact of economic and political instability of those countries in which we operate. The volatile economic environment has increased the risk of disruption and losses resulting from hyper-inflation, currency devaluation and tax or regulatory changes in certain countries in which the Company has operations. In early 2010, the Company incurred a loss upon the devaluation of currency in Venezuela, and similar losses there or in other countries could occur again in the future.

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

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

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

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

Risks Related to Our Industry

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

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

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The substitution of electronic delivery for printed materials may continue to adversely affect our businesses.

Electronic delivery of documents and data, including the online distribution and hosting of media content, offer alternatives to traditional delivery of printed documents. Consumer acceptance of electronic delivery is uncertain, as is the extent to which consumers are replacing traditional reading of print materials with online, hosted media content or other e-reading devices, and it is difficult to predict the rates of acceptance of these alternatives. To the extent that consumers, our customers and regulators accept these alternatives, many of our products, such as books, magazines, directories, statement printing and forms, may be adversely affected.

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

The Company is subject to numerous rules and regulations, including, but not limited to, product safety, environmental and health and welfare benefit regulations. These rules and regulations may be changed by local, state or federal governments in countries in which the Company operates. Changes in these regulations may result in a significant increase in the Company's costs to comply. Compliance with changes in rules and regulations could require increases to the Company's workforce, increased cost for compensation and benefits, or investments in new or upgraded equipment. In addition, growing concerns about climate change, including the impact of global warming, may result in new regulations with respect to greenhouse gas emissions (including carbon dioxide (CO₂)) and/or cap and trade legislation. Compliance with this legislation could result in additional costs to the Company.

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

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

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

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

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

Postal costs are a significant component of many of our customers' cost structures and postal rate changes can influence the number of pieces and types of mailings that the Company's customers mail. In addition, the United States Postal Service has incurred significant financial losses in recent years and may, as a result, implement significant changes to the breadth or frequency of its mail delivery. If implemented, such changes could impact our customers' ability or willingness to communicate by mail. Any resulting decline in print volumes mailed would have an adverse effect on the Company's business.

Changes in the advertising, retail and capital markets may impact the demand for printing and related services.

Many of the end markets in which our customers compete are experiencing changes due to technological progress and changes in consumer preferences. The Company cannot predict the impact that these changes will

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have on demand for the Company's products and services. Such changes may decrease demand, increase pricing pressures, require investment in updated equipment and technology, or cause other adverse impacts to the Company's business. In addition, the Company must monitor changes in our customers' markets and develop new solutions to meet customers' needs. The development of such solutions may be costly, and there is no assurance that these solutions will be accepted by customers.

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. PROPERTIES

The Company's corporate office is located in leased office space in Chicago, Illinois. In addition, as of December 31, 2010, the Company leases or owns 362 U.S. facilities, some of which have multiple buildings and warehouses, and these U.S. facilities encompass approximately 39.3 million square feet. The Company leases or owns 207 international facilities encompassing approximately 9.9 million square feet in Canada, Latin America, South America, Europe, and Asia. Of our U.S. and international facilities, approximately 31.8 million square feet of space is owned, while the remaining 17.4 million square feet of space is leased.

ITEM 3. LEGAL PROCEEDINGS

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 federal and state Superfund sites. In addition to the Superfund 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 Superfund 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 Superfund 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 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.

Table of Contents**EXECUTIVE OFFICERS OF R.R. DONNELLEY & SONS COMPANY**

Name, Age and Positions with the Company	Officer Since	Business Experience During
		Past Five Years
Thomas J. Quinlan, III 48, President and Chief Executive Officer	2004	Served as RR Donnelley's President and Chief Executive Officer since April 2007. Prior to this, served as RR Donnelley's Group President, Global Services since October 2006 and Chief Financial Officer since April 2006. Prior to this, served as Executive Vice President, Operations since February 2004.
Suzanne S. Bettman 46, Executive Vice President, General Counsel, Corporate Secretary & Chief Compliance Officer	2004	Served as RR Donnelley's Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer since January 2007. Served previously as Senior Vice President, General Counsel since March 2004.
Andrew B. Coxhead 42, Senior Vice President, Controller and Chief Accounting Officer	2007	Served as Senior Vice President, Controller since October 2007. Prior to this, served as Vice President, Assistant Controller since September 2006. Prior to this, from 1995 until 2006, served in various capacities with RR Donnelley in financial planning, accounting, manufacturing management, operational finance and mergers and acquisitions.
Dan L. Knotts 46, Executive Vice President, Group President	2007	Served as RR Donnelley's Executive Vice President and Group President since April 2007. Prior to this, served as Chief Operating Officer, Global Print Solutions since January 2007. Prior to this, from 1986 until 2007, served in various capacities with RR Donnelley, including Group Executive Vice President, Operations, Publishing and Retail Services and President, Catalog/Retail/Magazine Solutions, RR Donnelley Print Solutions.
Daniel N. Leib 44, Group Chief Financial Officer	2009	Served as RR Donnelley's Group Chief Financial Officer and Senior Vice President, Mergers and Acquisitions since August 2009 and Treasurer until February 2010. Prior to this, served as RR Donnelley's Senior Vice President, Treasurer, Mergers and Acquisitions and Investor Relations since July 2007. Prior to this, from May 2004 to 2007, served in various capacities in financial management, corporate strategy and investor relations.
Miles W. McHugh 46, Executive Vice President and Chief Financial Officer	2006	Served as RR Donnelley's Executive Vice President and Chief Financial Officer since October 2007. Prior to this, served as Senior Vice President, Controller since June 2006. Prior to this, served as the Chief Financial Officer of RR Donnelley Logistics since 2004 and as Assistant Controller of RR Donnelley since October 2003.
John R. Paloian 52, Chief Operating Officer	2004	Served as RR Donnelley's Chief Operating Officer since April 2007. Served previously as RR Donnelley's Group President, Global Print Solutions since March 2004.

Table of Contents**PART II****ITEM 5. MARKET FOR R.R. DONNELLEY & SONS COMPANY S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF SECURITIES**

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

As of February 11, 2011, there were approximately 8,613 stockholders of record of our common stock. Quarterly closing prices of the Company s common stock, as reported on NASDAQ effective August 5, 2009 and New York Stock Exchange-Composite Transactions prior to August 5, 2009, and dividends paid per share during the years ended December 31, 2010 and 2009, are contained in the chart below:

	Dividends Paid		Closing Common Stock Prices			
	2010	2009	2010		2009	
			High	Low	High	Low
First Quarter	\$ 0.26	\$ 0.26	\$ 23.19	\$ 19.02	\$ 15.16	\$ 5.58
Second Quarter	0.26	0.26	22.60	16.37	14.43	8.08
Third Quarter	0.26	0.26	18.05	14.96	21.71	10.41
Fourth Quarter	0.26	0.26	18.82	15.76	22.71	20.08

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs(1)
October 1, 2010 - October 31, 2010		\$		10,000,000
November 1, 2010 - November 30, 2010				10,000,000
December 1, 2010 - December 31, 2010				10,000,000
Total		\$		10,000,000

- (1) The Company did not repurchase any of its shares under its share repurchase program during 2010. As of December 31, 2010, the Company was authorized under the terms of its share repurchase program to repurchase 10.0 million shares. Such purchases may be made from time to time and discontinued at any time.

PEER PERFORMANCE TABLE

The graph below compares five-year returns of the Company s common stock with those of the S&P 500 Index and a selected peer group of companies. The figures assume all dividends have been reinvested, and assume an initial investment of \$100 on December 31, 2005. The returns of each company in the peer group have been weighted to reflect their market capitalizations.

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

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

Company Name / Index	Base Period	Fiscal Years Ended December 31,				
		2005	2006	2007	2008	2009
RR Donnelley	100	107.17	116.95	44.04	77.87	64.76
Standard & Poor's 500	100	115.79	122.16	76.96	97.33	111.99
Peer Group	100	110.83	84.63	36.07	55.07	60.03

Below are the specific companies included in the peer group and the class of stock used if not common stock.

***Peer Group Companies**

A.H. Belo Corp.	McGraw-Hill Companies
American Greetings	Media General
Consolidated Graphics Inc.	Meredith Corp.
Deluxe Corp.	New York Times Co.
EW Scripps	Scholastic Corp.
Gannett Co.	Washington Post
Journal Communications Inc.	Wiley (John) & Sons
McClatchy Co.	

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA****SELECTED FINANCIAL DATA****(in millions, except per share data)**

	2010	2009	2008	2007	2006
Net sales	\$ 10,018.9	\$ 9,857.4	\$ 11,581.6	\$ 11,587.1	\$ 9,316.6
Net earnings (loss) from continuing operations attributable to RR Donnelley common shareholders	221.7	(27.3)	(191.7)	(48.4)	402.6
Net earnings (loss) from continuing operations attributable to RR Donnelley common shareholders per diluted share	1.06	(0.13)	(0.91)	(0.22)	1.84
Income (loss) from discontinued operations, net of tax			1.8	(0.5)	(2.0)
Net earnings (loss) attributable to RR Donnelley common shareholders	221.7	(27.3)	(189.9)	(48.9)	400.6
Net earnings (loss) attributable to RR Donnelley common shareholders per diluted share	1.06	(0.13)	(0.90)	(0.22)	1.83
Total assets	9,083.2	8,747.6	9,494.3	12,086.7	9,635.8
Long-term debt	3,398.6	2,982.5	3,203.3	3,601.9	2,358.6
Cash dividends per common share	1.04	1.04	1.04	1.04	1.04

Reflects results of acquired businesses from the relevant acquisition dates.
Includes the following significant items:

For 2010: Pre-tax restructuring and impairment charges of \$157.9 million, \$13.5 million of acquisition-related expenses, \$8.9 million pre-tax loss on the currency devaluation in Venezuela, including an increase in loss attributable to noncontrolling interests of \$3.6 million; and a pre-tax \$1.1 million write-down of affordable housing investments;

For 2009: Pre-tax restructuring and impairment charges of \$382.7 million, \$15.6 million of income tax expense due to the reorganization of entities within the International segment, a \$10.3 million pre-tax loss on the repurchases of \$640.6 million of senior notes, reclassification of a pre-tax loss of \$2.7 million from accumulated other comprehensive income to investment and other expense due to the change in the hedged forecasted interest payments resulting from the repurchase of senior notes, a \$2.4 million write-down of affordable housing investments and \$1.6 million of acquisition-related expenses;

For 2008: Pre-tax restructuring and impairment charges of \$1,184.7 million, a \$9.9 million pre-tax loss associated with the termination of cross-currency swaps, a tax benefit of \$228.8 million related to the decline in value and reorganization of certain entities within the International segment and a tax benefit of \$38.0 million from the recognition of uncertain tax positions upon settlement of certain U.S. federal tax audits for the years 2000 - 2002;

For 2007: Pre-tax restructuring and impairment charges of \$839.0 million and a tax benefit of \$9.3 million from the reduction in net deferred tax liabilities due to a decrease in the statutory tax rate in the United Kingdom; and

For 2006: Pre-tax restructuring and impairment charges of \$206.1 million, a write-down of investments in affordable housing of \$16.9 million, a gain on sale of investments of \$7.0 million, and a tax benefit from the realization of a deferred tax asset of \$23.5 million.

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

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

Business

R.R. Donnelley & Sons Company (RR Donnelley, the Company, we, us, and our) is a global provider of integrated communications. Founded 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.

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 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 reporting structure includes two segments: U.S. Print and Related Services and International.

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

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, forms, labels, 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.

The Company separately reports its net sales and related costs of sales for its product and service offerings. The Company's product offerings primarily consists of magazines, catalogs, retail inserts, books, directories, direct mail, financial print, forms, labels, statement printing, commercial print, office products and print management. The Company's service offerings primarily consists of logistics, premedia, EDGAR-related and XBRL financial services and certain business process outsourcing services.

Table of Contents**Executive Overview****2010 FINANCIAL PERFORMANCE**

The changes in the Company's income from continuing operations, operating margin, net earnings (loss) attributable to RR Donnelley common shareholders and net earnings (loss) attributable to RR Donnelley common shareholders per diluted share for the year ended December 31, 2010, from the year ended December 31, 2009, were due to the following (in millions, except per share data):

	Income from Continuing Operations	Operating Margin	Net Earnings (Loss) Attributable to RR Donnelley Common Shareholders	Net Earnings (Loss) Attributable to RR Donnelley Common Shareholders per Diluted Share
For the year ended December 31, 2009	\$ 344.3	3.5%	\$ (27.3)	\$ (0.13)
2010 restructuring and impairment charges	(157.9)	(1.6%)	(130.0)	(0.62)
2009 restructuring and impairment charges	382.7	3.9%	334.0	1.63
Acquisition-related expenses	(11.9)	(0.1%)	(10.8)	(0.06)
2010 Venezuela devaluation			(4.5)	(0.02)
2009 losses related to debt extinguishment			8.0	0.04
Write-down of affordable housing investments			0.8	0.01
Income tax adjustments			15.6	0.08
Operations	(1.7)	(0.2%)	35.9	0.13
For the year ended December 31, 2010	\$ 555.5	5.5%	\$ 221.7	\$ 1.06

2010 restructuring and impairment charges: included \$61.0 million and \$26.9 million of non-cash charges for the impairment of goodwill and intangible assets, respectively; charges of \$35.9 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; \$29.5 million of other restructuring costs, of which \$13.6 million related to multi-employer pension plan partial withdrawal charges primarily attributable to two closed manufacturing facilities within the U.S. Print and Related Services segment; and \$4.6 million for impairment of other long-lived assets.

2009 restructuring and impairment charges: included \$128.5 million of non-cash charges for the impairment of goodwill; charges of \$118.6 million, as discounted for future cash payments, for the termination of a significant long-term customer contract in the business process outsourcing reporting unit within the International segment, of which \$117.2 million, \$0.8 million and \$0.6 million are reflected as other restructuring charges, impairment and employee terminations, respectively; \$78.8 million for other 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; \$32.1 million of other restructuring costs, primarily lease termination costs; and \$24.7 million for impairment of long-lived assets.

Acquisition-related expenses: included pre-tax charges of \$13.5 million (\$11.8 million after-tax) related to legal, accounting and other expenses for the year ended December 31, 2010 associated with acquisitions completed or contemplated. For the year ended December 31, 2009, these pre-tax charges were \$1.6 million (\$1.0 million after-tax).

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 interests of \$3.6 million.

2009 losses related to debt extinguishment: included a \$10.3 million pre-tax loss on the repurchases of \$466.4 million of the 5.625% senior notes due January 15, 2012 and \$174.2 million of the 4.95% senior notes due May 15, 2010, as well as the reclassification of a pre-tax loss of \$2.7 million from accumulated other comprehensive income to investment and other expense due to the change in the hedged forecasted interest payments resulting from the repurchase of the 4.95% senior notes.

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Write-down of affordable housing investments: Investment and other expense included a \$1.1 million (\$0.7 million after-tax) and \$2.4 million (\$1.5 million after tax) write-down of the Company's affordable housing investments in 2010 and 2009, respectively.

Income tax adjustments: included \$15.6 million of income tax expense in 2009 due to the reorganization of entities within the International segment.

Operations: reflected higher net sales in Asia, logistics, variable print and financial print, cost savings from restructuring actions and productivity efforts, higher pricing on by-products recoveries and reduced depreciation and amortization and material costs, which were more than offset by price pressures, higher incentive compensation expense, LIFO inventory provisions and pension and postretirement expense. In addition, a lower effective tax rate due to the release of a valuation allowance on deferred tax assets and lower interest expense due to effect of the interest rate swaps attributed to the increase in net earnings from continuing operations. See further details in the review of operating results by segment that follows below.

2010 Overview

During 2010, the Company achieved modest organic net sales growth despite the inconsistent recovery in the world economy. On a consolidated basis, net sales increased \$161.5 million, or 1.6% from 2009, of which \$61.2 million, or 0.6%, related to the acquisition of Bowne. In addition, changes in foreign exchange rates increased net sales by \$8.6 million, or 0.1%. Additionally, the net sales growth reflected increased business in Asia, higher logistics volume with growth in mail center and commingling services, higher volume in variable print due to production of the 2010 U.S. census mailings and increases in direct mailings from financial services and retail customers and increased volume in financial print due to higher capital market transactions. These increases were partly offset by continued price pressure and reductions in pass-through paper sales in magazines, catalogs and retail inserts and books and directories.

The Company's income from continuing operations for the year ended December 31, 2010 increased 61.3% compared to 2009 primarily due to lower restructuring and impairment charges, procurement savings and benefits achieved from restructuring activities. These benefits were partially offset by cost inflation, price pressures, higher pension and postretirement expenses, higher LIFO inventory provisions and higher incentive compensation expense.

On November 24, 2010, the Company acquired Bowne for \$465.2 million in cash, including debt assumed of \$26.2 million and net of cash acquired of \$41.4 million. Bowne, a provider of shareholder and marketing communication services, has operations in North America, Latin America, Europe and Asia. The Company expects the acquisition of Bowne to expand and enhance the range of services that the Company offers to its customers, while creating an opportunity to provide its comprehensive line of products and services to Bowne's clients. In addition, this acquisition is expected to be accretive to earnings within twelve months of the closing date. As reflected above, \$61.2 million of the Company's increase in net sales in 2010 related to Bowne.

On December 17, 2010, the Company entered into a \$1.75 billion unsecured and committed revolving credit agreement (the *Credit Agreement*) which expires December 17, 2013, subject to a possible one-year extension if agreed to by the lending financial institutions. Interest on borrowings under the *Credit Agreement* is dependent on the Company's credit ratings at the time of borrowing and are calculated according to a base or Eurocurrency rate plus an applicable margin. The Company will pay annual commitment fees at rates dependent on the Company's credit ratings. The *Credit Agreement* replaced the Company's previous \$2.0 billion unsecured and committed revolving credit facility (the *previous Facility*). All amounts outstanding under the *previous Facility* were repaid with borrowings under the *Credit Agreement*. The *Credit Agreement* will be used for general corporate purposes, including letters of credit and as a backstop for the Company's commercial paper program.

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OUTLOOK

Vision and Strategy

RR Donnelley’s vision is to improve on our existing position as a global provider of integrated communications by providing our customers with the highest quality products and services.

The Company’s long-term strategy is focused on maximizing long-term shareholder value by driving profitable growth, continuing its focus on productivity and maintaining a disciplined approach to capital deployment. To increase shareholder value, the Company pursues three major strategic objectives. These objectives are summarized below, along with more specific areas of focus.

Strategic Objective	Focus Areas	2011 Priorities
Profitable growth	New product development	Grow digital platforms as an integral element of market offering
	Global customer relationships	Leverage existing relationships to generate organic growth
		Offer cost-saving solutions for customers
		Increase transactional sales
Productivity	Disciplined cost management	Leverage scale to optimize asset utilization and procurement
	Flexible cost structure	Use technology to increase productivity
	Streamline and standardize processes	
Balanced capital deployment	Strong financial position	Capital spending targeted for growth and innovation
	Targeted mergers and acquisitions	Meet changing customer demands
		Maintain dividend
		Disciplined due diligence and financial analysis

The Company’s long-term strategy is to generate profitable growth. In order to accomplish this, the Company will continue to make targeted capital investments to support new business and leverage its global platform. The Company is focusing its information technology efforts on projects that facilitate integration and make it easier for customers to manage their full range of communication needs. The Company is also working to more fully integrate its sales efforts to broaden customer relationships and meet our customers’ demands. The Company’s global platform provides differentiated solutions for its customers through its broad range of complementary print-related services, strong logistics capabilities, and its innovative leadership in both conventional and digital technologies.

