RR Donnelley & Sons Co
Form 10-K
February 22, 2012
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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, 2011

OR

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

Commission file number 1-4694

R. R. DONNELLEY & SONS COMPANY

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number (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 þ No ¨

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 þ No ¨

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

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

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

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

The aggregate market value of the shares of common stock (based on the closing price of these shares on the NASDAQ Stock Exchange Composite Transactions) on June 30, 2011, the last business day of the registrant s most recently completed second fiscal quarter, held by nonaffiliates was $3,662,762,507.

As of February 17, 2012, 178,499,353 shares of common stock were outstanding.

Documents Incorporated By Reference

Portions of the Registrant s proxy statement related to its annual meeting of stockholders scheduled to be held on May 17, 2012 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. 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 November 21, 2011, the Company acquired StratusGroup, Inc. (Stratus), a full service manufacturer of custom pressure sensitive label and paperboard packaging products for health and beauty, food, beverage and other segments. Stratus operations are located in West Chester, Ohio and included in the U.S. Print and Related Services segment.

On September 6, 2011, the Company acquired Genesis Packaging & Design Inc. (Genesis), a full service provider of custom packaging, including designing, printing, die cutting, finishing and assembling. Genesis operations are located in Lemont, Illinois and included in the U.S. Print and Related Services segment.

On August 16, 2011, the Company acquired LibreDigital, Inc. (LibreDigital), a leading provider of digital content distribution, e-reading software, content conversion, data analytics and business intelligence services. LibreDigital s operations are located in Austin, Texas and included in the U.S. Print and Related Services segment.

On August 15, 2011, the Company acquired Sequence Personal LLC (Sequence), a provider of proprietary software that enables readers to select relevant content to be digitally produced as specialized publications. Sequence s operations are included in the U.S. Print and Related Services segment.

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

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

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

On December 14, 2010, the Company acquired Nimblefish Technologies (Nimblefish), a provider of multi-channel marketing services to leading retail, technology, telecommunications, hospitality and other customers, located 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 located 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 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.

Segment descriptions

The Company operates primarily in the printing industry, with products and related 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 logistics, premedia, print management and other print related 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 U.S. Print and Related Services segment accounted for approximately 74% of the Company s consolidated net sales in 2011.

International

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

The International segment accounted for approximately 26% of the Company s consolidated net sales in 2011.

Corporate

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

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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 Products and Services 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. Management expects that prices for the Company s products and services will continue to be a focal point for customers in coming years. Therefore, the Company believes it needs to continue to lower its cost structure and differentiate its 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 believes that with the Company s competitive strengths, including its broad range of complementary print-related services, strong logistics capabilities, technology leadership, depth of management experience, customer relationships and economies of scale, the Company has developed and can further develop valuable, differentiated solutions for its customers. The Company seeks to leverage its unified platform and strong customer relationships in order to serve a larger share of its customers print and related services needs.

As a substitute for print, the impact of digital technologies has been felt mainly in books, directories, forms and statement printing. Electronic communication and transaction technology has eliminated or reduced the role of many traditional paper products and has continued to accelerate electronic substitution in directory and statement printing, in part driven by environmental concerns and cost pressures at key customers. In addition, rapid growth in the adoption of e-books is having an increasing impact on consumer print book volume, though only a limited impact on educational and specialty books. The future impact of technology on the Company s business is difficult to predict and could result in additional expenditures to restructure impacted operations or develop new technologies. In addition, the Company has made targeted acquisitions and investments in the Company s existing business to offer customers innovative services and solutions that further secure the Company s position as a technology leader in the industry.

The Company has implemented a number of strategic initiatives to reduce its overall cost structure and improve efficiency, including the restructuring, reorganization and integration of operations and streamlining of administrative and support activities. Future cost reduction initiatives could include the reorganization of operations and the consolidation of facilities. Implementing such initiatives might result in future restructuring or impairment charges, which may be substantial. Management also reviews the Company s operations and management structure on a regular basis to balance appropriate risks and opportunities to maximize efficiencies and to support the Company s long-term strategic goals.

Seasonality

Advertising and consumer spending trends affect demand in several of the end-markets served by the Company. Historically, demand for printing of magazines, catalogs, retail inserts and books is higher in the second half of the year driven by increased advertising pages within magazines, and holiday 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 2011 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 and ink formulations used in the manufacturing process may affect the Company s consolidated financial results. Paper prices fluctuated during 2011, and volatility in future years is expected. Generally, customers directly absorb the impact of changing prices on customer-supplied paper. With respect to paper purchased by the Company, the Company has historically passed most increases and decreases through to its customers. Contractual arrangements and industry practice should support the Company s continued ability to pass on any future paper price increases, but there is no assurance that market conditions will continue to enable the Company to successfully do so. 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. Additionally, the Company has undertaken various strategic initiatives to mitigate any foreseeable supply disruptions with respect to the Company s ink requirements.