Management believes productivity improvement and cost reduction are critical to the Company’s competitiveness, while enhancing the value the Company delivers to its customers. The Company has implemented strategic initiatives across all platforms to reduce its overall cost structure and enhance productivity, including restructuring, consolidation, reorganization and integration of operations, and streamlining of administrative and support activities.

The Company seeks to deploy its capital using a balanced approach in order to ensure financial flexibility and provide returns to shareholders. Priorities for capital deployment, over time, include principal and interest payments on debt obligations, dividend payments to shareholders, capital expenditures, targeted acquisitions and share repurchases. The Company believes that a strong financial condition is important to customers focused on establishing or growing long-term relationships with a stable provider of print and related services. The Company also expects to make targeted acquisitions that extend its capabilities, drive cost savings and reduce future capital spending needs.

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The Company uses several key indicators to gauge progress toward achieving these objectives. These indicators include net sales growth, operating margins, cash flow from operations and capital expenditures. The Company targets long-term net sales growth at or above industry levels, while achieving modest growth in operating margins. Combined with working capital management, this growth is expected to drive increasing cash flow from operations over time. Cash flow from operations can, however, be significantly impacted by the timing of non-recurring or infrequent receipts and expenditures.

Industry Environment

The Company faces many challenges and risks as a result of competing in highly competitive global markets. Item 1A, *Risk Factors*, discusses many of these issues, and the Company's strategy is primarily focused on meeting the challenges of industry-wide price competition and the advancement of technology.

Overcapacity and pricing environment

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. The additional excess capacity created by the recent declines in industry volume has resulted in intensified price competition in some product lines. Management expects that prices for the Company's products and services will continue to be a focal point for customers in coming years. As a result of these ongoing industry dynamics, the Company believes it needs to continuously lower its cost structure and further differentiate its products and service offerings.

Technology

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 distinctive capabilities of its products and services to improve its customers' communications, whether in paper form or through electronic communications. The Company aims 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.

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 devalued 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. Despite rapid growth in the adoption of e-books, the Company does not believe there has been a significant impact on the volume of print. However, management does expect to see lower long-term growth in print book volume as e-book penetration continues to expand. The future impact of technology on the Company's business is difficult to predict and could result in additional expenditures to restructure impacted operations or develop new technologies.

While new technologies present significant challenges to certain of the Company's traditional products, management believes that the Company is a leader in key technologies that, as customers continue to shift towards customized and higher-valued-added print, will be valuable sources of industry growth. These technologies include digital content management and premedia services, digital print for personalization and print-on-demand, and low-cost document process management. In addition, the ability to offer specialized services for certain customers, such as compliance assurance and secure environments for print, is becoming increasingly important. The Company continues to make focused investments in digital technologies in order to capitalize on these opportunities.

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2011 Outlook

In 2011, the Company expects net sales to increase from 2010 primarily as a result of the acquisition of Bowne and organic growth driven by an anticipated continued moderate economic recovery, although the pace of the economic recovery is very difficult to predict. The Company's plans assume the slow and uneven recovery of the U.S. and European economies will continue during 2011, with significantly faster growth in developing economies. The Company expects further improvement in consumer discretionary spending and a continuation of the upward trend in advertising levels by our customers. In addition, the highly competitive market conditions and unused industry capacity will continue to put pressure on prices for both transactional work and contract renewals. We will continue to leverage the One RR Donnelley platform and powerful customer relationships in order to provide a larger share of our customers' print and related integrated communications needs. In addition, the Bowne acquisition should result in a trend of further improvements in sales and earnings as cost savings are realized and technology solutions for customers are fully integrated. The Company also expects to continue cost control and productivity initiatives, including selected facility consolidations across certain platforms. In addition, the Company plans to continue the suspension of its regular matching contribution under its 401(k) plan; however, the Company will consider a discretionary 401(k) match in 2011 based on Company performance and market conditions. Projected significant increases in pension and postretirement benefits expense and healthcare costs are expected to have a negative impact on operating earnings.

U.S. Print and Related Services

Net sales in U.S. Print and Related Services are expected to increase in 2011 driven primarily by the acquisition of Bowne and the anticipated continuing economic recovery. Other than magazine, catalog and retail inserts and books and directories, all of the Company's reporting units are expected to have increased net sales. The continued impact of lower prices is expected to reduce sales in magazine, catalog and retail inserts despite the improving trend in advertising and consumer spending. Books and directories sales are expected to decrease as a result of lower directory volumes which continue to be negatively impacted by electronic substitution and regulatory changes. For variable print, net sales are anticipated to increase driven by direct mail opportunities in the financial and healthcare industries as well as the acquisition of Bowne. In forms and labels and office products, the Company is expecting increases in net sales primarily resulting from growth in outsourced office product volume and higher labels volume that will more than offset price pressures and the impact of electronic substitution. Commercial print sales are anticipated to increase from improved transactional volume and higher marketing and advertising spending that more than offset continuing price pressure. Net sales of logistics services are expected to increase, driven by continuing growth in mail center and commingling services, along with third party print logistics. Sales of financial print products and services are expected to increase primarily due to the acquisition and integration of Bowne along with continued strength in capital markets transactions. In premedia, the Company is anticipating increases in net sales from both new and existing customers resulting from increased marketing and advertising spending.

The overall net sales increase in U.S. Print and Related services, combined with the integration of Bowne and an improved cost structure resulting from ongoing productivity efforts, is expected to result in increased operating income.

International

Net sales in the International segment are expected to increase from 2010 primarily driven by volume increases across all platforms and the acquisition of Bowne. Net sales in business process outsourcing are expected to increase driven by new customer wins and growth with existing customers. The Company expects sales increases in Asia resulting from volume growth in print packaging, domestic retail, catalog and book offerings and the acquisition of Bowne to be partially offset by continuing price pressure. The Company generally expects volumes in Latin America to increase driven by growth in commercial print in Argentina and Mexico along with the stabilization of the economy in Venezuela that will more than offset the continuing

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decline in forms volumes in Brazil. Net sales in Europe are expected to increase due to new customer wins, improving commercial print and financial services volumes and the acquisition of Bowne, partially offset by lower directory volume and price declines. Sales in Global Turnkey Solutions are expected to improve slightly as volume growth from existing customers and new business is expected to more than offset a significant lost customer. Improvements in statement printing volumes from new customers, commercial print and the acquisition of Bowne are expected to increase sales in Canada.

The International segment is expected to generate an increase in operating income in 2011 based on the expected net sales increase, the acquisition of Bowne, the lower cost structure of operations in all platforms and the impact of the Company's productivity initiatives.

Other

Pension and postretirement benefits expenses are expected to increase by approximately \$23.4 million in 2011, reflecting the impact of increases in these liabilities due to lower discount rates and further recognition in operating earnings of 2008 asset losses that were initially recorded in other comprehensive income. Although the market value of securities in these plans rebounded in 2009 and 2010, the Company's pension and postretirement plans remain underfunded by \$553.5 million and \$298.4 million, respectively, as of December 31, 2010 as reported in the Company's Consolidated Balance Sheets and further described in Note 11, *Retirement Plans*, to the Consolidated Financial Statements. Governmental regulations for measuring pension plan funded status differ from those required under U.S. GAAP for financial statement preparation. Based on the plans' regulatory funded status as of January 1, 2010 and future years, required contributions in 2011 under all pension and postretirement plans are expected to be similar to recent years at approximately \$61.0 million. The Company expects that required contributions in future years will increase, and may elect to make additional non-required contributions to its plans in 2011.

The effective tax rate in 2011 may be significantly lower than the 2010 rate due to the impact of the recognition of certain tax positions due to favorable resolution of audits or expirations of statutes of limitations. The effective tax rate may also be impacted by changes in the mix of earnings across jurisdictions.

The expected improvement in earnings, along with a continuing focus on working capital management, are expected to generate higher cash flow from operating activities in 2011 compared to 2010. The Company expects to increase capital expenditures to be approximately \$250 million to \$275 million in 2011, driven by investments in developing economies and new technologies. The Company currently expects to maintain its quarterly dividend at current levels. The quarterly dividend must be approved by the Company's Board of Directors. Significant changes in market conditions or the consummation of one or more significant acquisitions could result in increased borrowings, reductions in capital expenditures or the dividend, or other changes to the Company's capital structure.

Significant Accounting Policies and Critical Estimates

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

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Revenue Recognition

The Company recognizes revenue for the majority of its products upon the transfer of title and risk of loss, which is generally upon shipment to the customer. Contracts and customer agreements generally specify F.O.B. shipping point terms. Under agreements with certain customers, custom products may be stored by the Company for future delivery. In these situations, the Company may receive a logistics or warehouse management fee for the services it provides. In certain of these cases, delivery and billing schedules are outlined in the customer agreement and product revenue is recognized when manufacturing is complete, title and risk of loss transfer to the customer, and there is a reasonable assurance as to collectability. Because substantially all of the Company's products are customized, product returns are not significant; however, the Company accrues for the estimated amount of customer credits at the time of sale.

Revenue from services is recognized as services are performed. Within the Company's financial print operations, which serve the global financial services end market, the Company produces highly customized materials such as regulatory S-filings, initial public offerings and EDGAR-related and XBRL services. Revenue is recognized for these services following final delivery of the printed product or upon completion of the service performed. Revenues related to the Company's premedia operations, which include digital content management, photography, color services and page production, are recognized in accordance with the terms of the contract, typically upon completion of the performed service and acceptance by the customer. With respect to the Company's logistics operations, whose operations include the delivery of printed material, the Company recognizes revenue upon completion of the delivery of services.

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

The Company records deferred revenue in situations where amounts are invoiced but the revenue recognition criteria outlined above are not met. Such revenue is recognized when all criteria are subsequently met.

Accounts Receivable

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

Inventories

The Company records inventories at the lower of cost or market value. Most of the Company's inventories are valued under the last-in first-out (LIFO) basis. Changes in inflation indices may cause an increase or decrease

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in the value of inventories accounted for under the LIFO costing method. The Company maintains inventory allowances for excess and obsolete inventories determined in part by future demand forecasts. If there were to be a sudden and significant decrease in demand for its products, or if there were a higher incidence of inventory obsolescence because of changing technology and customer requirements, the Company could be required to increase its inventory allowances.

Goodwill and Other Long-Lived Assets

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

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. A two-step method is used for determining goodwill impairment. In the first step, the Company compares the estimated fair value of each reporting unit to its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds the estimated fair value, step two is completed to determine the amount of the impairment loss. Step two requires the allocation of the estimated fair value of the reporting unit to the assets, including any unrecognized intangible assets, and liabilities in a hypothetical purchase price allocation. Any remaining unallocated fair value represents the implied fair value of goodwill, which is compared to the corresponding carrying value of goodwill to compute the goodwill impairment amount. In 2010, the Company recorded a total non-cash charge of \$61.0 million to reflect impairment of goodwill in the forms and labels reporting unit.

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

The determination of the fair value of the reporting units and the allocation of that value to individual assets and liabilities within those reporting units requires the Company to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to: the selection of appropriate peer group companies; control premiums appropriate for acquisitions in the industries in which the Company competes; the discount rate; terminal growth rates; and forecasts of revenue, operating income, depreciation and amortization, restructuring charges and capital expenditures. The allocation requires several analyses to determine fair value of assets and liabilities including, among others, trade names, customer relationships, and property, plant and equipment (valued at replacement costs). Although we believe our estimates of fair value are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on either the fair value of the reporting units, the amount of the goodwill impairment charge, or both. Future declines in the overall market value of the Company's equity and debt securities may also result in a conclusion that the fair value of one or more reporting units has declined below its carrying value.

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One measure of the sensitivity of the amount of goodwill impairment charges to key assumptions is the amount by which each reporting unit passed (fair value exceeds the carrying amount) or failed (the carrying amount exceeds fair value) the first step of the goodwill impairment test. For the thirteen units that passed step one, fair values exceeded the carrying amounts by between 21% and 804% of their respective estimated fair values. Small changes in the Company's key assumptions would not have resulted in any of these reporting units failing step 1. For the forms and labels reporting unit that failed, the carrying amount exceeded fair value by 8.8% of its respective estimated fair value. Accordingly, relatively small changes in certain key assumptions would have resulted in this reporting unit passing step one. There is no goodwill allocated to the business process outsourcing reporting unit at October 31, 2010.

Generally, changes in estimates of expected future cash flows would have a similar effect on the estimated fair value of the reporting unit. That is, a 1% decrease in estimated future cash flows would decrease the estimated fair value of the reporting unit by approximately 1%. The estimated long-term rate of net sales growth can have a significant impact on the estimated future cash flows, and therefore, the fair value of each reporting unit. A 1% decrease in the long-term net sales growth rate would have resulted in no additional reporting units failing the first step of the goodwill impairment test. Of the other key assumptions that impact the estimated fair values, most reporting units have the greatest sensitivity to changes in the estimated discount rate. The discount rate for the reporting units in the U.S. Print and Related Services segment were estimated to be 9.0% for most reporting units and 10.5% for the financial print, variable print, logistics and premedia reporting units as of October 31, 2010. Estimated discount rates for units in the International segment ranged from 8.5% to 14.0%. A 1.0 percentage point increase in estimated discount rates would have resulted in no additional reporting units failing step one. The Company believes that its estimates of future cash flows and discount rates are reasonable, but future changes in the underlying assumptions could differ due to the inherent uncertainty in making such estimates. Additionally, further price deterioration on contract renewals and new business along with lost or reduced volume could have a significant impact on the fair value for these reporting units.

The Company evaluates the recoverability of other long-lived assets, including property, plant and equipment and certain identifiable intangible assets, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company performs impairment tests of indefinite-lived intangible assets on an annual basis or more frequently in certain circumstances. Factors considered important which could trigger an impairment review include significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the assets or the strategy for the overall business, a significant decrease in the market value of the assets or significant negative industry or economic trends. When the Company determines that the carrying amount of long-lived assets may not be recoverable based upon the existence of one or more of the indicators, the assets are assessed for impairment based on the estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment loss is recorded for the excess of the asset's carrying amount over its fair value. During the third quarter of 2010, the Company recorded a non-cash charge of \$26.9 million for the impairment of acquired customer relationship intangible assets in the Global Turnkey Solutions reporting unit within the International segment.

Commitments and Contingencies

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

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The Company purchases third-party insurance for workers' compensation, automobile and general liability claims that exceed a certain level. The Company is responsible for the payment of claims below these insured limits, and consulting actuaries are utilized to assist the Company in estimating the obligation associated with incurred losses, which are recorded in accrued liabilities and other non-current liabilities. Historical loss development factors for both the Company and the industry are utilized to project the future development of incurred losses, and these amounts are adjusted based upon actual claims experience and settlement. If actual experience of claims development is significantly different from these estimates, an adjustment in future periods may be required.

Restructuring

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

Accounting for Income Taxes

Significant judgment is required in determining the provision for income taxes and related accruals, deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. In the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. Additionally, the Company's tax returns are subject to audit by various U.S. and foreign tax authorities. The Company recognizes a tax position in its financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. This recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The consolidated financial statements as of December 31, 2010 and 2009 reflect these tax positions. Although management believes that its estimates are reasonable, the final outcome of uncertain tax positions may be materially different from that which is reflected in the Company's historical financial statements.

The Company has recorded deferred tax assets related to future deductible items, including domestic and foreign tax loss and credit carryforwards. The Company evaluates these deferred tax assets by tax jurisdiction. The utilization of these tax assets is limited by the amount of taxable income expected to be generated within the allowable carryforward period and other factors. Accordingly, management has provided a valuation allowance to reduce certain of these deferred tax assets when management has concluded that, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be fully realized. If actual results differ from these estimates, or the estimates are adjusted in future periods, adjustments to the valuation allowance might need to be recorded. As of December 31, 2010 and 2009, valuation allowances of \$259.5 million and \$277.5 million, respectively, were recorded in the Company's Consolidated Financial Statements.

Share-Based Compensation

The Company recognizes share-based compensation expense based on estimated fair values for all share-based awards made to employees and directors, including stock options, restricted stock units and performance share units. The Company recognizes compensation expense for share-based awards expected to vest on a straight-line basis over the requisite service period of the award based on their grant date fair value. The amount

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of expense recognized for these awards is determined by the Company's estimates of several factors, including future forfeitures of awards, expected volatility of the Company's stock, and the average life of options prior to expiration. See Note 16, *Stock and Incentive Programs for Employees*, to the Consolidated Financial Statements for further discussion.

Pension and Postretirement Benefit Plans

The Company records annual amounts relating to its pension and postretirement benefit plans based on calculations which include various actuarial assumptions including discount rates, assumed rates of return, compensation increases, turnover rates and health care cost trend rates. The Company reviews its actuarial assumptions on an annual basis and modifies the assumptions based on current rates and trends when it is appropriate to do so. The effects of modifications are recognized immediately on the balance sheet, but are generally amortized into operating earnings over future periods, with the deferred amount recorded in accumulated other comprehensive income. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience, market conditions and input from its actuaries and investment advisors. The Company determines its assumption for the discount rate to be used for purposes of computing annual service and interest costs based on an index of high-quality corporate bond yields and matched-funding yield curve analysis as of that date. The discount rates for pension benefits at December 31, 2010 and 2009 were 5.5% and 6.0%, respectively. The discount rates for postretirement benefits at December 31, 2010 and 2009 were 5.2% and 5.7%, respectively. A one percentage point decrease in the discount rates at December 31, 2010 would increase the pension plans' accumulated benefit obligation and projected benefit obligation by approximately \$489.8 million and \$503.1 million, respectively. A one percentage point decrease in the discount rates at December 31, 2010 would increase the postretirement plans' accumulated benefit obligation by approximately \$53.1 million.

The Company employs a total return investment approach for its pension and postretirement benefit plans whereby a mix of equities, fixed income and, for certain pension plans, alternative investments is used to maximize the long-term return of pension and postretirement plan assets. The intent of this strategy is to minimize plan contributions by outperforming the growth in plan liabilities over the long run. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolios contain a diversified blend of equity, fixed income and alternative investments. Furthermore, equity investments are diversified across geography, market capitalization and investment style through investments in U.S. large-capitalization stocks, U.S. small-capitalization stocks and international securities. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies and quarterly investment portfolio reviews. The expected long-term rate of return for plan assets is based upon many factors including expected asset allocations, historical asset returns, current and expected future market conditions and risk. The prospective target asset allocation percentage for both the pension and postretirement benefit plans is approximately 75% for equity and other securities and approximately 25% for fixed income. The expected return on plan assets assumption at December 31, 2010 was 7.5% and 8.5% for the Company's major U.S. and Canadian pension plans, respectively, and was 7.6% for the Company's partially funded U.S. postretirement medical benefit plans.

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

The health care cost trend rates used in valuing the Company's postretirement benefit obligations are established based upon actual health care cost trends and consultation with actuaries and benefit providers. At December 31, 2010, the current weighted average health care trend rate assumption for the major U.S. postretirement plans was 7.8% for both pre-age and post-age 65 participants. The current trend rate gradually decreases to an ultimate trend rate of 6.0%. The current weighted average health care trend rate assumption for the Canada postretirement plan was 9.0% for both pre-age and post-age 65 participants, gradually decreasing to an ultimate trend rate of 5.5%.

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A one-percentage point increase in the assumed health care cost trend rates would have the following effects (in millions):

Postretirement benefit obligation	\$ 7.5
Total postretirement benefit service and interest cost components	0.7

A one-percentage point decrease in the assumed health care cost trend rates would have the following effects (in millions):

Postretirement benefit obligation	\$ (6.4)
Total postretirement benefit service and interest cost components	(0.6)

Off-Balance Sheet Arrangements

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

Financial Review

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

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2010 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2009

The following table shows the results of operations for the years ended December 31, 2010 and 2009, which reflects the results of acquired businesses from the relevant acquisition dates:

	2010	2009 (in millions)	\$ Change	% Change
Net Sales				
Products	\$ 8,956.4	\$ 8,925.4	\$ 31.0	0.3%
Services	1,062.5	932.0	130.5	14.0%
Total net sales	10,018.9	9,857.4	161.5	1.6%
Products cost of sales (exclusive of depreciation and amortization shown below)	6,857.8	6,789.8	68.0	1.0%
Services cost of sales (exclusive of depreciation and amortization shown below)	785.1	673.1	112.0	16.6%
Selling, general and administrative expenses (exclusive of depreciation and amortization shown below)	1,123.4	1,088.5	34.9	3.2%
Restructuring and impairment charges	157.9	382.7	(224.8)	(58.7%)
Depreciation and amortization	539.2	579.0	(39.8)	(6.9%)
Total operating expenses	9,463.4	9,513.1	(49.7)	(0.5%)
Income from continuing operations	\$ 555.5	\$ 344.3	\$ 211.2	61.3%

Consolidated

Net sales of products for the year ended December 31, 2010 increased \$31.0 million, or 0.3%, to \$8,956.4 million versus the prior year. Net sales of products increased due to the increased sales from the production of mailings for the U.S. Census and higher volume in Asia. In addition, net sales increased \$38.4 million, or 0.4%, due to the acquisition of Bowne and \$8.5 million, or 0.1%, from changes in foreign exchange rates.

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These increases were partially offset by decreases primarily attributable to continued price pressure and reductions in pass-through paper sales in magazines, catalogs and retail inserts and books and directories.

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Net sales from services for the year ended December 31, 2010 increased \$130.5 million, or 14.0%, to \$1,062.5 million versus the prior year. Net sales from services increased due to higher logistics volumes driven in part by growth in mail center and commingling services. In addition, net sales increased \$22.8 million, or 2.4%, due to the acquisition of Bowne.

Products cost of sales increased \$68.0 million to \$6,857.8 million for the year ended December 31, 2010 versus the prior year, primarily due to the acquisition of Bowne, volume increases, higher LIFO inventory provisions and higher incentive compensation expense, partially offset by higher pricing on by-products recoveries and lower material costs. Products cost of sales as a percentage of products net sales increased from 76.1% to 76.6%, reflecting the continued price pressures on net sales, higher LIFO inventory provisions and higher incentive compensation expense as a result of the Company achieving certain targets, partially offset by the benefits of continued productivity efforts.

Services cost of sales increased \$112.0 million to \$785.1 million for the year ended December 31, 2010 versus the prior year, primarily due to logistics volume increases, higher incentive compensation expense and the acquisition of Bowne. Services cost of sales as a percentage of services net sales increased from 72.2% to 73.9%, reflecting the continued price pressures on net sales and higher incentive compensation expense.

Selling, general and administrative expenses increased \$34.9 million to \$1,123.4 million for the year ended December 31, 2010 versus the prior year due to higher pension and postretirement expenses, the acquisition of Bowne and higher incentive compensation expense, partially offset by benefits achieved from restructuring activities. Selling, general and administrative expenses as a percentage of consolidated net sales increased from 11.0% to 11.2%, reflecting the acquisition of Bowne and higher incentive compensation expense.

For the year ended December 31, 2010, the Company recorded a net restructuring and impairment provision of \$157.9 million compared to \$382.7 million in 2009. In 2010, these charges included non-cash pre-tax charges of \$61.0 million for the impairment of goodwill for the forms and labels reporting unit within the U.S. Print and Related Services segment. The goodwill impairment charge resulted from reductions in the estimated fair value of the forms and labels reporting unit, based on lower expectations for future revenue and cash flows due to continued impacts of electronic substitution on forms demand and increasing price pressure. In addition, the lower fair value reflects higher estimated spending on information technology and capital equipment, in part to better position this reporting unit for increased growth in labels volume as forms demand continues to decline. Impairment charges also included \$26.9 million for the impairment of acquired customer relationship intangible assets in the Global Turnkey Solutions reporting unit within the International segment. The impairment of the customer relationship intangible asset primarily resulted from the termination of a customer contract. Additionally, for the year ended December 31, 2010, the Company recorded \$35.9 million for workforce reductions of 1,458 employees (of whom 1,354 were terminated as of December 31, 2010) associated with actions resulting from the reorganization of certain operations. These actions included the reorganization of certain operations within the Financial Print reporting unit within the U.S. Print and Related Services segment due to the acquisition of Bowne. In addition, these actions included the closing of one Latin America manufacturing facility, one business process outsourcing manufacturing facility and one Global Turnkey Solutions manufacturing facility within the International segment. Further, 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. In addition, the Company recorded \$4.6 million of impairment charges of other long-lived assets and \$29.5 million of other restructuring charges. The other restructuring costs included \$13.6 million related to multi-employer pension plan partial withdrawal charges primarily attributable to two closed manufacturing facilities within the U.S. Print and Related Services segment, as well as lease termination and other facility closure costs.

For the year ended December 31 2009, these charges included a non-cash pre-tax charge of \$128.5 million for the impairment of goodwill and \$118.6 million, discounted for future cash payments, for the termination of a

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significant long-term customer contract in the business process outsourcing reporting unit within the International segment, which allowed the Company to withdraw from certain unprofitable operations in this area. In addition, these charges included \$78.8 million for workforce reductions of 4,043 employees (all of whom were terminated as of December 31, 2010) associated with actions resulting from the reorganization of certain operations. These actions also included the closings of two catalog, magazine and retail insert manufacturing facilities, two book manufacturing facilities and one premedia facility within the U.S. Print and Related Services segment and the closing of one Global Turnkey Solutions manufacturing facility, one business process outsourcing facility, one Latin America manufacturing facility and one European manufacturing facility within the International segment. Additionally, the Company recorded \$24.7 million of impairment charges for other long-lived assets and \$32.1 million of other restructuring costs, including lease termination and other facility closure costs.

Depreciation and amortization decreased \$39.8 million to \$539.2 million for the year ended December 31, 2010 compared to 2009, primarily due to a declining trend in capital expenditures over recent years. Depreciation and amortization included \$99.3 million and \$99.1 million of amortization of purchased intangibles related to customer relationships, patents, trade names, licenses and non-compete agreements for the year ended December 31, 2010 and 2009, respectively.

Income from continuing operations for the year ended December 31, 2010 was \$555.5 million compared to \$344.3 million for the year ended December 31, 2009, an increase of 61.3%. The increase was primarily driven by the lower restructuring and impairment charges in 2010, procurement savings and benefits achieved from restructuring activities, partially offset by cost inflation, price pressures, higher LIFO inventory provisions and higher incentive compensation expense.

Net interest expense decreased by \$12.0 million for the year ended December 31, 2010 versus the same period in 2009, primarily due to lower average outstanding borrowings and the effect of the interest rate swaps. In addition, 2009 was impacted by the accelerated amortization of debt issuance costs and unamortized discounts related to the repurchase of \$640.6 million of senior notes.

Net investment and other expense for the years ended December 31, 2010 and 2009 was \$9.9 million and \$16.6 million, respectively. In 2010, the Company recorded an \$8.9 million loss related to the devaluation of the Venezuelan currency, of which \$3.6 million increased the loss attributable to noncontrolling interests. In addition, in 2009, the Company's repurchases of \$640.6 million of its senior notes maturing in 2012 and 2010 resulted in a loss on the debt extinguishment of \$10.3 million. As a result of the repurchase of the senior notes due May 15, 2010, the Company reclassified a loss of \$2.7 million from accumulated other comprehensive income to investment and other expense in 2009 due to changes in the hedged forecasted interest payments.

The effective income tax rate for the year ended December 31, 2010 was 32.8% compared to 123.0% in 2009. The lower effective tax rate in 2010 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. The higher rate in 2009 reflected a larger impact from the non-deductible, non-cash goodwill impairment charges and the partially deductible charges, discounted for future cash payments, of \$118.6 million for the termination of a significant long-term customer contract in the business process outsourcing reporting unit within the International segment.

Income (loss) attributable to noncontrolling interests was a loss of \$4.6 million for the year ended December 31, 2010 and income of \$5.9 million for the year ended December 31, 2009. The loss in 2010 as compared to income in 2009 primarily reflects the impact of the currency devaluation in Venezuela.

Net earnings (loss) from continuing operations attributable to RR Donnelley common shareholders for the year ended December 31, 2010 was \$221.7 million, or \$1.06 per diluted share, compared to a loss of \$27.3 million, or \$0.13 per diluted share, for the year ended December 31, 2009. In addition to the factors described

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above, the per share results reflect an increase in weighted average diluted shares outstanding of 4.5 million primarily resulting from the Company's net loss in 2009 causing all outstanding options and unvested share awards to be anti-dilutive, as well as increases in the average stock price and the issuance of shares related to the vesting of restricted stock units and stock options.

U.S. Print and Related Services

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

	Year Ended December 31,	
	2010	2009
	(in millions)	
Net sales	\$ 7,532.2	\$ 7,437.0
Income from continuing operations	638.9	489.2
Operating margin	8.5%	6.6%
Restructuring and impairment charges	94.0	163.8

Reporting unit(1)	2010	2009	\$ Change	% Change
	Net Sales	Net Sales		
	(in millions)			
Magazines, catalogs and retail inserts	\$ 1,934.2	\$ 2,050.4	\$ (116.2)	(5.7%)
Books and directories	1,425.6	1,462.0	(36.4)	(2.5%)
Variable print	1,209.0	1,149.3	59.7	5.2%
Forms and labels	822.4	829.5	(7.1)	(0.9%)
Commercial	612.4	602.1	10.3	1.7%
Logistics	598.4	495.1	103.3	20.9%
Financial print	556.5	471.5	85.0	18.0%
Office products	212.4	228.7	(16.3)	(7.1%)
Premedia	161.3	148.4	12.9	8.7%
Total U.S. Print and Related Services	\$ 7,532.2	\$ 7,437.0	\$ 95.2	1.3%

- (1) The amounts included in the above table represent net sales by reporting unit and the descriptions above reflect the primary products or services provided by each. Included in these net sales amounts are sales of other products or services that may be produced within a reporting unit to meet customer needs and improve operating efficiency. Certain prior year amounts were restated to conform to the Company's current reporting unit structure.

Net sales for the U.S. Print and Related Services segment for the year ended December 31, 2010 were \$7,532.2 million, an increase of \$95.2 million, or 1.3%, compared to 2009. Net sales increased due to higher logistics volumes and the increased sales from the production of mailings for the U.S. Census. In addition, the acquisition of Bowne increased net sales \$48.1 million, or 0.6%. These increases were partially offset by reductions in pass-through paper sales across the magazines, catalogs and retail inserts and books and directories reporting units and price declines across most reporting units. An analysis by reporting unit follows:

Magazine, catalogs and retail inserts: Sales decreased due to reductions in pass-through paper sales, lower prices and lower volume on contract renewals.

Books and directories: Sales decreased primarily as a result of reductions in pass-through paper sales, lower prices and lower sales in directories, partially offset by higher volume in educational books and related materials, as well as consumer books.

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Variable print: Sales increased due to the production of mailings for the U.S. Census and higher direct mailings from financial services and retail customers, partially offset by reduced print fulfillment and distribution volume from healthcare customers.

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Forms and labels: Sales decreased due to continued price pressure on both forms and labels and lower forms volume, partially offset by increased sales of labels.

Commercial: Sales increased due to higher volume from financial services and retail customers, partially offset by increased price pressure.

Logistics: Sales increased primarily due to higher print and other logistics services volumes along with growth in mail center and commingling services, as well as higher fuel surcharges.

Financial print: Sales increased due to increased capital market transactions and the acquisition of Bowne, partially offset by lower investment management and compliance volume.

Office products: Sales decreased due to lower volume from large existing customers, customer losses and unfavorable pricing.

Premedia: Sales increased due to volume from new customers and significantly higher volume at existing customers, partially offset by lower pricing.

U.S. Print and Related Services segment income from continuing operations increased \$149.7 million mainly driven by lower restructuring and impairment charges, cost reductions resulting from restructuring actions and productivity initiatives, higher pricing on by-products recoveries and higher volumes, partially offset by the price declines discussed above. Operating margins in the U.S. Print and Related Services segment increased from 6.6% for the year ended December 31, 2009 to 8.5% for the year ended December 31, 2010 due to lower restructuring and impairment charges, the cost reductions discussed above and higher pricing on by-products sales, which more than offset the impact of lower prices and higher incentive compensation expense.

International

The following tables summarize net sales, income (loss) from continuing operations and certain items impacting comparability within the International segment:

	Years Ended December 31,	
	2010	2009
	(in millions)	
Net sales	\$ 2,486.7	\$ 2,420.4
Income (loss) from continuing operations	149.5	(36.0)
Operating margin	6.0%	(1.5%)
Restructuring and impairment charges	50.6	210.7

Reporting unit	2010	2009	Net Sales	\$ Change	% Change
	Net Sales	Net Sales			
	(in millions)				
Business process outsourcing	\$ 553.4	\$ 603.3	\$ (49.9)		(8.3%)
Asia	550.6	436.2	114.4		26.2%
Latin America	457.9	467.9	(10.0)		(2.1%)
Europe	401.8	388.7	13.1		3.4%
Global Turnkey Solutions	300.6	321.6	(21.0)		(6.5%)
Canada	222.4	202.7	19.7		9.7%

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Total International	\$ 2,486.7	\$ 2,420.4	\$ 66.3	2.7%
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Net sales for the International segment for the year ended December 31, 2010 were \$2,486.7 million, an increase of \$66.3 million, or 2.7%, compared to 2009. Net sales increased \$13.1 million, or 0.5%, due to the acquisition of Bowne and \$7.4 million, or 0.3%, from changes in foreign exchange rates. An analysis by reporting unit follows:

Business process outsourcing: Sales decreased due to the lower volume resulting from the termination of a significant customer contract in 2009, partially offset by higher volume from a new customer contract.

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Asia: Sales increased due to higher volume of books exported to the U.S. and Europe, higher local sales of catalogs and retail inserts and increased volume from technology manuals and packaging products, partially offset by lower prices on print packaging products.

Latin America: Sales decreased due to the impact of the currency devaluation in Venezuela, disruptions caused by the Chilean earthquake and continued decreases in demand for business forms, particularly in Brazil, partially offset by changes in foreign exchange rates.

Europe: Sales increased due to increased volume in technology manuals and other packaging products and changes in foreign exchange rates, partially offset by declining prices.

Global Turnkey Solutions: Sales decreased due to unfavorable product mix from existing customers, partially offset by volume from new customers and changes in foreign exchange rates.

Canada: Sales increased due to changes in foreign exchange rates and the acquisition of Bowne, partially offset by lower statement printing volume.

Income (loss) from continuing operations increased \$185.5 million primarily due to lower restructuring and impairment charges and increased business in Asia, partially offset by lower prices. Operating margins increased from a loss of 1.5% for the year ended December 31, 2009 to 6.0% for the year ended December 31, 2010, of which 6.7 percentage points were due to lower restructuring and impairment charges. The remaining increase resulted from cost reductions driven by restructuring actions and productivity improvements and the termination of the significant customer contract in 2009, which more than offset lower prices, cost inflation and higher incentive compensation expense.

Corporate

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

	Years Ended December 31,	
	2010	2009
	(in millions)	
Operating expenses	\$ 232.9	\$ 108.9
Restructuring and impairment charges	13.3	8.2
Acquisition and related costs	13.5	1.6

Corporate operating expenses for the year ended December 31, 2010 were \$232.9 million, an increase of \$124.0 million compared to 2009. The increase was driven by higher pension and postretirement benefit expense of \$45.2 million, LIFO inventory provisions of \$10.2 million in 2010 compared to a benefit of \$17.6 million in 2009, higher acquisition-related costs of \$11.9 million and higher restructuring and impairment charges of \$5.1 million related to the integration of Bowne, partially offset by cost reductions from productivity initiatives and restructuring actions.

Table of Contents**RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2009 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2008 (in millions, except per share data)**

	Income (loss) from Continuing Operations	Operating Margin	Net Loss Attributable to RR Donnelley Common Shareholders	Net Loss Attributable to RR Donnelley Common Shareholders Per Diluted Share
For the year ended December 31, 2008	\$ (40.5)	(0.3%)	\$ (189.9)	\$ (0.90)
2009 restructuring and impairment charges	(382.7)	(3.9%)	(334.0)	(1.63)
2008 restructuring and impairment charges	1,184.7	10.2%	1,073.9	5.11
2009 acquisition-related expenses	(1.6)	0.0%	(1.0)	
2009 losses related to debt extinguishment			(8.0)	(0.04)
2009 write-down of affordable housing investments			(1.5)	(0.01)
2008 loss on termination of cross-currency swaps			1.8	0.01
Income tax adjustments			(282.4)	(1.35)
Discontinued operations			(1.8)	(0.01)
Operations	(415.6)	(2.5%)	(284.4)	(1.31)
For the year ended December 31, 2009	\$ 344.3	3.5%	\$ (27.3)	\$ (0.13)

2009 restructuring and impairment charges: included \$128.5 million of non-cash charges for the impairment of goodwill; charges of \$118.6 million, discounted for future cash payments, for the termination of a significant long-term customer contract in the business process outsourcing reporting unit within the International segment, of which \$117.2 million, \$0.8 million and \$0.6 million are reflected as other restructuring charges, impairment and employee terminations, respectively; \$78.8 million for other 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; \$32.1 million of other restructuring costs, primarily lease termination costs; and \$24.7 million for impairment of long-lived assets.

2008 restructuring and impairment charges: included \$1,125.4 million of non-cash charges for the impairment of goodwill and intangible assets; charges of \$44.1 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; \$10.6 million of other restructuring costs, primarily lease termination costs; and \$4.6 million for impairment of other long-lived assets.

2009 acquisition-related expenses: legal, accounting and other expenses associated with acquisitions completed or contemplated.

2009 losses related to debt extinguishment: included a \$10.3 million pre-tax loss on the repurchases of \$466.4 million of the 5.625% senior notes due January 15, 2012 and \$174.2 million of the 4.95% senior notes due May 15, 2010, as well as the reclassification of a pre-tax loss of \$2.7 million from accumulated other comprehensive income to investment and other expense due to the change in the hedged forecasted interest payments resulting from the repurchase of the 4.95% senior notes.

2009 write-down of affordable housing investments: Investment and other income (expense) included a \$2.4 million (\$1.5 million after tax) write-down of the Company's affordable housing investments in 2009.

2008 pre-tax loss on termination of cross-currency swaps: Investment and other income (expense) included a \$9.9 million (\$1.8 million after tax) loss in 2008 resulting from the Company's termination of its cross-currency swaps.

Income tax adjustments: included \$15.6 million of income tax expense in 2009 due to the reorganization of entities within the International segment. In addition, reflected tax benefits of \$228.8 million realized in

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2008 related to the decline in value and reorganization of certain entities within the International segment, as well as a benefit of \$38.0 million in 2008 from the recognition of uncertain tax positions upon the final settlement of certain U.S. federal tax audits for the years 2000 - 2002.