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

Distribution

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

Postal costs are a significant component of many customers cost structures and postal rate changes can influence the number of pieces that the Company s customers are willing to print and mail. On January 22, 2012, the United States Postal Service (USPS) increased postage rates for certain types of first-class postage. The new rates increased the cost of mailing these classes of mail by approximately 2%, which is the cap under the Postal Accountability and Enhancement Act. Under this act, it is anticipated that postage will increase annually by an amount equal to or slightly less than the Consumer Price Index. As a leading provider of print logistics and the largest mailer of standard mail in the U.S., the Company works closely with the USPS and its customers to offer innovative products and services to minimize costs. While the Company does not directly absorb the impact of higher postal rates on its customers mailings, demand for products distributed through the U.S. or foreign postal services is expected to be impacted by changes in the postal rates.

Customers

For each of the years ended December 31, 2011, 2010 and 2009, no customer accounted for 10% or more of the Company s consolidated net sales.

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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.

Employees

As of December 31, 2011, the Company had approximately 58,000 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;

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;

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;

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;

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;

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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.

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 products and services due to economic conditions and other macroeconomic factors affecting consumers and businesses spending behavior. In addition, customer difficulties have resulted in, and could result in, 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, cost increases for wages and materials, and increases in pension and postretirement 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 consolidated results of operations, financial position and cash flow and those adverse effects could be material.

Adverse credit market conditions may limit our ability to obtain future financing and the cost of any such capital may be higher than in past periods.

Our access to future financing will depend on a variety of factors such as market conditions, the general availability of credit, our credit ratings and our credit capacity at the time we pursue such financing. Uncertainty

and volatility in global financial markets may cause financial markets institutions to fail or may cause lenders to hoard capital and reduce lending. The failure of a financial institution that supports our existing credit agreement would reduce the size of our committed facility unless a replacement institution were added. Our current credit ratings are below investment grade and, as a result, our borrowing costs have increased. Additionally, we may not be able to replace or renew our existing revolving credit facility and /or rollover other existing debt on favorable terms. If adequate capital is not available to us and our internal sources or liquidity prove to be insufficient, or if future financings require more restrictive covenants, such combination of events could adversely affect our ability to (i) acquire new businesses or enter new markets, (ii) service or refinance our existing debt, (iii) make necessary capital investments, and (iv) make other expenditures necessary for the ongoing conduct of our business.

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

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

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

Achieving the anticipated benefits of acquisitions will depend in part upon the Company s ability to integrate these businesses in an efficient and effective manner. The integration of companies that have previously operated independently may result in significant challenges, and the Company may be unable to accomplish the integration smoothly or successfully. In particular, the coordination of geographically dispersed organizations with differences in corporate cultures and management philosophies may increase the difficulties of integration. The integration of acquired businesses may also require the dedication of significant management resources, which may temporarily distract management s attention from the day-to-day operations of the Company. In

addition, the process of integrating operations may cause an interruption of, or loss of momentum in, the activities of one or more of the Company s businesses and the loss of key personnel from the Company or the acquired businesses. Further, employee uncertainty and lack of focus during the integration process may disrupt the businesses of the Company or the acquired businesses. The Company s strategy is, in part, predicated on 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 of increasing costs to provide health care and other benefits to the Company s employees and retirees may continue.

The Company provides health care and other benefits to both employees and retirees. 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 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 and postretirement 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 required pension and postretirement contributions in future years and further increases 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 and postretirement 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 24% of the Company s consolidated net sales for the year ended December 31, 2011. 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.

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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 annual results of operations, financial position and cash flows.

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.

The substitution of electronic delivery for printed materials may continue adversely to 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. Consumers continue to accept electronic substitution in directory and statement printing and are replacing traditional reading of print materials with online, hosted media content or other e-reading devices. The extent to which consumers will continue to accept electronic delivery is uncertain and it is difficult to predict future rates of acceptance of these alternatives. Electronic delivery has negatively impacted our products, such as books, directories, forms and statement printing, and to the extent that consumers, our customers and regulators continue to accept these alternatives, our products will be adversely affected.

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

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

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

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

Changes in the rules and regulations to which 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. Declines in print volumes mailed could 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 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 Securities Exchange Act of 1934.

ITEM 2. PROPERTIES

The Company s corporate office is located in leased office space in Chicago, Illinois. In addition, as of December 31, 2011, the Company leases or owns 335 U.S. facilities, some of which have multiple buildings and warehouses, and these U.S. facilities encompass approximately 39.5 million square feet. The Company leases or owns 161 international facilities encompassing approximately 9.7 million square feet in Canada, Latin America, South America, Europe, and Asia. Of our U.S. and international facilities, approximately 31.3 million square feet of space is owned, while the remaining 17.9 million square feet of space is leased.

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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. The Company has been designated as a potentially responsible party in eleven active federal and state Superfund and other multiparty remediation sites. In addition to these sites, the Company may also have the obligation to remediate nine other previously owned facilities and four other currently owned facilities. At the Superfund sites, the Comprehensive Environmental Response, Compensation and Liability Act provides that the Company s liability could be joint and several, meaning that the Company could be required to pay an amount in excess of its proportionate share of the remediation costs. The Company s understanding of the financial strength of other potentially responsible parties at the multiparty sites and of other liable parties at the previously owned facilities has been considered, where appropriate, in the determination of the Company s estimated liability. The Company has established reserves, recorded in accrued liabilities and other noncurrent liabilities, that it believes are adequate to cover its share of the potential costs of remediation at each of the multiparty sites and the previously and currently owned facilities. While it is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly remediation and other compliance efforts that the Company may undertake in the future, in the opinion of management, compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, will not have a material 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 effect on the Company s consolidated annual results of operations, financial position or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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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 49, President and Chief Executive Officer	2004	Served as RR Donnelley s President and Chief Executive Officer since April 2007. Prior to this, served as Group President, Global Services since October 2006 and Chief Financial Officer since April 2006. Prior to this, served as Executive Vice President, Operations since February 2004.
Suzanne S. Bettman 47, 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 43, Senior Vice President, Controller and Chief Accounting Officer	2007	Served as RR Donnelley s 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 47, Group President	2007	Served as RR Donnelley s 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 45, Executive Vice President and Chief Financial Officer	2009	Served as RR Donnelley s Executive Vice President and Chief Financial Officer since May 2011. Prior to this, served as Group Chief Financial Officer and Senior Vice President, Mergers and Acquisitions since August 2009 and Treasurer from June 2008 to February 2010. Prior to this, served as RR Donnelley s Senior Vice President, Treasurer, Mergers and Acquisitions and Investor Relations since July 2007. Prior to this, from May 2004 to 2007, served in various capacities in financial management, corporate strategy and investor relations.
John R. Paloian 53, Chief Operating Officer	2004	Served as RR Donnelley s Chief Operating Officer since April 2007. Served previously as Group President, Global Print Solutions since March 2004.

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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 10, 2012, there were approximately 8,259 stockholders of record of our common stock. Quarterly closing prices of the Company s common stock, as reported on NASDAQ, and dividends paid per share during the years ended December 31, 2011 and 2010, are contained in the chart below:

	Dividends Paid		Closing Common Stock Prices 2011		Closing Common Stock Prices 2010	
	2011	2010	High	Low	High	Low
First Quarter	$ 0.26	$ 0.26	$ 19.39	$ 17.49	$ 23.19	$ 19.02
Second Quarter	0.26	0.26	21.34	18.58	22.60	16.37
Third Quarter	0.26	0.26	20.44	13.33	18.05	14.96
Fourth Quarter	0.26	0.26	16.65	13.27	18.82	15.76

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
October 1, 2011 October 31, 2011		$		$ 600,000,000
November 1, 2011 November 30, 2011	9,252,810	$ 17.13	9,252,810	$ 500,000,000
December 1, 2011 December 31, 2011				$ 500,000,000
Total	9,252,810	$ 17.13	9,252,810	

On May 3, 2011, the Board of Directors of the Company approved a program that authorizes the repurchase of up to $1.0 billion of the Company s common stock through December 31, 2012 and terminated its existing authorization of October 29, 2008 for the repurchase of up to 10 million shares. Share repurchases under the program may be made from time to time through a variety of methods as determined by the Company s management.

As part of the share repurchase program, on May 5, 2011, the Company entered into an accelerated share repurchase agreement (ASR) with an investment bank under which the Company agreed to repurchase $500.0 million of its common stock. On May 10, 2011, the Company paid the $500.0 million purchase price and received an initial delivery of 19.9 million shares from the investment bank. The shares delivered were subject to a 20%, or $100.0 million holdback, which resulted in the Company receiving an additional 9.3 million shares on November 17, 2011. The additional shares received were calculated based upon the $17.13 volume weighted average price of the Company s common stock over an averaging period, subject to a discount agreed upon with the investment bank. The averaging period ended on November 14, 2011.

PEER PERFORMANCE TABLE

The graph below compares five-year returns of the Company s common stock with those of the S&P 500 Index and a selected peer group of companies. The comparison assumes all dividends have been reinvested, and an initial investment of $100 on December 31, 2006. The returns of each company in the peer group have been weighted to reflect their market capitalizations.

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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.