Operations: reflected lower net sales primarily driven by the global economic slowdown, higher incentive compensation expense and lower pricing on by-products sales, partially offset by cost savings from restructuring actions and productivity efforts, a benefit resulting from lower LIFO inventory provisions and the impact of 2008 share repurchases. See further details in the review of operating results by segment that follows below.

The following table shows the results of operations for the years ended December 31, 2009 and 2008, which reflects the results of acquired businesses from the relevant acquisition dates.

	2009	2008 (in millions)	\$ Change	% Change
Net sales				
Products	\$ 8,925.4	\$ 10,465.0	\$ (1,539.6)	(14.7%)
Services	932.0	1,116.6	(184.6)	(16.5%)
Total net sales	9,857.4	11,581.6	(1,724.2)	(14.9%)
Products cost of sales (exclusive of depreciation and amortization shown below)	6,789.8	7,772.9	(983.1)	(12.6%)
Services cost of sales (exclusive of depreciation and amortization shown below)	673.1	803.4	(130.3)	(16.2%)
Selling, general and administrative expenses (exclusive of depreciation and amortization shown below)	1,088.5	1,220.5	(132.0)	(10.8%)
Restructuring and impairment charges	382.7	1,184.7	(802.0)	(67.7%)
Depreciation and amortization	579.0	640.6	(61.6)	(9.6%)
Total operating expenses	9,513.1	11,622.1	(2,109.0)	(18.1%)
Income (loss) from continuing operations	\$ 344.3	\$ (40.5)	\$ 384.8	950.1%
Consolidated				

Net sales of products for the year ended December 31, 2009 decreased \$1,539.6 million, or 14.7%, to \$8,925.4 million versus the prior year. Changes in foreign exchange rates decreased net sales by \$172.6 million, or 1.6%, while the acquisitions of PROSA and Pro Line increased net sales by \$36.2 million, or 0.3%. The remaining decreases were primarily attributable to significant volume declines and continued price pressure across most products as customer demand decreased primarily due to the global economic slowdown.

Net sales from services for the year ended December 31, 2009 decreased \$184.6 million, or 16.5%, to \$932.0 million versus the prior year. Changes in foreign exchange rates decreased net sales by \$28.5 million, or 2.6%. The remaining decreases were primarily attributable to significant volume declines and continued price pressure across most services as customer demand decreased primarily due to the global economic slowdown.

Products cost of sales decreased \$983.1 million to \$6,789.8 million for the year ended December 31, 2009 versus the prior year, primarily due to volume decreases and a benefit resulting from lower LIFO inventory provisions, offset by lower pricing on by-product sales and higher incentive compensation expense. Product cost of sales as a percentage of product net sales increased from 74.3% to 76.1%, reflecting the impact of price pressures on net sales, volume declines, lower pricing on by-products sales and higher incentive compensation expense, offset in part by the benefits of continued productivity efforts and lower LIFO inventory provisions.

Services cost of sales decreased \$130.3 million to \$673.1 million for the year ended December 31, 2009 versus the prior year, primarily due to volume decreases partially offset by higher incentive compensation

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expense. Services cost of sales as a percentage of services net sales increased from 72.0% to 72.2%, reflecting the impact of price pressures on net sales and higher incentive compensation expense, partially offset by the benefits of continued productivity efforts.

Selling, general and administrative expenses decreased \$132.0 million to \$1,088.5 million for the year ended December 31, 2009 versus the prior year due to restructuring-driven cost reductions, lower sales commissions based on reduced volume, decreased bad debt expenses, the elimination of the Company's 401(k) match and changes in foreign exchange rates, partially offset by higher incentive compensation expense. Selling, general and administrative expenses as a percentage of consolidated net sales increased from 10.5% to 11.0%, reflecting the impact of the net sales decline and higher incentive compensation expense, which more than offset the benefit of productivity efforts.

For the year ended December 31, 2009, the Company recorded a net restructuring and impairment provision of \$382.7 million compared to \$1,184.7 million in 2008. In 2009, these charges included a non-cash pre-tax charge of \$128.5 million for the impairment of goodwill and \$118.6 million, discounted for future cash payments, for the termination of a significant long-term customer contract in the business process outsourcing reporting unit within the International segment, which allowed the Company to withdraw from certain unprofitable operations in this area. In addition, these charges included \$78.8 million for workforce reductions of 4,043 employees (all of whom were terminated as of December 31, 2010) associated with actions resulting from the reorganization of certain operations. These actions also included the closings of two catalog, magazine and retail insert manufacturing facilities, two book manufacturing facilities and one premedia facility within the U.S. Print and Related Services segment and the closing of two Global Turnkey Solutions manufacturing facilities, one business process outsourcing facility, one Latin America manufacturing facility and one European manufacturing facility within the International segment. Additionally, the Company recorded \$24.7 million of impairment charges for other long-lived assets and \$32.1 million of other restructuring costs, including lease termination and other facility closure costs. For the year ended December 31, 2008, these charges included non-cash, pre-tax charges of \$1,125.4 million for the impairment of goodwill and other intangible assets and \$44.1 million for workforce reductions of 2,245 employees (all of whom were terminated as of December 31, 2010) associated with actions resulting from the reorganization of certain operations and the exiting of certain business activities. These actions included the realignment and consolidation of the Canadian organization, management reorganization within Latin America, the closing of two Global Turnkey Solutions manufacturing facilities within the International segment and the realignment and consolidation of the financial print organization in the U.S. Print and Related Services and International segments. In addition, the Company recorded \$4.6 million of impairment charges of other long-lived assets and \$10.6 million of other restructuring costs, mainly related to lease terminations in exited facilities.

Depreciation and amortization decreased \$61.6 million to \$579.0 million for the year ended December 31, 2009 compared to 2008, primarily due to reduced capital expenditures and the reduced balance of amortizable intangible assets resulting from the impairment of customer relationship intangible assets in the business process outsourcing unit in 2008. Changes in foreign exchange rates also caused the lower depreciation and amortization expense. Depreciation and amortization included \$99.1 million and \$123.3 million of amortization of purchased intangibles related to customer relationships, patents, trade names, licenses and non-compete agreements for the year ended December 31, 2009 and 2008, respectively.

Income from continuing operations for the year ended December 31, 2009 was \$344.3 million compared to a loss from continuing operations of \$40.5 million for the year ended December 31, 2008. The increase in earnings was primarily driven by the higher non-cash impairment charges recorded in 2008, as well as the cost savings achieved from restructuring activities and productivity efforts, a benefit resulting from lower LIFO inventory provisions due to reduced inventory levels and lower inventory and commodity prices, decreased bad debt expenses and lower intangible amortization expense, partially offset by the lower net sales primarily driven by the global economic slowdown, higher incentive compensation expense and lower pricing on by-products sales.

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Net interest expense increased by \$8.2 million for the year ended December 31, 2009 versus the prior year, primarily due to the issuance of \$400 million of 11.25% senior notes and \$350 million of 8.60% senior notes on January 14, 2009 and August 26, 2009, respectively, as well as the accelerated amortization of debt issuance costs and unamortized discounts related to the repurchase of \$640.6 million of senior notes maturing in 2012 and 2010 and lower international interest income as a result of lower interest rates, partially offset by lower average short-term borrowings.

Net investment and other expense for the year ended December 31, 2009 and 2008 was \$16.6 million and \$2.4 million, respectively. In 2009, the Company's repurchases of \$640.6 million of its senior notes maturing in 2012 and 2010 resulted in a loss on the debt extinguishment of \$10.3 million. In addition, as a result of the repurchase of the senior notes due May 15, 2010, the Company reclassified a loss of \$2.7 million from accumulated other comprehensive income to investment and other expense due to changes in the hedged forecasted interest payments. Additionally, the Company recorded a \$2.4 million write-down on its affordable housing investments. For the year ended December 31, 2008, the Company terminated its cross-currency swaps, which resulted in a loss of \$9.9 million. In addition, the Company sold an equity investment in Latin America, which resulted in a gain of \$4.9 million.

The effective income tax rate for the year ended December 31, 2009 was a provision of 123.0% compared to a benefit of 31.2% in 2008. The effective tax rate for the year ended December 31, 2009 was impacted by the non-deductible, non-cash goodwill impairment charge of \$128.5 million and the partially deductible charges, discounted for future cash payments, of \$118.6 million for the termination of a significant long-term customer contract in the business process outsourcing reporting unit within the International segment. The 2008 effective income tax rate was impacted by the non-deductible goodwill impairment charge of \$800.1 million and by tax benefits of \$228.8 million related to the decline in value and reorganization of certain entities within the International segment and related tax benefits realized upon the reorganization of certain foreign entities therein and the benefit of \$38.0 million from the recognition of uncertain tax positions upon final settlement of certain U.S. federal income tax audits for the years 2000-2002.

Net loss from continuing operations attributable to RR Donnelley common shareholders for the year ended December 31, 2009 was \$27.3 million, or \$0.13 per diluted share, compared to \$191.7 million, or \$0.91 per diluted share, for the year ended December 31, 2008. In addition to the factors described above, the per share results reflect a decrease in weighted average diluted shares outstanding of 5.0 million, primarily resulting from the Company's repurchase of 10.0 million shares of its common stock in 2008.

Table of Contents**U.S. Print and Related Services**

The following tables summarize net sales, income from continuing operations and certain items impacting comparability, which reflect the results of acquired businesses from the relevant acquisition dates, within the U.S. Print and Related Services segment:

	Year Ended December 31,	
	2009	2008
	(in millions)	
Net sales	\$ 7,437.0	\$ 8,704.2
Income from continuing operations	489.2	708.9
Operating margin	6.6%	8.1%
Restructuring and impairment charges	163.8	405.8

Reporting unit(1)	2009	2008	\$ Change	% Change
	Net Sales	Net Sales (in millions)		
Magazines catalogs and retail inserts	\$ 2,050.4	\$ 2,528.0	\$ (477.6)	(18.9%)
Books and directories	1,462.0	1,764.5	(302.5)	(17.1%)
Variable print	1,149.3	1,261.5	(112.2)	(8.9%)
Forms and labels	829.5	908.1	(78.6)	(8.7%)
Commercial	602.1	711.9	(109.8)	(15.4%)
Logistics	495.1	573.1	(78.0)	(13.6%)
Financial print	471.5	522.6	(51.1)	(9.8%)
Office products	228.7	270.5	(41.8)	(15.5%)
Premedia	148.4	164.0	(15.6)	(9.5%)
Total U.S. Print and Related Services	\$ 7,437.0	\$ 8,704.2	\$ (1,267.2)	(14.6%)

- (1) The amounts included in the above table represent net sales by reporting unit and the descriptions above reflect the primary products or services provided by each. Included in these net sales amounts are sales of other products or services that may be produced within a reporting unit to meet customer needs and improve operating efficiency. Certain prior year amounts were restated to conform to the Company's current reporting unit structure.

Net sales for the U.S. Print and Related Services segment for the year ended December 31, 2009 were \$7,437.0 million, a decrease of \$1,267.2 million, or 14.6%, compared to 2008. The acquisition of Pro Line increased net sales \$17.5 million, or 0.2%. The increase due to the acquisition was more than offset by volume and price declines across all products and services primarily due to the global economic slowdown. An analysis by reporting unit follows:

Magazines, catalogs and retail inserts: Sales decreased due to lower page counts resulting from reduced advertising spending, lower circulation volume and price pressure on new and existing customer contracts.

Books and directories: Sales decreased due to lower volume in educational books, related materials and directories.

Variable print: Sales decreased due to an unfavorable shift in product mix, lower sales of direct mailings from financial service companies and retail customers and reduced fulfillment and distribution volume from healthcare customers.

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Forms and labels: Sales decreased due to lower volume from major customers and increased price pressure.

Commercial: Sales decreased due to lower volume as a result of the economic slowdown and increased price pressure.

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Logistics: Sales decreased primarily due to lower print volumes and reductions in fuel surcharges.

Financial print: Sales decreased due to reductions in the size and number of capital market transactions and increased price pressure.

Office products: Sales decreased primarily due to lower volume from large retail customers.

Premedia: Sales declined due to lower volume from existing customers for print related products.

U.S. Print and Related Services segment income from continuing operations decreased \$219.7 million mainly because of the volume and price declines discussed above, lower pricing on by-products sales and higher incentive compensation expense, partially offset by lower restructuring and impairment charges, operating cost reductions driven by the restructuring actions and productivity initiatives. Operating margins in the U.S. Print and Related Services segment decreased from 8.1% for the year ended December 31, 2008 to 6.6% for the year ended December 31, 2009. The margin declines resulted from the impact of volume declines, price pressures, lower pricing on by-products sales and higher incentive compensation expense, partially offset by lower restructuring and impairment charges and cost savings, as discussed above.

International

The following tables summarize net sales, loss from continuing operations and certain items impacting comparability within the International segment:

	Years Ended December 31,	
	2009	2008
	(in millions)	
Net sales	\$ 2,420.4	\$ 2,877.4
Loss from continuing operations	(36.0)	(564.6)
Operating margin	(1.5%)	(19.6%)
Restructuring and impairment charges	210.7	774.7

Reporting unit	2009	2008	\$ Change	% Change
	Net Sales	Net Sales (in millions)		
Business process outsourcing	\$ 603.3	\$ 734.0	\$ (130.7)	(17.8%)
Asia	436.2	473.0	(36.8)	(7.8%)
Latin America	467.9	485.2	(17.3)	(3.6%)
Europe	388.7	498.0	(109.3)	(21.9%)
Global Turnkey Solutions	321.6	455.0	(133.4)	(29.3%)
Canada	202.7	232.2	(29.5)	(12.7%)
Total International	\$ 2,420.4	\$ 2,877.4	\$ (457.0)	(15.9%)

Net sales for the International segment for the year ended December 31, 2009 were \$2,420.4 million, a decrease of \$457.0 million, or 15.9%, compared to 2008. The decrease in net sales was primarily due to changes in foreign exchange rates of \$201.1 million, or 7.0%, and volume and price declines resulting from the global economic slowdown. An analysis by reporting unit follows:

Business process outsourcing: Net sales decreased due to changes in foreign exchange rates, as well as lower volume in transactional print and mail and design and print management services.

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Asia: Sales decreased due to reduced export book sales and lower volumes and prices on print packaging products.

Latin America: Net sales decreased due to changes in foreign exchange rates and lower sales of forms, partially offset by the acquisition of PROSA, which increased net sales by \$18.7 million, or 3.9%.

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Europe: Net sales decreased due to changes in foreign exchange rates and lower sales of directories and commercial print, as well as unfavorable product mix changes and declining prices, largely related to technology manuals and other related packaging products.

Global Turnkey Solutions: Net sales decreased due to lower volume from retail and technology customers, as the economic slowdown impacted both consumer and business spending on their products, as well as changes in foreign exchange rates.

Canada: Net sales decreased due to changes in foreign exchange rates and lower sales of forms and labels, statement printing and commercial print products.

Loss from continuing operations decreased \$528.6 million primarily due to lower restructuring and impairment charges, partially offset by volume declines, the ongoing impact of competitive price pressures, unfavorable product mix and higher incentive compensation expense, partially offset by lower intangible amortization expense. Operating margins as a percentage of sales increased from (19.6%) for the year ended December 31, 2008 to (1.5%) for the year ended December 31, 2009. Of this margin change, 19.6 percentage points were attributable to the impact of lower restructuring and impairment charges. In addition, the margin increase was due to cost reductions driven by restructuring actions and productivity improvements, partially offset by volume and price declines.

Corporate

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

	Years Ended December 31,	
	2009	2008
	(in millions)	
Operating expenses	\$ 108.9	\$ 184.8
Restructuring and impairment charges	8.2	4.2

Corporate operating expenses for the year ended December 31, 2009 were \$108.9 million, a decrease of \$75.9 million compared to 2008. The decrease was primarily driven by a benefit resulting from the reduction in the LIFO inventory reserve of \$17.6 million in 2009 as compared to an expense of \$30.6 million in 2008, the elimination of the Company's 401(k) match and cost reductions from productivity and restructuring actions, partially offset by higher incentive compensation expense and higher restructuring and impairment charges.

RESTRUCTURING, IMPAIRMENT, AND ACQUISITION-RELATED CHARGES

During 2010, the Company recorded net restructuring and impairment charges of \$157.9 million. These charges included \$61.0 million for the impairment of goodwill within the forms and labels reporting unit in the U.S. Print and Related Services segment, \$26.9 million for the impairment of acquired customer relationship intangible assets in the Global Turnkey Solutions reporting unit within the International segment and \$4.6 million for the impairment of other long-lived assets. Additionally, these charges included \$35.9 million related to workforce reductions of 1,458 employees (1,354 of whom were terminated as of December 31, 2010), associated with actions resulting from reorganization of certain operations. These actions included the reorganization of certain operations within the Financial Print reporting unit within the U.S. Print and Related Services segment due to the acquisition of Bowne. In addition, these actions included the reorganization of certain operations within the business process outsourcing and Latin America reporting units and the continuing charges resulting from the closing of two Global Turnkey Solutions manufacturing facilities in 2009 within the International segment. Further, these actions 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. Finally, the Company recorded \$29.5 million of other

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restructuring charges, of which \$13.6 million related to multi-employer pension plan partial withdrawal charges primarily attributable to two closed manufacturing facilities within the U.S. Print and Related Services segment, as well as lease termination and other facility closure costs.

During 2009, the Company recorded net restructuring and impairment charges of \$382.7 million. These charges included \$128.5 million for the impairment of goodwill and \$24.7 million for the impairment of other long-lived assets. In addition, the Company recorded charges, discounted for future cash payments, of \$118.6 million for the termination of a significant long-term customer contract in the business process outsourcing reporting unit within the International segment, of which \$117.2 million, \$0.8 million and \$0.6 million are reflected in other charges, impairment and employee terminations, respectively. Additionally, these charges included \$78.8 million related to workforce reductions of 4,043 employees (all of whom were terminated as of December 31, 2010), associated with actions resulting from the reorganization of certain operations and the exiting of certain business activities. These actions included the closings of two magazine, catalog and retail insert manufacturing facilities, two book manufacturing facilities and one premedia facility within the U.S. Print and Related Services segment and the closing of two Global Turnkey Solutions manufacturing facilities, one business process outsourcing facility, one Latin America manufacturing facility and one European manufacturing facility within the International segment. Finally, the Company incurred other restructuring charges of \$32.1 million, including lease termination and other facility closure costs.

During 2008, the Company recorded restructuring and impairment charges of \$1,184.7 million. These charges included \$800.1 million for the impairment of goodwill, \$325.3 million for the impairment of customer relationships intangible assets and \$4.6 million for the impairment of other long-lived assets. In addition, these charges included \$44.1 million related to workforce reductions of 2,245 employees (all of whom were terminated as of December 31, 2009), associated with actions resulting from the reorganization of certain operations and the exiting of certain business activities. These actions included the realignment and consolidation of the Canadian organization, management reorganization within Latin America, the closing of two Global Turnkey Solutions manufacturing facilities within the International segment and realignment and consolidation of the financial print organization in the U.S. Print and Related Services and International segments. In addition, \$10.6 million of other restructuring costs, including lease terminations in exited facilities, were recorded for the year ended December 31, 2008.