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

	Base Period	Fiscal Years Ended December 31,				
Company Name / Index	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
RR Donnelley	100	109.13	41.09	72.66	60.43	53.13
Standard & Poor s 500	100	105.49	66.46	84.05	96.71	98.76
Peer Group	100	76.36	32.54	49.69	54.17	56.52

Below are the specific companies included in the peer group.

***Peer Group Companies**

A.H. Belo Corp.

American Greetings

Consolidated Graphics Inc.

Deluxe Corp.

EW Scripps

Gannett Co.

Journal Communications Inc.

McClatchy Co.

McGraw-Hill Companies

Media General

Meredith Corp.

New York Times Co.

Scholastic Corp.

Washington Post

Wiley (John) & Sons

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ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA

(in millions, except per share data)

	2011	2010	2009	2008	2007
Net sales	$ 10,611.0	$ 10,018.9	$ 9,857.4	$ 11,581.6	$ 11,587.1
Net earnings (loss) from continuing operations attributable to RR Donnelley common shareholders	(122.6)	221.7	(27.3)	(191.7)	(48.4)
Net earnings (loss) from continuing operations attributable to RR Donnelley common shareholders per diluted share	(0.63)	1.06	(0.13)	(0.91)	(0.22)
Income (loss) from discontinued operations, net of tax				1.8	(0.5)
Net earnings (loss) attributable to RR Donnelley common shareholders	(122.6)	221.7	(27.3)	(189.9)	(48.9)
Net earnings (loss) attributable to RR Donnelley common shareholders per diluted share	(0.63)	1.06	(0.13)	(0.90)	(0.22)
Total assets	8,281.7	9,083.2	8,747.6	9,494.3	12,086.7
Long-term debt	3,416.8	3,398.6	2,982.5	3,203.3	3,601.9
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 2011: Pre-tax restructuring and impairment charges of $667.8 million, $74.8 million recognition of income tax benefits due to the expiration of U.S. federal statutes of limitations for certain years, $69.9 million pre-tax loss on the repurchases of $427.8 million of senior notes, $38.7 million pre-tax gain on pension curtailment, $15.3 million pre-tax contingent compensation related to the Journalism Online acquisition, $9.8 million pre-tax gain on Helium investment and $2.2 million of acquisition-related expenses;

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 loss on debt extinguishment 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; and

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.

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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. 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 products 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 logistics, premedia, print management and other print related 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, direct mail, forms, labels, packaging, manuals, statement printing, premedia and logistics services. Additionally, this segment includes the Company s business process outsourcing and Global Turnkey Solutions operations. Business process outsourcing provides transactional print and outsourcing services, statement printing, direct mail and print management services through its operations in Europe, Asia and North America. Global Turnkey Solutions provides outsourcing capabilities, including product configuration, customized kitting and order fulfillment for technology, medical device and other companies around the world through its operations in Europe, North America and Asia.

The Company separately reports its net sales and related costs of sales for its products and service offerings. The Company s product offerings primarily consist 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 consist of logistics, premedia, EDGAR-related and XBRL financial services and certain business process outsourcing services.

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Executive Overview

2011 FINANCIAL PERFORMANCE

The changes in the Company s income from 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, 2011, from the year ended December 31, 2010, were due to the following (in millions, except margin and per share data):

	Income from 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, 2010	$ 555.5	5.5%	$ 221.7	$ 1.06
2011 restructuring and impairment charges	(667.8)	(6.3%)	(532.8)	(2.75)
2010 restructuring and impairment charges	157.9	1.6%	130.0	0.62
Acquisition-related expenses	11.3	0.1%	9.8	0.05
2011 gain on Helium investment			9.5	0.05
2011 loss on debt extinguishment			(44.1)	(0.23)
2011 gain on pension curtailment	38.7	0.4%	24.3	0.13
2011 Journalism Online contingent compensation	(15.3)	(0.1%)	(9.7)	(0.05)
2010 Venezuela devaluation			4.5	0.02
Recognition of income tax benefits			74.8	0.39
Operations	(15.1)	(0.6%)	(10.6)	0.08
For the year ended December 31, 2011	$ 65.2	0.6%	$ (122.6)	$ (0.63)

2011 restructuring and impairment charges: included charges of $392.3 million and $90.7 million for the impairment of goodwill and intangible assets, respectively; $76.7 million for employee termination costs; $59.6 million of other restructuring costs, including lease termination costs and multi-employer pension plan partial withdrawal charges of $15.1 million due to the closing of three manufacturing facilities within the U.S. Print and Related Services segment; and $48.5 million for impairment of other long-lived assets, primarily for land, buildings, machinery and equipment and leasehold improvements associated with facility closures.

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; $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.

Acquisition-related expenses: included pre-tax charges of $2.2 million ($2.0 million after-tax) related to legal, accounting and other expenses for the year ended December 31, 2011 associated with acquisitions completed or contemplated. For the year ended December 31, 2010, these pre-tax charges were $13.5 million ($11.8 million after-tax).

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

2011 loss on debt extinguishment: included a pre-tax loss of $69.9 million on the repurchases of $227.8 million of the 11.25% senior notes due February 1, 2019, $100 million of the 6.125% senior notes due January 15, 2017 and $100 million of the 5.50% senior notes due May 15, 2015. The $69.9 million pre-tax

loss also included the reclassification of a $0.5 million pre-tax loss from accumulated other comprehensive loss to loss on debt extinguishment due to the change in the hedged forecasted interest payments resulting from the repurchase of the 5.50% senior notes.

2011 gain on pension curtailment: included a pre-tax gain of $38.7 million related to the remeasurement of the plans assets and obligations that was required with the announced freeze on further benefit accruals under all of the Company s U.S. pension plans as of December 31, 2011.

2011 Journalism Online contingent compensation: included pre-tax expense of $15.3 million related to contingent compensation earned by the prior owners, based on achieving certain volume milestones for Journalism Online s business following its acquisition by the Company.

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.

Recognition of income tax benefits: included the recognition of previously unrecognized tax benefits due to the expiration of U.S. federal statutes of limitations for certain years. See discussion in Note 12 to the Consolidated Financial Statements.

Operations: reflected a net decrease in volume within the U.S. Print and Related Services segment, higher pension and other benefits-related expenses and continued price pressures. These decreases were partially offset by higher volume in the International segment, higher recovery on by-products, cost savings from restructuring actions, productivity efforts and lower incentive compensation expense. Income tax expense also decreased due to the recognition of previously unrecognized tax benefits related to certain state tax matters. In addition, purchases of shares pursuant to the Company s share repurchase program resulted in higher interest expense and fewer weighted average shares outstanding. See further details in the review of operating results by segment that follows below.

2011 Overview

Although net sales increased during 2011 compared to 2010, due to the acquisition of Bowne, the Company s net sales declined by approximately 0.6% on a pro forma basis (See Note 2 to the Consolidated Financial Statements). Changes in foreign exchange rates increased net sales by approximately 0.7%. The net sales decline on a pro forma basis resulted from lower overall volume and ongoing price pressure driven by worldwide market volatility, continued economic uncertainty and the increasing impact of electronic substitution on certain products. Despite this difficult environment, the International segment, along with certain products and services within the U.S. Print and Related Services segment, achieved organic growth for the year. In particular, the Company had organic growth in Latin America and Asia, as well as in its logistics and commercial print offerings. The largest organic net sales declines were experienced in books and directories, due mostly to electronic substitution, variable print, due to the production and distribution of materials for the U.S. Census in 2010, and financial printing and related services, due to the 2011 decline in capital markets transactions activity.

The Company continued to focus on productivity improvements throughout the year, and achieved significant savings from acquisition synergies, facility closures and continued cost management actions. The Company continued to make significant progress in the integration of Bowne, which included restructuring actions to eliminate duplicate facilities and personnel throughout the affected operations. In addition, amounts earned under the Company s 2011 employee incentive compensation plans declined, reducing expenses by $74.5 million compared to amounts earned in 2010.

The Company s operating cash flow for the year ended December 31, 2011 increased by approximately $193.8 million from 2010, reflecting improvements in working capital management, including the benefits of process and systems integration efforts related to the Bowne acquisition, improved credit and collection efforts, inventory reductions and increased standardization of vendor payment terms. The improvement to operating cash flow was also due to lower cash payments for restructuring and occurred despite a significant increase in cash payments for incentive compensation plans related to amounts earned in 2009 and 2010.

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On November 2, 2011, the Company announced a freeze on further benefit accruals under all of its U.S. pension plans as of December 31, 2011. Beginning January 1, 2012, participants ceased earning additional benefits under the plans and no new participants will enter these plans. The plan freeze required a remeasurement of the plans funded status as of November 2, 2011, which resulted in a non-cash curtailment gain of $38.7 million recognized in the fourth quarter of 2011. Also effective January 1, 2012, the Company instituted a defined contribution matching program for most U.S. employees. This program includes a Company match equal to 40% of contributions on up to 6% of eligible compensation on a pay period basis. The cost of the Company match will be determined by the level of eligible employee contributions made to the plan and the related expense will be recognized as incurred.