During 2008, the Company capitalized \$2.1 million of restructuring costs related to employee terminations and other costs in connection with the acquisition of Pro Line. Costs of \$1.7 million were for workforce reductions of 23 employees resulting from the elimination of duplicative administrative functions. Charges of \$0.4 million of other restructuring costs included lease terminations in exited facilities.

The Company made cash payments of \$158.1 million, \$126.4 million and \$68.9 million for restructuring activities during the years ended December 31, 2010, 2009 and 2008, respectively. \$95.8 million of the \$158.1 million paid in 2010 and \$22.2 million of the \$126.4 million paid in 2009 related to the terminated customer contract discussed previously. These outlays were all funded using cash generated from operations and cash on hand.

In 2011, the Company expects to realize further cost savings associated with the restructuring actions taken in 2010 and 2009, primarily through reduced employee and facility costs. Restructuring actions have been and will continue to be taken in conjunction with the recent acquisition of Bowne, which will result in significant additional restructuring charges in 2011. In addition, the Company expects to identify other cost reduction opportunities within both current and newly acquired businesses and possibly take further actions in 2011, which may result in significant additional restructuring charges. These restructuring actions will be funded by cash generated from operations and cash on hand or, if necessary, the Company will fund these costs by utilizing its credit facilities.

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LIQUIDITY AND CAPITAL RESOURCES

The following describes the Company's cash flows for the years ended December 31, 2010, 2009 and 2008.

Cash Flows From Operating Activities

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

2010 compared to 2009

Net cash provided by operating activities of continuing operations was \$752.5 million for the year ended December 31, 2010, compared to \$1,425.8 million for the year ended December 31, 2009. The decrease in operating cash flow reflected the \$515.8 million benefit from reductions in net working capital (accounts receivable, inventory, prepaid expenses and other current assets and accounts payable) driven by volume declines and efficiency improvement in 2009, the non-recurring tax refund of \$164.1 million in 2009, the continued price pressures on net sales in 2010, the \$57.5 million payment in January 2010 related to the termination of the long-term customer contract in 2009 and incentive compensation payments in the first quarter of 2010 compared to no such payments in 2009. These decreases were partially offset by higher operating earnings in 2010 driven by cost reductions from productivity and restructuring actions and the \$22.2 million payment in the third quarter of 2009 related to the termination of the long-term customer contract in 2009.

2009 compared to 2008

Net cash provided by operating activities of continuing operations was \$1,425.8 million for the year ended December 31, 2009, compared to \$1,018.8 million for the year ended December 31, 2008. The increase in operating cash flow reflected the extending of payment terms on accounts payable, the receipt of income tax refunds of \$164.1 million, reductions in inventories and accounts receivable resulting from volume declines and a focus on improved working capital management, lower incentive compensation payments in 2009 as compared to 2008 and lower income tax payments due to decreased taxable income, partially offset by lower operating earnings driven by significant volume declines.

Cash Flows From Investing Activities

2010 compared to 2009

Net cash used in investing activities for the year ended December 31, 2010 was \$674.5 million compared to \$260.9 million for the year ended December 31, 2009. Net cash used for the acquisitions of Bowne, Nimblefish and 8touches during 2010 was \$439.8 million and the acquisitions of PROSA and Prospectus during 2009 was \$26.6 million. The Company used \$17.0 million to purchase long-term investments and \$14.7 million to purchase short-term deposits during 2010. The short-term term deposits were subsequently liquidated for \$14.9 million during 2010. The Company received proceeds from the sale of investments and other assets of \$11.2 million during 2010 compared to \$2.2 million during 2009. Capital expenditures were \$229.4 million in 2010, an increase of \$34.4 million compared to 2009. The Company continues to fund capital expenditures primarily through cash provided by operations. Finally, in 2009, the Company transferred \$43.7 million to restricted cash within other noncurrent assets on the Consolidated Balance Sheets related to the customer contract termination within the business process outsourcing reporting unit and received transfers from restricted cash of \$6.2 million.

2009 compared to 2008

Net cash used in investing activities for the year ended December 31, 2009 was \$260.9 million compared to \$351.2 million for the year ended December 31, 2008. Net cash used for acquisition of businesses during 2009 included \$26.6 million for the acquisition of PROSA and Prospectus. For the year ended December 31, 2008, net

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cash used for acquisitions included \$132.6 million for the acquisition of Pro Line and another smaller acquisition, offset by proceeds of \$10.5 million from purchase price adjustments related to previous acquisitions. The Company received proceeds from the sale of investments and other assets of \$2.2 million during 2009 compared to \$53.2 million during 2008, which included \$27.3 million of net proceeds from the sale of certain investment securities related to the planned liquidation of a captive insurance subsidiary. Capital expenditures were \$195.0 million, a decrease of \$127.9 million compared to 2008, reflecting lower spending on capacity growth due to the significant reduction in production volumes resulting from the global economic slowdown. The Company continued to fund capital expenditures primarily through cash provided by operations. Finally, in 2009, the Company transferred \$43.7 million to restricted cash within other noncurrent assets on the Consolidated Balance Sheets related to the customer contract termination within the business process outsourcing reporting unit and received transfers from restricted cash of \$6.2 million. In 2008, the Company received transfers of \$40.6 million of restricted cash in 2008 primarily due to the release of excess funding from a trust associated with the Company's acquisition of Banta.

Cash Flows From Financing Activities*2010 compared to 2009*

Net cash used in financing activities for the year ended December 31, 2010 was \$58.0 million compared to \$1,028.0 million in 2009. During 2010, the Company received proceeds of \$400.0 million from the issuance of long-term senior notes which were partly used to repay borrowings on the Company's previous revolving credit facility (the "previous Facility"). Proceeds from the previous Facility borrowings were used, along with cash on hand, to pay the May 2010 maturity of senior notes of \$325.7 million. In addition, the Company repaid \$25.4 million and \$1.9 million of debt assumed as part of the Bowne and Nimblefish acquisitions, respectively. During 2009, the Company received proceeds from the issuance of \$750.0 million of long-term senior notes and repaid \$400.0 million in senior notes that matured April 1, 2009 and repurchased \$466.4 million and \$174.2 million of senior notes maturing January 15, 2012 and May 15, 2010, respectively. Net borrowings under the Company's revolving credit agreement (the "Credit Agreement") and previous Facility were \$120.0 million for the year ended December 31, 2010. Net repayments under the previous Facility were \$200.0 million for the year ended December 31, 2009. The net change in other short-term debt was a cash outflow of \$305.6 million during 2009 primarily due to the pay down of commercial paper.

2009 compared to 2008

Net cash used in financing activities for the year ended December 31, 2009 was \$1,028.0 million compared to \$678.9 million in 2008. During 2009, the Company received proceeds from the issuance of \$750.0 million of long-term senior notes and repaid \$400.0 million in senior notes that matured April 1, 2009 and repurchased \$466.4 million and \$174.2 million of senior notes maturing January 15, 2012 and May 15, 2010, respectively. Net repayments under the previous Facility were \$200.0 million for each of the years ended December 31, 2009 and 2008. The net change in other short-term debt was a cash outflow of \$305.6 million during 2009 primarily due to the pay down of commercial paper. The net change in other short-term debt for the year ended December 31, 2008 was a cash inflow of \$6.8 million due to borrowings under international credit facilities, partially offset by the repayment of commercial paper. Additionally, \$278.8 million was utilized during the year ended December 31, 2008 to acquire 10.0 million shares of common stock under the Company's share repurchase program.

Other

The Company's cash balances are held in numerous locations throughout the world, including substantial amounts held outside of the United States. Most of the amounts held outside of the United States could be repatriated to the United States but, under current law, would be subject to additional United States federal income taxes and in some cases to local country taxes. Repatriation of some foreign balances is restricted by local laws.

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Included in cash and cash equivalents of \$519.1 million at December 31, 2010 were short-term investments in the amount of \$78.2 million, which primarily consist of certificate and short-term deposits and money market funds. These investments are with institutions with sound credit ratings and are believed to be highly liquid.

Dividends

Cash dividends paid to shareholders totaled \$214.4 million, \$213.6 million and \$219.2 million in 2010, 2009 and 2008, respectively. The Company has consistently paid a dividend since becoming a public company in 1956 and currently has no plans to cease or reduce its dividend payments in 2011. The Company believes it will continue to generate sufficient cash flows from operations to pay future dividends that may be approved by the Company's Board of Directors. On January 13, 2011, the Board of Directors of the Company declared a quarterly cash dividend of \$0.26 per common share, payable on March 1, 2011 to shareholders of record on January 28, 2011.

Contractual Cash Obligations and Other Commitments and Contingencies

The following table quantifies our future contractual obligations as of December 31, 2010:

	Total	2011	2012	Payments Due In			Thereafter
				2013	2014	2015	
				(in millions)			
Total debt(1)	\$ 5,295.5	\$ 357.3	\$ 386.4	\$ 228.4	\$ 814.5	\$ 688.2	\$ 2,820.7
Operating leases	725.9	160.8	123.2	96.4	75.2	57.1	213.2
Other(2)	235.8	176.4	43.7	10.7	4.9	0.1	
Total as of December 31, 2010	\$ 6,257.2	\$ 694.5	\$ 553.3	\$ 335.5	\$ 894.6	\$ 745.4	\$ 3,033.9

- (1) Total debt includes \$1,772.3 million of scheduled interest payments, of which the Company expects to pay \$225.9 million in 2011.
- (2) Other represents contractual obligations for outsourced services (\$176.6 million), purchases of property, plant and equipment (\$34.6 million), employee restructuring-related severance payments (\$11.6 million) and purchases of natural gas (\$8.7 million). The Company has included \$4.3 million of uncertain tax liabilities that are classified as current liabilities on the Consolidated Balance Sheets. Excluded from the table are \$152.8 million of uncertain tax liabilities, as the Company is unable to reasonably estimate the ultimate amount or timing of settlement.

The Company expects to make cash contributions of approximately \$45.8 million to its pension plans and approximately \$15.2 million to its postretirement benefit plans in 2011, which are not reflected above. The Company may elect to make additional non-required contributions to its plans in 2011. The Company expects that required contributions in future years will increase.

As of December 31, 2010, the Company is authorized under the terms of its share repurchase program to repurchase 10.0 million shares. Such purchases may be made from time to time and discontinued at any time.

LIQUIDITY

The Company believes it has sufficient liquidity to support its ongoing operations and to invest in future growth to create value for its shareholders. Operating cash flows are the Company's primary source of liquidity and are expected to be used for, among other things, interest and principal on the Company's debt obligations, capital expenditures as necessary to support productivity improvement and growth, completion of restructuring programs, dividend payments that may be approved by the Board of Directors, additional acquisitions and future common stock or debt repurchases based upon market conditions.

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Cash and cash equivalents of \$519.1 million as of December 31, 2010 included \$78.0 million that were readily available in the U.S. and \$441.1 million that were available at international locations, most of which could be subject to U.S. federal income taxes and some of which could be subject to local country taxes if repatriated to the U.S. In addition, repatriation of some foreign cash is further restricted by local laws. The Company maintains a cash pooling structure that enables several participating international locations to draw on the Company's overseas cash resources to meet local liquidity needs. In addition, foreign cash balances may be loaned to U.S. operating entities on a temporary basis in order to reduce the Company's short-term borrowing costs or for other purposes.

On December 17, 2010, the Company entered into a \$1.75 billion revolving unsecured and committed credit agreement (the Credit Agreement) which expires December 17, 2013, subject to a possible one-year extension if agreed to by the lending financial institutions. Borrowings under the Credit Agreement bear interest at a rate dependent on the Company's credit ratings at the time of borrowing and will be calculated according to a base or Eurocurrency rate plus an applicable margin. The Company will pay annual commitment fees at rates dependent on the Company's credit ratings. The Credit Agreement replaced the Company's previous \$2.0 billion unsecured and committed revolving credit facility (the previous Facility). All amounts outstanding under the previous Facility were repaid with borrowings under the Credit Agreement. The Credit Agreement can be used for general corporate purposes, including letters of credit and as a backstop for the issuance of commercial paper. The Credit Agreement is subject to a number of financial covenants that, in part, may limit the use of proceeds, and the ability of the Company to create liens on assets, incur subsidiary debt, engage in mergers and consolidations, or dispose of assets. The financial covenants require a minimum interest coverage ratio and a maximum leverage ratio, both to be computed on a pro forma basis as defined in the Credit Agreement. Based on the Company's results of operations for the year ended December 31, 2010 and existing term debt structure, as shown in the table below, the Company could utilize approximately \$1.4 billion of the \$1.75 billion Credit Agreement and not be in violation of those financial covenants. However, the Company does not expect the reduction in availability on the Credit Agreement to impact its ability to meet its liquidity requirements. In addition, borrowings under the Credit Agreement are subject to certain conditions, all of which were met at December 31, 2010. As of December 31, 2010, there were \$120.0 million of borrowings outstanding under the Credit Agreement.

The Company also has \$107.4 million in credit facilities outside of the U.S., most of which are uncommitted. As of December 31, 2010, the Company had \$57.0 million in outstanding letters of credit, of which \$37.4 million reduced availability under the Credit Agreement and \$11.8 million reduced availability under uncommitted facilities outside of the U.S. As of December 31, 2010, the Company had no commercial paper outstanding. The failure of a financial institution supporting the Credit Agreement would reduce the size of our committed facility unless a replacement institution were added. Currently, the Facility is supported by 20 U.S. and international financial institutions. The current availability on the Credit Agreement is shown in the following table:

	December 31, 2010
	(in millions)
Availability	
Committed credit facility	\$ 1,750.0
Availability reduction from covenants	247.0
	1,503.0
Usage	
Borrowings under the committed credit facility	120.0
	120.0
Current availability at December 31, 2010	\$ 1,383.0

The Company was in compliance with its debt covenants as of December 31, 2010, and is expected to remain in compliance based on management's estimates of operating and financial results for 2010 and the foreseeable future; however, as of December 31, 2010, as shown in the table above, the Company may borrow

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approximately \$1.4 billion of the \$1.75 billion currently not utilized under the Credit Agreement, as borrowings above \$1.4 billion would cause the Company to violate certain debt covenants in the Credit Agreement. In addition, the Company met all the conditions required to borrow under the Credit Agreement as of December 31, 2010 and management expects the Company to continue to meet the applicable borrowing conditions.

On March 31, 2010, Moody's Investors Service reaffirmed the Company's senior unsecured debt ratings and short-term credit rating at Baa3 and P-3, respectively. On April 1, 2010, Standard & Poor's Ratings Services reaffirmed the Company's long-term corporate credit and senior unsecured debt ratings at BBB and maintained the Company's short-term credit rating at A-3.

On June 21, 2010, the Company issued \$400 million of 7.625% senior notes due June 15, 2020. The Company used the net proceeds to repay borrowings under the previous Facility that were drawn on May 13, 2010 and used, together with cash on hand, to repay \$325.7 million of senior notes due May 15, 2010. The remaining net proceeds were used for general corporate purposes.

On August 26, 2009, the Company issued \$350 million of 8.60% senior notes due August 15, 2016. The Company used the net proceeds, along with borrowings under the previous Facility and cash on hand, to repurchase \$466.4 million of the 5.625% senior notes due January 15, 2012 and \$174.2 million of the 4.95% senior notes due May 15, 2010.

On January 14, 2009, the Company issued \$400 million of 11.25% senior notes due February 1, 2019. The Company used the net proceeds to pay down commercial paper and borrowings under the previous Facility. If the Company experiences a downgrade in its credit ratings below investment grade, these senior notes are subject to an increase from the 11.25% interest rate. The Company borrowed \$400.0 million in March 2009 under the previous Facility to repay the April 1, 2009 maturity of \$400 million in senior notes. During the second quarter 2009, the Company repaid the \$400 million of previous Facility borrowings.

In the third quarter of 2009, the Company terminated a significant long-term customer contract in the business process outsourcing reporting unit within the International segment. The Company paid approximately \$118.0 million in related restructuring costs, of which \$22.2 million was paid in the third quarter of 2009, \$57.5 million was paid in January 2010 and \$38.3 million was paid in December 2010.

On December 31, 2010, the Company acquired the assets of 8touches, for a purchase price of \$1.1 million. The Company financed this acquisition with cash on hand.

On December 14, 2010, the Company acquired the assets of Nimblefish, for a purchase price of \$4.1 million. The Company financed this acquisition with cash on hand.

On November 24, 2010, the Company acquired Bowne, for a purchase price of \$480.4 million. The Company financed this acquisition with cash on hand and through borrowings under the previous Facility.

On January 2, 2009, the Company acquired the assets of PROSA, for a purchase price of approximately \$24 million. The Company financed this acquisition with cash on hand.

On March 14, 2008, the Company acquired Pro Line, for a purchase price of approximately \$122 million. The Company financed this acquisition with cash on hand and through issuances of commercial paper.

For the year ended December 31, 2008, the Company purchased in the open market 10.0 million shares of its common stock at a total cost of \$278.8 million. All of these repurchases were funded with cash on hand and through issuances of commercial paper. As of December 31, 2010, the Company is authorized, under the terms of a share repurchase program approved by the Board of Directors, to repurchase up to 10.0 million shares.

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Risk Management

The Company is exposed to interest rate risk on its variable debt and price risk on its fixed-rate debt. As of December 31, 2010, approximately 79.3% of the Company's outstanding term debt was comprised of fixed-rate debt. At December 31, 2010, the Company's exposure to rate fluctuations on variable-interest borrowings was \$732.1 million, including \$600.0 million notional value of interest rate swap agreements (See Note 14, *Derivatives*, to the Consolidated Financial Statements) and \$132.1 million in borrowings under the Credit Agreement, international credit facilities and other long-term debt.

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 that 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 and may enter into foreign exchange forward contracts to hedge the currency risk. As of December 31, 2010, the aggregate notional amount of outstanding foreign exchange forward contracts was approximately \$100.9 million (See Note 14, *Derivatives*, to the Consolidated Financial Statements). Net unrealized gains from these foreign exchange contracts were \$0.2 million at December 31, 2010. The Company does not use derivative financial instruments for trading or speculative purposes.

OTHER INFORMATION

Environmental, Health and Safety

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

Litigation and Contingent Liabilities

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

New Accounting Pronouncements and Pending Accounting Standards

During 2010, 2009 and 2008, the Company adopted various accounting standards. See Note 20, *New Accounting Pronouncements*, to the Consolidated Financial Statements for a description of the accounting standards adopted during 2010.

Pending standards and their estimated effect on the Company's consolidated financial statements are described in Note 20, *New Accounting Pronouncements*, to the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to interest rate risk on its variable-rate debt and price risk on its fixed-rate debt. As of December 31, 2010, approximately 79.3% of the Company's outstanding term debt was comprised of fixed-rate debt. At December 31, 2010, the Company's exposure to rate fluctuations on variable-interest borrowings was limited to \$732.1 million.

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 units, the Company is exposed to currency risk and may enter into foreign exchange forward contracts to hedge the currency risk. As of December 31, 2010 and 2009, the aggregate notional amount of outstanding foreign exchange forward contracts was approximately \$100.9 million and \$437.0 million, respectively.

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The Company assesses market risk based on changes in interest rates and foreign currency rates utilizing a sensitivity analysis that measures the potential loss in earnings, fair values and cash flows based on a hypothetical 10% change in interest and foreign currency rates. Using this sensitivity analysis, such changes would not have a material effect on foreign currency gains and losses, interest income or expense and cash flows, and would change the fair values of fixed-rate debt at December 31, 2010 and 2009 by approximately \$101.8 million and \$101.0 million, respectively.