On May 3, 2011, the Board of Directors of the Company approved a program that authorized the repurchase of up to $1.0 billion of the Company s common stock through December 31, 2012. Share repurchases under the program may be made from time to time through a variety of methods as determined by the Company s management. As part of the share repurchase program, on May 5, 2011, the Company entered into an ASR with an investment bank under which the Company agreed to repurchase $500.0 million of its common stock. On May 10, 2011, the Company paid the $500.0 million purchase price and received an initial delivery of 19.9 million shares from the investment bank. The shares delivered were subject to a 20%, or $100.0 million holdback, which resulted in the Company receiving an additional 9.3 million shares on November 17, 2011. The additional shares received were calculated based upon the $17.13 volume weighted average price of the Company s common stock over an averaging period, subject to a discount agreed upon with the investment bank. The averaging period ended on November 14, 2011.

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	2012 Priorities
Profitable growth	New product development
	Leverage existing customer base to generate organic growth
	Targeted mergers and acquisitions
Productivity and cost control	Disciplined cost management
	Flexible cost structure
Cash flow and liquidity	Prudent capital investment
	Disciplined approach to mergers and acquisitions

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 continues to implement strategic initiatives across all platforms to reduce its overall cost structure and enhance productivity, including restructuring, consolidation, reorganization and integration of operations, and streamlining of administrative and support activities.

The Company 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, share repurchases and targeted acquisitions. 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.

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 and by the level of required pension plan contributions.

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.

2012 Outlook

In 2012, the Company expects net sales to increase from 2011 primarily as a result of organic growth in the International segment, which will largely be offset by continuing pricing pressures, as a result of the slow economy in the U.S. and volume declines driven by electronic substitution for certain of the Company s products and services. The highly competitive market conditions and unused industry capacity will continue to put pricing pressure on both transactional work and contract renewals. The Company s plans assume that the slow and uneven recovery of the U.S. economy will continue during 2012, with significantly faster growth in developing economies and a likely recession in Europe. The Company expects limited further improvement in consumer discretionary spending and a stable level of advertising spending by our customers. 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 Company expects to continue cost control and productivity initiatives, including selected facility consolidations across certain platforms.

On November 2, 2011, the Company announced a freeze on further benefit accruals under all its U.S. pension plans as of December 31, 2011, which is expected to have a significant impact on operating earnings in 2012 and in future years. Concurrent with the pension freeze announcement, the Company reinstituted its defined contribution matching program for most U.S. employees which will partially offset the decrease in projected pension costs. As a result of the adoption of the Patient Protection and Affordable Care Act, the Company will benefit from the Employer Group Waiver Program (EGWP) and a decrease in post retirement benefits expense in 2012 is expected.

U.S. Print and Related Services

Net sales in the U.S. Print and Related Services segment are expected to slightly decrease in 2012 driven by increased pricing pressures and volume declines in books and directories. Lower volume is expected to result from declines in directory demand primarily due to the impact of electronic substitution and legislation changes, and a decline in book demand driven by electronic substitution, as well as consumer spending. These decreases are expected to be partially offset by an increase in educational book volumes due to the projected state spending

recovery. Net sales in magazines, catalogs and retail inserts is also expected to decline due mainly to continuing price declines on major contract renewals. These declines are expected to be largely offset by higher logistics volumes, primarily driven by continuing growth in mail services and international mail, along with third party print logistics and modest increases in most of the Company s other products and services. Although there is continued uncertainty around capital markets transactions activity, a substantial recovery could result in increased net sales within financial print.

Despite price pressures and lower volume, the Company expects the U.S. Print and Related Services operating income to increase from 2011, as the result of an improved cost structure from ongoing productivity efforts, partially offset by inflationary pressures on certain raw materials.

International

Net sales in the International segment are expected to increase from 2011 primarily driven by anticipated volume increases in business process outsourcing and Asia. Volume increases in business process outsourcing should include outsourced services resulting from new customers and a large proportion of pass-through materials. Higher volume in Asia is expected to result from focused domestic offerings, global print management efforts and an increase in capital markets transactions activity, partially offset by continued volume declines from an existing customer and price reductions.

The International segment is expected to generate operating income roughly in line with that of 2011, as the higher volume is expected to be offset by lower prices and cost inflation.

Other

Pension and postretirement benefits expenses are expected to decrease by approximately $65.3 million in 2012, primarily reflecting the impact of the pension freeze, partially offset by the impact of lower discount rates and further recognition in operating earnings of historical asset losses that were initially recorded in other comprehensive income. The Company s pension and postretirement plans were underfunded by $1,074.0 million and $228.4 million, respectively, as of December 31, 2011, 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 accounting principles generally accepted in the United States of America (GAAP) for financial statement preparation. Based on the plans regulatory funded status as of January 1, 2011 and future years, required contributions in 2012 under all pension and postretirement plans are expected to be approximately $220.8 million, which is an increase of approximately $162.9 million compared to contributions made in 2011. The Company expects that required contributions in future years will decrease from this level, but changes in market conditions may have a significant impact on the level of required funding. The defined contribution matching contributions and the anticipated increase in healthcare costs due to inflation are expected to partially offset the forecasted decrease in pension and postretirement benefits expenses.