Credit Risk

The Company is exposed to credit risk on accounts receivable balances. This risk is mitigated due to the Company's large, diverse customer base, dispersed over various geographic regions and industrial sectors. No single customer comprised more than 10% of the Company's consolidated net sales in 2010, 2009 or 2008. The Company maintains provisions for potential credit losses and any such losses to date have normally been within the Company's expectations. The Company evaluates the solvency of its customers on an ongoing basis to determine if additional allowances for doubtful accounts need to be recorded, and additional economic disruptions or a further slowdown in the economy could result in significant additional charges.

Commodities

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial information required by Item 8 is contained in Item 15 of Part IV.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15(b) and Rule 15d-15(e) of the Securities Exchange Act of 1934, the Company's management, including the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of December 31, 2010, an evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that disclosure controls and procedures as of December 31, 2010 were effective in ensuring information required to be disclosed in this Annual Report on Form 10-K was recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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Changes in Internal Control Over Financial Reporting

Except as noted below, there have not been any changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that occurred during the quarter ended December 31, 2010 that has materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Effective for the quarter and year ended December 31, 2010, the Company implemented a new income tax provision software package to support the computation, consolidation and review of the Company's consolidated provision for income taxes and related disclosures. This software implementation was part of an ongoing effort to improve the effectiveness of internal controls over accounting and reporting of income taxes. In connection with this implementation, the Company has modified the design, operation and documentation of internal control processes impacted by the new software.

Report of Management on Internal Control Over Financial Reporting

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

Management of the Company, including the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. Management based this assessment on criteria for effective internal control over financial reporting described in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management determined that, as of December 31, 2010, the Company maintained effective internal control over financial reporting.

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

February 22, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

R.R. Donnelley & Sons Company

Chicago, Illinois

We have audited the internal control over financial reporting of R.R. Donnelley & Sons Company and subsidiaries (the Company) as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2010 of the Company and our report dated February 22, 2011 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois

February 22, 2011

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ITEM 9B. OTHER INFORMATION

None.

Table of Contents**PART III****ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF R.R. DONNELLEY & SONS COMPANY AND CORPORATE GOVERNANCE**

Information regarding directors and executive officers of the Company is incorporated herein by reference to the descriptions under Proposal 1: Election of Directors, The Board's Committees and their Functions and Section 16(a) Beneficial Ownership Reporting Compliance of our Proxy Statement for the Annual Meeting of Shareholders scheduled to be held May 19, 2011 (the 2011 Proxy Statement). See also the information with respect to our executive officers at the end of Part I of this Report under the caption Executive Officers of R.R. Donnelley & Sons Company.

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

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive and director compensation is incorporated by reference to the material under the captions Compensation Discussion and Analysis, Human Resources Committee Report, Executive Compensation, Potential Payments Upon Termination or Change in Control, and Director Compensation of the 2011 Proxy Statement.

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

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference to the material under the heading Stock Ownership of the 2011 Proxy Statement.

Equity Compensation Plan Information

Information as of December 31, 2010 concerning compensation plans under which RR Donnelley's equity securities are authorized for issuance is as follows:

Equity Compensation Plan Information

Plan Category(1)	Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights (in thousands)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(4)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (in thousands)
	(a)	(b)	(c)
Equity compensation plans approved by security holders(2)	9,162.9	\$ 20.20	4,167.2(5)
Equity compensation plans not approved by security holders(3)	757.1	25.40	

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Total	9,920.0	\$	20.90	4,167.2
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- (1) Upon the acquisition of Moore Wallace on February 27, 2004, stock options and units outstanding under certain Moore Wallace plans were exchanged for or converted into stock options and units with respect to common stock of the Company. As of December 31, 2010, 107,545 shares were issuable upon the exercise of stock options with a weighted average exercise price per share of \$17.14. Information regarding these awards is not included in the table.

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- (2) Includes 5,660,306 shares issuable upon the vesting of restricted stock units.
- (3) Represents the 2000 Broad-Based Incentive Plan and the Moore Wallace 2003 Long-Term Incentive Plan. Includes 212,750 shares issuable upon the vesting of restricted stock units issued under the Moore Wallace 2003 Long-Term Incentive Plan.
- (4) Restricted stock units were excluded when determining the weighted-average exercise price of outstanding options, warrants and rights.
- (5) All of these shares are available for issuance under the 2004 Performance Incentive Plan. The 2004 Performance Incentive Plan allows grants in the form of cash or bonus awards, stock options, stock appreciation rights, restricted stock, stock units or combinations thereof. The maximum number of shares of common stock that may be granted with respect to bonus awards, including performance awards or fixed awards in the form of restricted stock or other form, is 10,000,000 in the aggregate (excluding any such awards made pursuant to an employment agreement with a newly-hired Chief Executive Officer of the Company), of which 2,697,837 remain available for issuance.

Moore Wallace 2003 Long-Term Incentive Plan

Upon acquiring Moore Wallace, the Company assumed the Moore Wallace 2003 Long-Term Incentive Plan (2003 LTIP). The shareholders of Moore Wallace previously had approved the 2003 LTIP. Under the 2003 LTIP, all employees of Moore Wallace and its subsidiaries who demonstrated significant management potential or who had the capacity for contributing in a substantial measure to the successful performance of Moore Wallace were eligible to participate in the plan. Awards under the 2003 LTIP consisted of restricted stock or restricted stock units, and also pursuant to the plan, a one-time grant of 85,000 options to purchase common shares of Moore Wallace was issued to a particular employee. The 2003 LTIP is administered by the Board of Directors of the Company which may delegate any or all of its responsibilities to the human resources committee of the Board of Directors. In April 2008, the 2003 LTIP was frozen and no new awards may be made under the plan.

There were 6,300,000 shares of common stock of the Company reserved and authorized for issuance under the 2003 LTIP (as adjusted to reflect the conversion ratio used in the acquisition of Moore Wallace). As of December 31, 2010, there were 212,750 restricted stock units outstanding under the 2003 LTIP. The restricted stock units generally vest equally over a period of four years and are forfeited 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, termination of the grantee's employment under certain circumstances or a change in control).

2000 Broad-Based Stock Incentive Plan

In 2000, the Board of Directors approved the adoption of the 2000 Broad-Based Stock Incentive Plan (2000 Broad-Based Plan) to provide incentives to key employees of the Company and its subsidiaries. Awards under the 2000 Broad-Based Plan were generally not restricted to any specific form or structure and could include, without limitation, stock options, stock units, restricted stock awards, cash or stock bonuses and stock appreciation rights. The 2000 Broad-Based Plan is administered by the human resources committee of the Board of Directors, which may delegate its responsibilities to the chief executive officer or another executive officer. The 2000 Broad-Based Plan was terminated in February 2004 and no new awards may be made under the plan.

Originally, 2,000,000 shares of RR Donnelley common stock were reserved and authorized for issuance under the 2000 Broad-Based Plan. An additional 3,000,000 shares (for an aggregate of 5,000,000 shares) were subsequently reserved and authorized for issuance under the 2000 Broad-Based Plan. As of December 31, 2010, options to purchase 544,366 shares of common stock were outstanding under the 2000 Broad-Based Plan. These options have a purchase price equal to the fair market value of a share of common stock at the time of the grant. All of the outstanding options generally vest over a period of three years, are not exercisable unless vested (subject in some cases to early vesting and exercisability upon specified events, including the death or permanent disability of the optionee, termination of the optionee's employment under specified circumstances or a change in control) and generally expire 10 years after the date of grant. No awards other than options were made under the 2000 Broad-Based Plan.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions and director independence is incorporated herein by reference to the material under the heading "Certain Transactions," "The Board's Committees and Their Functions" and "Corporate Governance - Independence of Directors" of the 2011 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding principal accounting fees and services is incorporated herein by reference to the material under the heading "The Company's Independent Registered Public Accounting Firm" of the 2011 Proxy Statement.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

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

(b) Exhibits

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

(c) Financial Statement Schedules omitted

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 22nd day of February 2011.

R.R. DONNELLEY & SONS COMPANY

By: /s/ MILES W. MCHUGH
Miles W. McHugh

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on the 22nd day of February 2011.

Signature and Title

/s/ THOMAS J. QUINLAN, III
Thomas J. Quinlan, III

President and Chief Executive Officer, Director

(Principal Executive Officer)

/s/ MILES W. MCHUGH
Miles W. McHugh

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

/s/ ANDREW B. COXHEAD
Andrew B. Coxhead

Senior Vice President and Controller

(Principal Accounting Officer)

/s/ LEE A. CHADEN*
Lee A. Chaden

Director

/s/ JUDITH H. HAMILTON*
Judith H. Hamilton

Director

/s/ SUSAN M. IVEY*
Susan M. Ivey

Director

Signature and Title

/s/ THOMAS S. JOHNSON*
Thomas S. Johnson

Director

/s/ JOHN C. POPE*
John C. Pope

Director

/s/ MICHAEL T. RIORDAN*
Michael T. Riordan

Director

/s/ OLIVER R. SOCKWELL*
Oliver R. Sockwell

Director

/s/ STEPHEN M. WOLF*
Stephen M. Wolf

Chairman of the Board, Director

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By: /s/ SUZANNE S. BETTMAN
Suzanne S. Bettman

As Attorney-in-Fact

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

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ITEM 15(a). INDEX TO FINANCIAL STATEMENTS

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<u>Consolidated Statements of Operations for each of the three years in the period ended December 31, 2010</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2010 and 2009</u>	F-3
<u>Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2010</u>	F-4
<u>Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 2010</u>	F-5
<u>Notes to Consolidated Financial Statements</u>	F-6
<u>Report of Independent Registered Public Accounting Firm</u>	F-48
<u>Unaudited Interim Financial Information, Dividend Summary and Financial Summary</u>	F-49

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Table of Contents**R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (RR DONNELLEY)****CONSOLIDATED STATEMENTS OF OPERATIONS**

(in millions, except per share data)

	Year Ended December 31,		
	2010	2009	2008
Net Sales			
Products	\$ 8,956.4	\$ 8,925.4	\$ 10,465.0
Services	1,062.5	932.0	1,116.6
Total net sales	10,018.9	9,857.4	11,581.6
Products cost of sales (exclusive of depreciation and amortization shown below)	6,857.8	6,789.8	7,772.9
Services cost of sales (exclusive of depreciation and amortization shown below)	785.1	673.1	803.4
Selling, general and administrative expenses (exclusive of depreciation and amortization shown below)	1,123.4	1,088.5	1,220.5
Restructuring and impairment charges net (Note 3)	157.9	382.7	1,184.7
Depreciation and amortization	539.2	579.0	640.6
Total operating expenses	9,463.4	9,513.1	11,622.1
Income (loss) from continuing operations	555.5	344.3	(40.5)
Interest expense net (Note 13)	222.6	234.6	226.4
Investment and other expense net	(9.9)	(16.6)	(2.4)
Earnings (loss) from continuing operations before income taxes	323.0	93.1	(269.3)
Income tax expense (benefit) (Note 12)	105.9	114.5	(83.9)
Net earnings (loss) from continuing operations	217.1	(21.4)	(185.4)
Income from discontinued operations, net of tax			1.8
Net earnings (loss)	217.1	(21.4)	(183.6)
Less: Income (loss) attributable to noncontrolling interests	(4.6)	5.9	6.3
Net earnings (loss) attributable to RR Donnelley common shareholders	\$ 221.7	\$ (27.3)	\$ (189.9)
Net earnings (loss) per share attributable to RR Donnelley common shareholders (Note 15):			
Basic:			
Net earnings (loss) from continuing operations	\$ 1.07	\$ (0.13)	\$ (0.91)
Income from discontinued operations, net of tax			0.01
Net earnings (loss) attributable to RR Donnelley common shareholders	\$ 1.07	\$ (0.13)	\$ (0.90)
Diluted:			
Net earnings (loss) from continuing operations	\$ 1.06	\$ (0.13)	\$ (0.91)
Income from discontinued operations, net of tax			0.01
Net earnings (loss) attributable to RR Donnelley common shareholders	\$ 1.06	\$ (0.13)	\$ (0.90)

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Weighted average number of common shares outstanding (Note 15):

Basic	206.4	205.2	210.2
Diluted	209.7	205.2	210.2
Amounts attributable to RR Donnelley common shareholders:			
Net earnings (loss) from continuing operations	\$ 221.7	\$ (27.3)	\$ (191.7)
Income from discontinued operations, net of tax			1.8
Net earnings (loss) attributable to RR Donnelley common shareholders	\$ 221.7	\$ (27.3)	\$ (189.9)

See accompanying Notes to Consolidated Financial Statements.

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Table of Contents**R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (RR DONNELLEY)****CONSOLIDATED BALANCE SHEETS**

(in millions, except per share data)

	December 31,	
	2010	2009
ASSETS		
Cash and cash equivalents	\$ 519.1	\$ 499.2
Receivables, less allowances for doubtful accounts of \$71.0 in 2010 (2009 \$70.3) (Note 5)	1,922.9	1,675.9
Income taxes receivable (Note 12)	49.3	63.2
Inventories (Note 6)	560.6	561.8
Prepaid expenses and other current assets	115.4	160.8
Total current assets	3,167.3	2,960.9
Property, plant and equipment net (Note 7)	2,138.7	2,271.4
Goodwill (Note 4)	2,526.8	2,333.3
Other intangible assets net (Note 4)	775.0	747.4
Other noncurrent assets	475.4	434.6
Total assets	\$ 9,083.2	\$ 8,747.6
LIABILITIES		
Accounts payable	\$ 939.8	\$ 886.4
Accrued liabilities (Note 9)	902.2	813.4
Short-term debt and current portion of long-term debt (Note 13)	131.4	339.9
Total current liabilities	1,973.4	2,039.7
Long-term debt (Note 13)	3,398.6	2,982.5
Pension liability (Note 11)	533.0	509.8
Postretirement benefits (Note 11)	287.4	324.5
Deferred income taxes (Note 12)	174.5	205.5
Other noncurrent liabilities	470.9	524.6
Total liabilities	6,837.8	6,586.6
Commitments and Contingencies (Note 10)		
EQUITY		
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 2010 and 2009	303.7	303.7
Additional paid-in-capital	2,907.0	2,906.2
Retained earnings	670.2	662.9
Accumulated other comprehensive loss	(490.4)	(545.0)
Treasury stock, at cost, 36.4 shares in 2010 (2009 37.3 shares)	(1,166.2)	(1,193.8)

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Total RR Donnelley shareholders equity	2,224.3	2,134.0
Noncontrolling interests	21.1	27.0
Total equity	2,245.4	2,161.0
Total liabilities and equity	\$ 9,083.2	\$ 8,747.6

See accompanying Notes to Consolidated Financial Statements.

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Table of Contents**R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (RR DONNELLEY)****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions)

	Year Ended December 31,		
	2010	2009	2008
OPERATING ACTIVITIES			
Net earnings (loss)	\$ 217.1	\$ (21.4)	\$ (183.6)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Income from discontinued operations			(1.8)
Impairment charges	92.5	154.0	1,130.0
Depreciation and amortization	539.2	579.0	640.6
Provision for doubtful accounts receivable	22.8	19.7	52.1
Share-based compensation	28.6	24.0	21.9
Deferred taxes	(34.6)	(54.1)	(103.7)
Reversal of tax reserves	(42.6)	(2.6)	(28.2)
(Gain) loss on sale of investments and other assets net	(1.8)	3.2	(11.7)
Loss related to Venezuela currency devaluation	8.9		
Loss on debt extinguishment		10.3	
Other	47.5	41.8	32.1
Changes in operating assets and liabilities of continuing operations net of acquisitions:			
Accounts receivable net	(152.1)	244.0	164.7
Inventories	31.0	145.5	(6.6)
Prepaid expenses and other current assets	8.2	31.4	(17.1)
Accounts payable	17.7	94.9	(168.0)
Income taxes payable and receivable	15.0	114.6	(213.9)
Accrued liabilities and other	(44.9)	41.5	(288.0)
Net cash provided by operating activities of continuing operations	752.5	1,425.8	1,018.8
Net cash used in operating activities of discontinued operations			(0.8)
Net cash provided by operating activities	752.5	1,425.8	1,018.0
INVESTING ACTIVITIES			
Capital expenditures	(229.4)	(195.0)	(322.9)
Acquisitions of businesses, net of cash acquired	(439.8)	(26.6)	(122.1)
Proceeds from return of capital and sale of investments and other assets	26.1	2.2	53.2
Purchases of other investments	(31.7)	(4.0)	
Transfers from/(to) restricted cash	0.3	(37.5)	40.6
Net cash used in investing activities	(674.5)	(260.9)	(351.2)
FINANCING ACTIVITIES			
Proceeds from issuance of long-term debt	400.0	750.0	
Net change in short-term debt	(3.8)	(305.6)	6.8
Payments of current maturities and long-term debt	(355.2)	(1,051.9)	(10.0)
Payments of credit facility borrowings		(845.0)	(1,475.0)
Proceeds from credit facility borrowings	120.0	645.0	1,275.0
Proceeds from termination of cross-currency swaps			22.5
Debt issuance costs	(12.2)	(6.0)	
Issuance of common stock	9.2	1.5	1.9
Acquisition of common stock			(278.8)

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Dividends paid	(214.4)	(213.6)	(219.2)
Distributions to noncontrolling interests	(1.6)	(2.4)	(2.1)
Net cash used in financing activities	(58.0)	(1,028.0)	(678.9)
Effect of exchange rate on cash and cash equivalents	(0.1)	38.3	(42.9)
Net increase (decrease) in cash and cash equivalents	19.9	175.2	(55.0)
Cash and cash equivalents at beginning of year	499.2	324.0	379.0
Cash and cash equivalents at end of year	\$ 519.1	\$ 499.2	\$ 324.0
Supplemental non-cash disclosure:			
Use of restricted cash to pay restructuring costs	\$ 38.3	\$	\$
Use of restricted cash to fund obligations associated with deferred compensation plans	1.1	0.9	25.3
See accompanying Notes to Consolidated Financial Statements.			