Cash flow from operating activities in 2012 are forecasted to be lower as compared to 2011 due to the expected increase in pension and postretirement plan contributions and less benefit from working capital management, partially offset by lower payments for employee incentive compensation. The Company expects capital expenditures to be approximately $200.0 million to $225.0 million in 2012. The Company expects to maintain its quarterly dividend, which must be approved by the Company s Board of Directors, at the current $0.26 per share level. 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.

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 also 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 and bears credit risk and the risk of loss for inventory in its possession. Revenue from contracts that do not meet these criteria is recognized on a net basis. Many of the Company s operations process materials, primarily paper, that may be supplied directly by customers or may be purchased by the Company and sold to customers. No revenue is recognized for customer-supplied paper, but revenues for Company-supplied paper are recognized on a gross basis. As a result, the Company s reported sales and margins may be impacted by the mix of customer-supplied paper and Company-supplied paper.

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 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 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 may be allocated. Goodwill is either assigned to a specific reporting unit or allocated between reporting units based on the relative excess fair value of each reporting unit. 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 goodwill impairment tests annually as of October 31, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. As of October 31, 2011, all reporting units had goodwill except for business process outsourcing. In 2011, the Company recognized a total non-cash charge of $392.3 million for the impairment of goodwill in the commercial, forms and labels, Canada and Latin America reporting units. As of December 31, 2011, there was $7.4 million of goodwill remaining in the forms and labels reporting unit related to the acquisition of Stratus, which was acquired on November 21, 2011. The commercial, Canada and Latin America reporting units had no remaining goodwill as of December 31, 2011.

The Company adopted Accounting Standards Update No. 2011-08 Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment (ASU 2011-08) for its October 31, 2011 annual goodwill impairment analysis. ASU 2011-08 allows the option to perform a qualitative, rather than quantitative, assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In performing this qualitative analysis the Company considered various factors, including the excess of prior year estimates of fair value compared to carrying value, the effect of market or industry changes, and the reporting units actual results compared to projected results.

As part of the qualitative review for impairment, management analyzed potential changes in fair value of these reporting units based on each reporting unit s operating results for the ten months ended October 31, 2011 compared to expected results. In addition, management considered how other key assumptions, including discount rates and expected long-term growth rates, used in the 2010 impairment analysis could be impacted by changes in market conditions and economic events. Since October 31, 2010, the market value of the Company s stock has decreased and market yields on the Company s debt have increased, which management considered in performing its qualitative assessment of whether it was more likely than not that the fair values of these reporting

units were less than their carrying values. Based on this qualitative assessment, management concluded that as of October 31, 2011, it was more likely than not that the fair value of the following three reporting units was greater than their carrying value: logistics, Asia and Global Turnkey Solutions.

For the remaining eleven reporting units, a two-step method was used for determining goodwill impairment. In the first step (Step One), the Company compared the estimated fair value of each reporting unit to its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeded the estimated fair value, the second step (Step Two) was 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.

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

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

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.

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) Step One of the goodwill impairment test. For the seven units that passed Step One, fair values exceeded the carrying amounts by between 18.0% and 184.0% of their respective estimated fair values. Small changes in the Company s key assumptions would not have resulted in any additional reporting units failing Step One. For the four reporting units that failed, the carrying amount exceeded fair value by between 23.0% and 222.0% of their respective estimated fair values. Relatively small changes in key assumptions would not have resulted in these reporting units passing Step One.

Generally, changes in estimates of expected future cash flows would have a similar effect on the estimated fair value of the reporting unit. That is, a 1.0% decrease in estimated annual future cash flows would decrease the estimated fair value of the reporting unit by approximately 1.0%. The estimated long-term net sales growth rate can have a significant impact on the estimated future cash flows, and therefore, the fair value of each reporting unit. A 1.0% decrease in the long-term net sales growth rate would have resulted in no additional reporting units

failing Step One of the goodwill impairment test. Of the other key assumptions that impact the estimated fair values, most reporting units have the greatest sensitivity to changes in the estimated discount rate. The discount rate for the reporting units in the U.S. Print and Related Services segment was estimated to be 9.5% for most reporting units as of October 31, 2011. Estimated discount rates for units in the International segment ranged from 9.5% to 15.0%. A 1.0% increase in estimated discount rates would have resulted in no additional reporting units failing Step One. The Company believes that its estimates of future cash flows and discount rates are reasonable, but future changes in the underlying assumptions could differ due to the inherent uncertainty in making such estimates. Additionally, further price deterioration or lower volume could have a significant impact on the fair values of the reporting units.