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Table of Contents**R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (RR DONNELLEY)****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

(in millions)

	Common Stock			Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total RR Donnelley's Noncontrolling Interests	Total Equity	
	Shares	Amount	Additional Paid-in-Capital	Shares	Amount					
Balance at January 1, 2008	243.0	\$ 303.7	\$ 2,858.4	(27.1)	\$ (909.0)	\$ 1,312.9	\$ 341.3	\$ 3,907.3	\$ 19.0	\$ 3,926.3
Net earnings (loss)						(189.9)		(189.9)	6.3	(183.6)
Translation adjustments							(154.4)	(154.4)	0.5	(153.9)
Pension and other benefit liability adjustments							(772.4)	(772.4)		(772.4)
Changes in investment securities							(1.4)	(1.4)		(1.4)
Change in fair value of derivatives and hedge reclassifications							6.2	6.2		6.2
Comprehensive income (loss)								(1,111.9)	6.8	(1,105.1)
Acquisition of common stock				(10.0)	(278.8)			(278.8)		(278.8)
Share-based compensation			27.3					27.3		27.3
Withholdings for share-based awards and other				(0.1)	(6.2)			(6.2)		(6.2)
Cash dividends paid						(219.2)		(219.2)		(219.2)
Distributions to noncontrolling interests									(2.1)	(2.1)
Other									(0.3)	(0.3)
Balance at December 31, 2008	243.0	303.7	2,885.7	(37.2)	(1,194.0)	903.8	(580.7)	2,318.5	23.4	2,341.9
Net earnings (loss)						(27.3)		(27.3)	5.9	(21.4)
Translation adjustments							99.1	99.1	0.1	99.2
Pension and other benefit liability adjustments							(65.7)	(65.7)		(65.7)
Change in fair value of derivatives and hedge reclassifications							2.3	2.3		2.3
Comprehensive income								8.4	6.0	14.4
Share-based compensation			20.5	0.1	2.8			23.3		23.3
Withholdings for share-based awards and other				(0.2)	(2.6)			(2.6)		(2.6)
Cash dividends paid						(213.6)		(213.6)		(213.6)
Distributions to noncontrolling interests									(2.4)	(2.4)
Balance at December 31, 2009	243.0	303.7	2,906.2	(37.3)	(1,193.8)	662.9	(545.0)	2,134.0	27.0	2,161.0
Net earnings (loss)						221.7		221.7	(4.6)	217.1
Translation adjustments							12.3	12.3	0.3	12.6
Pension and other benefit liability adjustments							42.0	42.0		42.0
Change in fair value of derivatives and hedge reclassifications							0.3	0.3		0.3

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Comprehensive income (loss)						276.3	(4.3)	272.0		
Share-based compensation.	0.8	1.3	36.3			37.1		37.1		
Withholdings for share-based awards and other.		(0.4)	(8.7)			(8.7)		(8.7)		
Cash dividends paid				(214.4)		(214.4)		(214.4)		
Distributions to noncontrolling interests							(1.6)	(1.6)		
Balance at December 31, 2010	243.0	\$ 303.7	\$ 2,907.0	(36.4)	\$ (1,166.2)	\$ 670.2	\$ (490.4)	\$ 2,224.3	\$ 21.1	\$ 2,245.4

See accompanying Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data and unless otherwise indicated)

Note 1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation The accompanying consolidated 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). All intercompany transactions have been eliminated in consolidation. The accounts of businesses acquired during 2010, 2009 and 2008 are included in the consolidated financial statements from the dates of acquisition (see Note 2).

Nature of Operations The Company is a global provider of integrated communications which 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.

Use of Estimates The preparation of consolidated financial statements, in conformity with GAAP, requires the extensive use of management s estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates. Estimates are used when accounting for items and matters including, but not limited to, allowance for uncollectible accounts receivable, inventory obsolescence, asset valuations and useful lives, employee benefits, self-insurance reserves, taxes, restructuring and other provisions and contingencies.

Foreign Operations Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rate existing at the respective balance sheet dates. Income and expense items are translated at the average rates during the respective periods. Translation adjustments resulting from fluctuations in exchange rates are recorded as a separate component of other comprehensive income (loss) within shareholders equity while transaction gains and losses are recorded in net income (loss). As of December 31, 2009, the three-year cumulative inflation for Venezuela using the blended Consumer Price Index and National Consumer Price Index exceeded 100%. As a result, as of January 1, 2010, Venezuela s economy was considered highly inflationary and the financial statements of the Company s Venezuelan entity were remeasured as if the functional currency were the U.S. Dollar. Consistent with historical practices and the Company s future intent, the financial statements were remeasured based on the official rate. On January 8, 2010, the government of Venezuela changed its primary fixed exchange rate from 2.15 Bolivars per U.S. Dollar to 4.3 Bolivars per U.S. Dollar, devaluing the Bolivar by 50%. This devaluation resulted in a pre-tax loss of \$8.9 million (\$8.1 million after-tax) and a reduction in income attributable to noncontrolling interest of \$3.6 million.

Fair Value Measurements Certain assets and liabilities are required to be recorded at fair value on a recurring basis, while other assets and liabilities are recorded at fair value on a nonrecurring basis, generally as a result of impairment charges. Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The Company records the fair value of its foreign exchange forward contracts, interest rate swaps, pension plan assets and other postretirement plan assets on a recurring basis. Assets measured at fair value on a nonrecurring basis include long-lived assets held and used, long-lived assets held for sale, goodwill and other intangible assets. The fair value of cash and cash equivalents, accounts receivable, short-term debt and accounts payable approximate their carrying values. The three-tier value hierarchy, which prioritizes valuation methodologies based on the reliability of the inputs, is:

Level 1 Valuations based on quoted prices for identical assets and liabilities in active markets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data and unless otherwise indicated) (Continued)

Level 2 Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 Valuations based on unobservable inputs reflecting the Company's own assumptions, consistent with reasonably available assumptions made by other market participants.

Revenue Recognition The Company recognizes revenue for the majority of its products upon transfer of title and the passage of the risk of loss, which is generally upon shipment to the customer. Contracts generally specify F.O.B. shipping point terms. Under agreements with certain customers, custom products may be stored by the Company for future delivery. In these situations, the Company may receive a logistics or warehouse management fee for the services it provides. In certain of these cases, delivery and billing schedules are outlined in the customer agreement and product revenue is recognized when manufacturing is complete, title and risk of loss transfer to the customer, and there is a reasonable assurance as to collectability. Because the majority of products are customized, product returns are not significant; however, the Company accrues for the estimated amount of customer credits at the time of sale.

Revenue from services is recognized as services are performed. Within the Company's financial print operations, which serve the global financial services end market, the Company produces highly customized materials such as regulatory S-filings, initial public offerings, XBRL and EDGAR-related services. Revenue is recognized for these services following final delivery of the printed product or upon completion of the service performed. Revenues related to the Company's premedia operations, which include digital content management, photography, color services and page production, are recognized in accordance with the terms of the contract, typically upon completion of the performed service and acceptance by the customer. With respect to the Company's logistics operations, whose operations include the delivery of printed material and other products, the Company recognizes revenue upon completion of the delivery of services.

The Company records deferred revenue in situations where amounts are invoiced but the revenue recognition criteria outlined above are not met. Such revenue is recognized when all criteria are subsequently met.

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

The Company records taxes collected from customers and remitted to governmental authorities on a net basis.

By-product recoveries The Company records the sale of by-products as a reduction of cost of sales.

Cash and cash equivalents and restricted cash equivalents The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Short-term securities consist of investment grade instruments of governments, financial institutions and corporations.

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(In millions, except per share data and unless otherwise indicated) (Continued)

Long-term restricted cash equivalents As of December 31, 2009, \$41.6 million of restricted cash equivalents was held in trust to cover the December 2010 payment related to the 2009 termination of a significant long-term customer contract in the business process outsourcing reporting unit within the International segment. The long-term restricted cash equivalent was classified within other noncurrent assets in the Consolidated Balance Sheets.

Receivables Receivables are stated net of allowances for doubtful accounts and primarily include trade receivables, notes receivable and miscellaneous receivables from suppliers. No single customer comprised more than 10% of the Company's consolidated net sales in 2010, 2009 or 2008. Specific customer provisions are made when a review of significant outstanding amounts, utilizing information about customer creditworthiness and current economic trends, indicates that collection is doubtful. In addition, provisions are made at differing rates, based upon the age of the receivable and the Company's historical collection experience. See Note 5 for details of activity affecting the allowance for doubtful accounts.

Inventories Inventories include material, labor and factory overhead and are stated at the lower of cost or market. The cost of approximately 66.9% and 70.4% of the inventories at December 31, 2010 and 2009, respectively, has been determined using the Last-In, First-Out (LIFO) method. The decrease in this percentage from 2009 is primarily related to inventory decreases in the U.S. This method reflects the effect of inventory replacement costs within results of operations; accordingly, charges to cost of sales reflect recent costs of material, labor and factory overhead. The Company uses an external-index method of valuing LIFO inventories. The remaining inventories, primarily related to certain acquired and international operations, are valued using the First-In, First-Out (FIFO) or specific identification methods.

Long-lived Assets The Company assesses potential impairments to its long-lived assets if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Indefinite-lived intangible assets are reviewed annually for impairment, or more frequently, if events or changes in circumstances indicate that the carrying value may not be recoverable. An impaired asset is written down to its estimated fair value based upon the most recent information available. Estimated fair market value is generally measured by discounting estimated future cash flows. Long-lived assets, other than goodwill and intangible assets, that are held for sale are recorded at the lower of the carrying value or the fair market value less the estimated cost to sell.

Property, plant and equipment Property, plant and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful lives. Useful lives range from 15 to 40 years for buildings, the lesser of 7 years or the lease term for leasehold improvements and from 3 to 15 years for machinery and equipment. Maintenance and repair costs are charged to expense as incurred. Major overhauls that extend the useful lives of existing assets are capitalized. When properties are retired or disposed, the costs and accumulated depreciation are eliminated and the resulting profit or loss is recognized in the results of operations.

Goodwill Goodwill is reviewed for impairment annually as of October 31 or more frequently if events or changes in circumstances indicate that it is more likely than not that the fair value of a reporting unit is below its carrying value. In performing this analysis, the Company compares each reporting unit's fair value, estimated based on comparable company market valuations and expected future discounted cash flows to be generated by the reporting unit, to its carrying value. If the carrying value exceeds the reporting unit's fair value, the Company performs an additional fair value measurement calculation to determine the impairment loss, which is charged to operations in the period identified. See Note 3 for further discussion.

Amortization Certain costs to acquire and develop internal-use computer software are amortized over their estimated useful life using the straight-line method, up to a maximum of five years. Amortization expense related to internally-developed software was \$15.3 million, \$18.0 million and \$23.5 million for the years ended December 31, 2010, 2009 and 2008, respectively. Deferred debt issue costs are amortized over the term of the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data and unless otherwise indicated) (Continued)

related debt. Identifiable intangible assets, except for those intangible assets with indefinite lives, are recognized apart from goodwill and are amortized over their estimated useful lives. Identifiable intangible assets with indefinite lives are not amortized.

Financial Instruments The Company uses derivative financial instruments to hedge exposures to interest rate and foreign exchange fluctuations in the ordinary course of business.

All derivatives are recorded as other assets or other liabilities on the balance sheet at their respective fair values with unrealized gains and losses recorded in comprehensive income (loss), net of applicable income taxes, or in the results of operations, depending on the purpose for which the derivative is held. 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 results of operations. At 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 results of operations. See Note 14 for further discussion.

Share-Based Compensation The Company recognizes share-based compensation expense based on estimated fair values for all share-based awards made to employees and directors, including stock options, restricted stock units and performance share units. The Company recognizes compensation expense for share-based awards expected to vest on a straight-line basis over the requisite service period of the award based on their grant date fair value.

Pension and Postretirement Plans The Company records annual income and expense amounts relating to its pension and postretirement plans based on calculations which include various actuarial assumptions, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates and healthcare cost trend rates. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. The effect of modifications on the value of plan obligations and assets is recognized immediately within other comprehensive income (loss) and amortized into operating earnings over future periods. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience, market conditions and input from its actuaries and investment advisors. See Note 11 for further discussion.

Taxes on Income Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Company is regularly audited by foreign and domestic tax authorities. These audits occasionally result in proposed assessments where the ultimate resolution might result in the Company owing additional taxes, including in some cases, penalties and interest. The Company recognizes a tax position in its financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. This recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Although management believes that its estimates are reasonable, the final outcome of uncertain tax positions may be materially different from that which is reflected in the Company's financial statements. The Company adjusts such reserves upon changes in circumstances that would cause a change to the estimate of the ultimate liability, upon effective settlement or upon the expiration of the statute of limitations, in the period in which such event occurs. See Note 12 for further discussion.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In millions, except per share data and unless otherwise indicated) (Continued)**

Comprehensive Income (Loss) Comprehensive income (loss) for the Company consists of net earnings (loss), unrecognized actuarial gains and losses and prior service cost for pension and postretirement benefit plans, changes in the fair value of certain derivative financial instruments and foreign currency translation adjustments and is presented in the Consolidated Statements of Shareholders' Equity.

Note 2. Acquisitions**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, located in Sealy, Texas. 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, headquartered in San Francisco, California. 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 headquartered in New York, New York, 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. The Company subsequently repaid \$25.4 million of the debt assumed in November 2010. 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. For the year ended December 31, 2010, the Company's Consolidated Financial Statements included \$61.2 million of net sales and a net loss of \$9.3 million related to these acquired businesses.

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, none of which is 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

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The fair values of property, plant and equipment, goodwill and intangible assets associated with the acquisitions of Bowne, Nimblefish and Stouches 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.

2009 Acquisitions

On June 18, 2009, the Company acquired Prospectus Central, LLC (Prospectus), an e-delivery company located in Fitzgerald, Georgia. The purchase price for Prospectus was \$3.0 million. Prospectus' s operations are included in the U.S. Print and Related Services segment.

On January 2, 2009, the Company acquired the assets of PROSA, a web printing company located in Santiago, Chile. The purchase price for PROSA was approximately \$23.6 million. PROSA' s operations are included in the International segment.

The operations of these acquired businesses are complementary to the Company' s existing products and services. As a result, the addition of these businesses is expected to improve the Company' s ability to serve customers, increase capacity utilization, and reduce management, procurement and manufacturing costs. For the year ended December 31, 2009, the Company' s Consolidated Financial Statements included \$18.7 million of net sales and net earnings of \$3.5 million related to these acquired businesses.

The PROSA and Prospectus 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, none of which is tax deductible. Based on the valuations, the final purchase price allocations for these 2009 acquisitions were as follows:

Accounts receivable	\$ 2.4
Property, plant and equipment	9.2
Amortizable intangible assets	11.6
Goodwill	6.5
Accounts payable and accrued liabilities	(2.5)
Deferred taxes - net	(0.6)
Net cash paid	 \$ 26.6

2008 Acquisitions

On March 14, 2008, the Company acquired Pro Line Printing, Inc. (Pro Line), a multi-facility, privately held producer of newspaper inserts headquartered in Irving, Texas. The purchase price for Pro Line was approximately \$122.2 million, net of cash acquired of \$1.7 million and including acquisition costs of \$4.3 million. Pro Line' s operations are included in the U.S. Print and Related Services segment.

The operations of Pro Line are complementary to the Company' s existing retail insert product line. As a result, this acquisition is expected to improve the Company' s ability to serve customers, increase capacity utilization, and reduce management, procurement and manufacturing costs.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In millions, except per share data and unless otherwise indicated) (Continued)**

The Pro Line and another immaterial printing-company acquisition were recorded by allocating the cost of the acquisitions to the assets acquired, including intangible assets and liabilities assumed, based on their estimated fair values at acquisition date. The excess of the cost of the acquisitions over the net amounts assigned to the fair value of the assets acquired and the liabilities assumed was recorded as goodwill, none of which is tax deductible. Based on these valuations, the final purchase price allocations are as follows:

Accounts receivable	\$ 17.4
Inventories	7.0
Other current assets	0.7
Property, plant and equipment and other long-term assets	101.8
Amortizable intangible assets	15.5
Goodwill	33.0
Accounts payable and accrued liabilities	(29.9)
Deferred taxes net	(7.0)
Total purchase price net of cash acquired	138.5
Less: debt assumed and not repaid	5.9
Net cash paid	\$ 132.6

Pro forma results

The unaudited pro forma financial information for the years ended December 31, 2010 and 2009 presents the combined results of operations of the Company, Bowne, Nimblefish and Stouches as if the acquisitions had occurred at January 1, 2009.

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 periods 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.

	2010	2009
Net sales	\$ 10,666.0	\$ 10,557.0
Net earnings (loss) attributable to RR Donnelley common shareholders	221.2	(107.0)
Net earnings (loss) per share attributable to RR Donnelley common shareholders:		
Basic	\$ 1.07	\$ (0.52)
Diluted	\$ 1.05	\$ (0.52)

The unaudited pro forma financial information for 2010 and 2009 includes \$113.9 million and \$115.9 million, respectively, for the amortization of purchased intangibles. The unaudited pro forma financial information also includes restructuring and impairment charges from continuing operations of \$153.3 million and \$420.6 million for 2010 and 2009, respectively. The 2010 pro forma financial information was adjusted to exclude \$66.3 million of acquisition and restructuring charges incurred in 2010 and \$2.2 million of nonrecurring expense related to the inventory fair value adjustment recorded as part of purchase accounting. The 2009 pro forma financial information was adjusted to include the \$66.3 million of acquisition and restructuring charges, as well as \$5.7 million of expense related to the inventory fair value adjustment.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In millions, except per share data and unless otherwise indicated) (Continued)****Note 3. Restructuring and Impairment**

The Company recorded restructuring and impairment charges of \$157.9 million, \$382.7 million and \$1,184.7 million in the years ended December 31, 2010, 2009 and 2008, respectively. The charges in 2010 included \$87.9 million for the impairment of goodwill and acquired customer relationship intangible assets. Additionally in 2010, the Company recorded restructuring charges of \$35.9 million for employee termination costs, \$29.5 million for other restructuring charges, of which \$13.6 million related to multi-employer pension plan partial withdrawal charges primarily attributable to two closed manufacturing facilities within the U.S. Print and Related Services segment and the remaining amount related to lease termination and other facility closure costs, and \$4.6 million of impairment charges for other long-lived assets. The charges in 2009 included \$128.5 million for the impairment of goodwill, as well as charges, discounted for future cash payments, of \$118.6 million for the termination of a significant long-term customer contract in the business process outsourcing reporting unit within the International segment, of which \$117.2 million, \$0.8 million and \$0.6 million are reflected in other charges, impairment and employee terminations, respectively. Additionally in 2009, the Company recorded restructuring charges of \$78.8 million for employee termination costs, other restructuring charges, including lease termination and other facility closure costs, of \$32.1 million and \$24.7 million of impairment charges for other long-lived assets. The charges in 2008 included \$1,125.4 million for the impairment of goodwill and intangible assets, as well as \$44.1 million for employee termination costs. Additionally, in 2008, the Company incurred other restructuring charges, including lease termination and other facility closure costs of \$10.6 million, as well as \$4.6 million of impairment charges for other long-lived assets.

The restructuring charges recorded are based on restructuring plans that have been committed to by management and are, in part, based upon management's best estimates of future events. Changes to the estimates may require future adjustments to the restructuring liabilities.

Restructuring and Impairment Costs Charged to Results of Operations

2010	Employee Terminations	Other Charges	Total Restructuring	Impairment	Total
U.S. Print and Related Services	\$ 5.9	\$ 24.0	\$ 29.9	\$ 64.1	\$ 94.0
International	17.9	4.5	22.4	28.2	50.6
Corporate	12.1	1.0	13.1	0.2	13.3
	\$ 35.9	\$ 29.5	\$ 65.4	\$ 92.5	\$ 157.9

In the fourth quarter of 2010, as a result of the Company's annual impairment test, the Company recorded a non-cash charge of \$61.0 million to reflect the impairment of goodwill, which is reflected in the U.S. Print and Related Services segment. The goodwill impairment charge of \$61.0 million resulted from reductions in the estimated fair value of the forms and labels reporting unit, based on lower expectations for future revenue and cash flows due to the continued impacts of electronic substitution on forms demand and increasing price pressure. In addition, the lower fair value reflects higher estimated spending on information technology and capital equipment, in part to better position this reporting unit for increased growth in labels volume as forms demand continues to decline. Because the fair value of this reporting unit was below its carrying amount including goodwill, the Company performed an additional fair value measurement calculation to determine the amount of impairment loss. As part of this impairment calculation, the Company also estimated the fair value of the significant tangible and intangible long-lived assets of this reporting unit. The goodwill impairment was determined using Level 3 inputs, including discounted cash flow analyses, comparable marketplace fair value data, as well as management's assumptions in valuing the significant tangible and intangible assets.

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Additionally, during the third quarter of 2010, the Company recorded a non-cash charge of \$26.9 million for the impairment of acquired customer relationship intangible assets in the Global Turnkey Solutions reporting unit within the International segment. The impairment of the acquired customer relationship intangible assets primarily resulted from the termination of a customer contract and was determined using Level 3 inputs and estimated based on cash flow analysis and management's assumptions related to future revenues and profitability of certain customers. After recording the impairment charge, remaining customer relationship intangible assets in the Global Turnkey Solutions reporting unit were \$43.0 million as of December 31, 2010.

For the year ended December 31, 2010, the Company recorded net restructuring charges of \$35.9 million for employee termination costs for 1,458 employees, of whom 1,354 were terminated as of December 31, 2010, associated with actions resulting from the reorganization of certain operations. These actions included the reorganization of certain operations within the Financial Print reporting unit within the U.S. Print and Related Services segment due to the acquisition of Bowne. In addition, these actions included the closing of one Latin America manufacturing facility, one business process outsourcing manufacturing facility and one Global Turnkey Solutions manufacturing facility within the International segment. Further, 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 of \$29.5 million for the year ended December 31, 2010, of which \$13.6 million related to multi-employer pension plan partial withdrawal charges primarily attributable to two closed manufacturing facilities within the U.S. Print and Related Services segment. The remaining charges included lease termination and other facility closure costs partially offset by gains on the sales of two previously closed facilities within both the International and U.S. Print and Related Services segment. Finally, for the year ended December 31, 2010, the Company recorded \$4.6 million 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.

	Employee Terminations	Other Charges	Total Restructuring	Impairment	Total
2009					
U.S. Print and Related Services	\$ 36.5	\$ 19.2	\$ 55.7	\$ 108.1	\$ 163.8
International	40.5	124.3	164.8	45.9	210.7
Corporate	2.4	5.8	8.2		8.2
	\$ 79.4	\$ 149.3	\$ 228.7	\$ 154.0	\$ 382.7

In the fourth quarter of 2009, the Company recorded a non-cash charge of \$128.5 million to reflect the impairment of goodwill, of which \$93.8 million and \$34.7 million are reflected in the U.S. Print and Related Services and International segments, respectively. The goodwill impairment charges of \$93.8 million and \$34.7 million resulted from reductions in the estimated fair value of the forms and labels and Canada reporting units, respectively, based on lower expectations for revenue due to declines in business and consumer spending and continued price pressure. Because the fair value of these reporting units was below their carrying amounts including goodwill, the Company performed an additional fair value measurement calculation to determine the amount of impairment loss. As part of this impairment calculation, the Company also estimated the fair value of the significant tangible and intangible long-lived assets of each reporting unit.

For the year ended December 31, 2009, the Company also recorded net restructuring and impairment charges, discounted for future cash payments, of \$118.6 million for the termination of a significant long-term

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customer contract in the business process outsourcing reporting unit within the International segment, of which \$117.2 million, \$0.8 million and \$0.6 million are reflected in other charges, impairment and employee terminations, respectively. In addition, for the year ended December 31, 2009, the Company recorded net restructuring charges of \$78.8 million for employee termination costs for 4,043 employees, all of whom were terminated as of December 31, 2010, associated with actions resulting from the reorganization of certain operations. These actions included the closings of two magazine, catalog and retail insert manufacturing facilities, two book manufacturing facilities and one premedia facility within the U.S. Print and Related Services segment and the closing of two Global Turnkey Solutions manufacturing facilities, one business process outsourcing facility, one Latin America manufacturing facility and one European manufacturing facility within the International segment. Additionally, the Company incurred other restructuring charges, including lease termination and other facility closure costs, of \$32.1 million for the year ended December 31, 2009. Finally, for the year ended December 31, 2009, the Company recorded \$24.7 million of impairment charges primarily for machinery and equipment associated with the facility closings. The fair values of the machinery and equipment were determined to be Level 3 under the fair value hierarchy and were estimated based on discussions with machinery and equipment brokers, dealer quotes, internal expertise related to the equipment and current marketplace conditions.

2008	Employee Terminations	Other Charges	Total Restructuring	Impairment	Total
U.S. Print and Related Services	\$ 22.1	\$ 3.7	\$ 25.8	\$ 380.0	\$ 405.8
International	21.6	3.4	25.0	749.7	774.7
Corporate	0.4	3.5	3.9	0.3	4.2
	\$ 44.1	\$ 10.6	\$ 54.7	\$ 1,130.0	\$ 1,184.7

In the fourth quarter of 2008, the Company recorded a non-cash charge of \$1,125.4 million to reflect the impairment of goodwill and intangible assets, of which \$749.0 million and \$376.4 million are reflected in the International and U.S. Print and Related Services segments, respectively. The goodwill impairment charges of \$297.8 million, \$249.4 million, \$152.0 million, \$78.6 million and \$22.3 million resulted from reductions in the estimated fair value of the forms and labels, business process outsourcing, Canada, office products and Global Turnkey Solutions reporting units, respectively, based on lower expectations for revenue, profitability and cash flows resulting primarily from the impacts of the global economic downturn and resultant impacts on the Company's customers. In addition, these reporting units were valued using a higher discount rate applied to estimated future cash flows. The higher discount rates reflect increases in borrowing rates and equity risk premiums implied by market conditions as of October 31, 2008 compared to October 31, 2007. Because the fair values of these reporting units were below their carrying amounts including goodwill, the Company performed an additional fair value measurement calculation to determine the amount of impairment loss. As part of this impairment calculation, the Company also estimated the fair value of the significant tangible and intangible long-lived assets of each reporting unit.

The Company also recorded a non-cash charge of \$325.3 million for the impairment of acquired customer relationships in the business process outsourcing reporting unit. The impairment of these intangible assets resulted from overall declines in contract renewal rates, net sales growth and profit margins compared to prior estimates. These factors were also reflected in the overall decline in value of the reporting unit that caused impairment of its goodwill. After recording the goodwill and intangible asset impairment charges, remaining intangible assets in the business process outsourcing reporting unit were \$24.3 million as of December 31, 2008.

For the year ended December 31, 2008, the Company also recorded net restructuring charges of \$44.1 million, for employee termination costs for 2,245 employees, all of whom were terminated as of December 31, 2010, associated with actions resulting from the reorganization of certain operations and the exiting of certain

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business activities. These actions included the realignment and consolidation of the Canadian organization, management reorganization within Latin America, the closing of two Global Turnkey Solutions manufacturing facilities within the International segment and the realignment and consolidation of financial print organizations in the U.S. Print and Related Services and International segments. Additionally, the Company incurred other restructuring charges, including lease termination and other facility closure costs of \$10.6 million for the year ended December 31, 2008. Finally, for the year ended December 31, 2008, the Company recorded \$4.6 million of impairment charges for other long-lived assets.

Restructuring Costs Capitalized as a Cost of Acquisition

During 2008, the Company recorded \$2.1 million of restructuring costs related to employee terminations and other costs in connection with the acquisition of Pro Line.

Restructuring Reserve

Activity impacting the Company's restructuring reserve for the year ended December 31, 2010 is as follows:

	December 31, 2009	Restructuring Costs Charged to Results of Operations	Foreign Exchange and Other	Cash Paid	December 31, 2010
Employee terminations	\$ 20.4	\$ 35.9	\$	\$ (45.1)	\$ 11.2
Other	120.5	29.5	5.8	(113.0)	42.8
Total	\$ 140.9	\$ 65.4	\$ 5.8	\$ (158.1)	\$ 54.0

The current portion of restructuring reserves of \$28.4 million was included in accrued liabilities at December 31, 2010, while the long-term portion of \$25.6 million, primarily related to multi-employer pension plan partial withdrawal charges and lease termination costs, was included in other noncurrent liabilities at December 31, 2010.

The Company anticipates payments associated with employee terminations will be substantially completed by the end of 2011.

As of December 31, 2010, the restructuring liabilities classified as other consist of multi-employer pension plan partial withdrawal charges, lease termination costs and other facility closing costs. In 2010, the Company paid \$57.5 million and \$38.3 million in January and December, respectively, related to the termination of the significant long-term customer contract referred to above. Payments on certain lease obligations are scheduled to continue until 2017. Market conditions and the Company's ability to sublease these properties could affect the ultimate charge related to these lease obligations. Any potential recoveries or additional charges could affect amounts reported in the Consolidated Financial Statements of future periods.

Activity impacting the Company's restructuring reserve for the year ended December 31, 2009 was as follows:

	December 31, 2008	Restructuring Costs Charged to Results of Operations	Foreign Exchange and Other	Cash Paid	December 31, 2009
Employee terminations	\$ 23.5	\$ 79.4	\$ 0.5	\$ (83.0)	\$ 20.4

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Other	11.1	149.3	3.5	(43.4)	120.5
Total	\$ 34.6	\$ 228.7	\$ 4.0	\$ (126.4)	\$ 140.9

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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In millions, except per share data and unless otherwise indicated) (Continued)**

The current portion of restructuring reserves of \$92.2 million was included in accrued liabilities at December 31, 2009, while the long-term portion of \$48.7 million, primarily related to the termination of the significant long-term customer contract in 2009 and lease termination costs, was included in other noncurrent liabilities at December 31, 2009.

Note 4. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the year ended December 31, 2010 and 2009 were as follows:

	U.S. Print and Related Services	International	Total
Net book value at January 1, 2009			
Goodwill(1)	\$ 2,977.8	\$ 1,101.4	\$ 4,079.2
Accumulated impairment losses(1)	(784.4)	(868.9)	(1,653.3)
Total	2,193.4	232.5	2,425.9
Acquisitions		6.5	6.5
Foreign exchange and other adjustments	(0.2)	29.6	29.4
Impairment charge	(93.8)	(34.7)	(128.5)
Net book value at December 31, 2009			
Goodwill(1)	2,977.6	1,216.2	4,193.8
Accumulated impairment losses(1)	(878.2)	(982.3)	(1,860.5)
Total	2,099.4	233.9	2,333.3
Acquisitions	165.9	92.0	257.9
Foreign exchange and other adjustments	(1.8)	(1.6)	(3.4)
Impairment charges	(61.0)		(61.0)
Net book value at December 31, 2010			
Goodwill(1)	3,141.7	1,298.5	4,440.2
Accumulated impairment losses(1)	(939.2)	(974.2)	(1,913.4)
Total	\$ 2,202.5	\$ 324.3	\$ 2,526.8

(1) Includes foreign exchange. Certain prior year amounts have been reclassified to reflect the Company's current presentation of goodwill. In the fourth quarters of 2010 and 2009, the Company recorded non-cash charges of \$61.0 million and \$128.5 million, respectively, to reflect impairment of goodwill. See Note 3 for further discussion regarding these impairment charges.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(In millions, except per share data and unless otherwise indicated) (Continued)

The components of other intangible assets at December 31, 2010 and 2009 were as follows:

	December 31, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trademarks, licenses and agreements	\$ 25.7	\$ (23.0)	\$ 2.7	\$ 25.6	\$ (22.3)	\$ 3.3
Patents	98.3	(83.6)	14.7	98.3	(71.4)	26.9
Customer relationship intangibles	1,244.3	(519.8)	724.5	1,125.0	(440.1)	684.9
Trade names	22.7	(7.7)	15.0	21.4	(7.2)	14.2
Total amortizable purchased intangible assets	1,391.0	(634.1)	756.9	1,270.3	(541.0)	729.3
Indefinite-lived trade names	18.1		18.1	18.1		18.1
Total purchased intangible assets	\$ 1,409.1	\$ (634.1)	\$ 775.0	\$ 1,288.4	\$ (541.0)	\$ 747.4

In the third quarter of 2010, the Company recorded a non-cash charge of \$26.9 million to reflect impairment of acquired customer relationship intangible assets in the Global Turnkey Solutions reporting unit. See note 3 for further discussion regarding this impairment charge.

During the years ended December 31, 2010 and 2009, the Company recorded additions to intangible assets of \$159.8 million and \$11.6 million, respectively. The components of other intangible assets acquired during 2010 and 2009 were as follows:

	December 31, 2010		December 31, 2009	
	Amount	Weighted Average Amortization Period	Amount	Weighted Average Amortization Period
Trademarks, licenses and agreements	\$ 3.6	5.5	\$ 3.6	5.5
Customer relationship intangibles	158.3	10.0	8.0	8.0
Trade names	1.5	1.5		
Total additions	\$ 159.8		\$ 11.6	

Amortization expense for other intangibles was \$99.3 million, \$99.1 million and \$123.3 million for the years ended December 31, 2010, 2009 and 2008, respectively. The following table outlines the estimated future amortization expense related to intangible assets as of December 31, 2010:

	Amount
2011	\$ 112.5
2012	99.3
2013	96.6
2014	94.2
2015	87.0

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2016 and thereafter	267.3
Total	\$ 756.9

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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In millions, except per share data and unless otherwise indicated) (Continued)****Note 5. Accounts Receivable**

Transactions affecting the allowance for doubtful accounts during the years ended December 31, 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Balance, beginning of year	\$ 70.3	\$ 80.5	\$ 63.6
Provisions charged to expense	22.8	19.7	52.1
Write-offs and other	(22.1)	(29.9)	(35.2)
Balance, end of year	\$ 71.0	\$ 70.3	\$ 80.5

Note 6. Inventories

The components of the Company's inventories at December 31, 2010 and 2009 were as follows:

	2010	2009
Raw materials and manufacturing supplies	\$ 259.6	\$ 229.9
Work in process	184.3	190.1
Finished goods	204.7	219.6
LIFO reserve	(88.0)	(77.8)
Total	\$ 560.6	\$ 561.8

The Company recognized LIFO expense of \$10.2 million in 2010, a LIFO benefit of \$17.6 million in 2009 and LIFO expense of \$30.6 million in 2008.

Note 7. Property, Plant and Equipment

The components of the Company's property, plant and equipment at December 31, 2010 and 2009 were as follows:

	2010	2009
Land	\$ 111.4	\$ 89.6
Buildings	1,197.9	1,140.0
Machinery and equipment	6,098.8	6,001.7
	7,408.1	7,231.3
Less: Accumulated depreciation	(5,269.4)	(4,959.9)
Total	\$ 2,138.7	\$ 2,271.4

During the years ended December 31, 2010, 2009 and 2008, depreciation expense was \$424.6 million, \$461.6 million and \$493.8 million, respectively.

Assets Held for Sale

Primarily as a result of restructuring actions, certain facilities and equipment are considered held for sale. The net book value of assets held for sale was \$6.5 million and \$8.7 million at December 31, 2010 and 2009, respectively. These assets were included in other current assets in the Consolidated Balance Sheets at December 31, 2010 and 2009 at the lower of their historical net book value or their estimated fair value, less estimated costs to sell.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In millions, except per share data and unless otherwise indicated) (Continued)****Note 8. 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 and related debt. See Note 11 for the fair value of the Company's pension and other postretirement plan assets as of December 31, 2010 and Note 14 for further discussion on the fair value of the Company's foreign exchange forward contracts and interest rate swaps and related debt as of December 31, 2010 and 2009.

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 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 December 31, 2010 are summarized below:

	Impairment charge	Fair value measurement (Level 3)	December 31, 2010 net book value
Long-lived assets held and used(1)	\$ 2.2	\$ 3.0	\$ 2.7
Long-lived assets held for sale(2)	2.2	3.6	3.5
Goodwill(3)	61.0	102.7	102.7
Other intangible assets(4)	26.9		
Total	\$ 92.3	\$ 109.3	\$ 108.9

- (1) Long-lived assets held and used with a carrying amount of \$5.2 million were written down to their fair value of \$3.0 million, resulting in an impairment charge of \$2.2 million for the year. The fair values of machinery and equipment and leasehold improvements, used for measuring impairment, were determined using Level 3 inputs and were estimated based on 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 with a carrying amount of \$5.7 million were written down to their fair value of \$3.6 million, less costs to sell of \$0.1 million, resulting in an impairment charge of \$2.2 million and a net book value of \$3.5 million. The fair values of the land, buildings and machinery and equipment classified as held for sale were determined using Level 3 inputs and were estimated based on discussions with real estate brokers, review of comparable properties, if available, discussions with machinery and equipment brokers and internal expertise related to the current marketplace conditions.
- (3) Goodwill for the forms and labels reporting unit with a carrying amount of \$163.7 million was written down to its implied fair value of \$102.7 million, resulting in an impairment charge of \$61.0 million for the year. The determination of the goodwill impairment was based on Level 3 inputs, which included discounted cash flow analyses, comparable marketplace fair value data, as well as management's assumptions in valuing significant tangible and intangible assets. See Note 3 for further discussion on the factors leading to the recognition of the impairment.
- (4) Acquired customer relationship intangible assets for the Global Turnkey Solutions reporting unit with a carrying amount of \$26.9 million were written down to their implied fair value of zero, resulting in an impairment charge of \$26.9 million for the year. The determination of the impairment was based on Level 3 inputs, which included cash flow analysis and management's assumptions related to the future revenues and profitability of certain customers. After recording the impairment charge, remaining customer relationship intangible assets in the Global Turnkey Solutions reporting unit were \$43.0 million as of December 31, 2010. See Note 3 for further discussion regarding the impairment charge.

See Note 13 for the fair value of the Company's debt.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In millions, except per share data and unless otherwise indicated) (Continued)****Note 9. Accrued Liabilities**

The components of the Company's accrued liabilities at December 31, 2010 and 2009 were as follows:

	2010	2009
Employee-related liabilities	\$ 387.3	\$ 202.7
Restructuring liabilities	28.4	92.2
Deferred revenue	129.9	151.4
Other	356.6	367.1
Total accrued liabilities	\$ 902.2	\$ 813.4

Employee-related liabilities consist primarily of payroll, incentive compensation, sales commission and employee benefit accruals. Incentive compensation accruals include amounts earned in 2010 pursuant to the Company's primary employee incentive compensation plans as well as one quarter of amounts earned in 2009. Payments under the 2009 plans were generally deferred and will be made in four equal installments in the first quarter of 2010 through 2013. Other accrued liabilities include income and other tax liabilities, interest expense accruals and miscellaneous operating accruals. The decrease in restructuring liabilities is related to the termination of the long-term customer contract. The Company paid \$57.5 million and \$38.3 million of this liability in January and December 2010, respectively.

Note 10. Commitments and Contingencies

As of December 31, 2010, authorized expenditures on incomplete projects for the purchase of property, plant and equipment totaled approximately \$159.0 million. Of this total, approximately \$34.6 million has been committed. In addition, as of December 31, 2010, the Company has a commitment of \$11.6 million for severance payments related to employee restructuring activities. The Company also has contractual commitments of approximately \$176.6 million for outsourced services, including technology, professional, maintenance and other services. The Company has a variety of contracts with suppliers for the purchase of paper, ink and other commodities for delivery in future years at prevailing market prices. In addition, the Company has natural gas purchase commitments that are at fixed prices. As of December 31, 2010, the Company was committed to purchase \$8.7 million of natural gas under these contracts.

Future minimum rental commitments under non-cancelable operating leases are as follows:

Year Ended December 31	Amount
2011	\$ 160.8
2012	123.2
2013	96.4
2014	75.2
2015 and thereafter	270.3
	\$ 725.9

The Company has non-cancelable operating lease commitments totaling \$725.9 million extending through various periods to 2052. Rent expense was \$212.5 million, \$215.0 million and \$219.8 million in the years ended December 31, 2010, 2009 and 2008, respectively.