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 year ended December 31, 2011, the Company recognized non-cash impairment charges of $90.7 million, substantially all related to acquired customer relationship intangible assets in the forms and labels reporting unit within the U.S. Print and Related Services segment. In addition, the Company recognized non-cash impairment charges of $49.0 million during the year ended December 31, 2011, related to land, buildings, machinery and equipment and leasehold improvements, primarily as a result of restructuring actions.

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.

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 and above 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 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, 2011 and 2010 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, 2011 and 2010, valuation allowances of $273.2 million and $259.5 million, respectively, were recorded in the Company s Consolidated Financial Statements.

Deferred U.S. income taxes and foreign withholding taxes are not provided on the excess of the investment value for financial reporting over the tax basis of investments in those foreign subsidiaries for which such excess is considered to be permanently reinvested in those operations. The Company has recognized deferred tax liabilities of $3.0 million as of December 31, 2011, related to certain foreign earnings which are not considered to be permanently reinvested.

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 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, expected long-term rates of return, compensation increases, turnover rates and health care cost trend rates. The Company reviews its actuarial

assumptions on an annual basis as of December 31 (or more frequently if a significant event requiring remeasurement occurs) and modifies the assumptions based on current rates and trends when it is appropriate to do so. The effects of modifications are recognized immediately on the 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, 2011 and 2010 were 4.9% and 5.5%, respectively. The discount rates for postretirement benefits at December 31, 2011 and 2010 were 4.8% and 5.2%, respectively.

A one-percentage point decrease in the discount rates at December 31, 2011 would have increased the accumulated benefit obligation and projected benefit obligation by the following amounts (in millions):

Pension Plans

Accumulated benefit obligation	$ 563.5
Projected benefit obligation	568.7

Postretirement Plans

Accumulated benefit obligation	$ 43.1

On November 2, 2011, the Company announced a freeze on further benefit accruals under all of its U.S. pension plans as of December 31, 2011. Beginning January 1, 2012, participants ceased earning additional benefits under the plans and no new participants will enter these plans. The plan freeze required a remeasurement of the plans assets and obligations as of November 2, 2011, which resulted in a non-cash curtailment gain of $38.7 million recognized in the fourth quarter of 2011 and a reduction in its pension liability by $61.6 million. The remeasurement did not have a material effect on other components of net periodic pension expense for the year ended December 31, 2011.

On August 3, 2011, the Company announced the decision to convert its current prescription drug program for certain medicare-eligible retirees to a group-based Company sponsored Medicare Part D program, or the EGWP, resulting from the adoption of the Patient Protection and Affordable Care Act. Beginning January 1, 2013, the EGWP subsidies provided to or for the benefit of this program will be used to reduce the Company s net retiree medical and prescription drug costs until such Company net costs are eliminated, and any of the EGWP subsidies received in excess of the amount necessary to offset such net costs will be used to reduce the included group of retirees premiums. The Company accounted for this change as a plan amendment requiring remeasurement of plan assets and obligations, which resulted in the Company reducing its postretirement benefits liability by $81.5 million in the second quarter of 2011.

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

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rate of return for plan assets is based upon many factors including expected asset allocations, historical asset returns, current and expected future market conditions and risk. In addition, the Company considered the impact of the current interest rate environment on the expected long-term rate of return for certain asset classes, particularly fixed income. The prospective target asset allocation percentage for both the pension and postretirement benefit plans is approximately 75.0% for equity and other securities and approximately 25.0% for fixed income. The expected long-term rate of return on plan assets assumption at December 31, 2011 was 8.5% and 7.5% for the Company s major U.S. and Canadian pension plans, respectively, and 7.6% for the Company s U.S. postretirement benefit plan.

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, 2011, the current weighted average health care trend rate assumption for the major U.S. postretirement plan was 7.0% for both pre-age and post-age 65 participants. The current trend rate increases to 8.0% in 2013 before decreasing to an ultimate trend rate of 6.0%. The current weighted average health care trend rate assumption for the Canada postretirement plan was 7.0% for both pre-age and post-age 65 participants, gradually decreasing to an ultimate trend rate of 4.5%.

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

Postretirement benefit obligation	$ 5.2
Total postretirement benefit service and interest cost components	0.5

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

Postretirement benefit obligation	$ (4.9)
Total postretirement benefit service and interest cost components	(0.5)

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.

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RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2011 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2010

The following table shows the results of operations for the years ended December 31, 2011 and 2010, which reflects the results of acquired businesses from the relevant acquisition dates:

	2011	2010	$ Change	% Change
	(in millions, except percentages)			
Net sales				
Products	$ 9,375.1	$ 8,956.4	$ 418.7	4.7%
Services	1,235.9	1,062.5	173.4	16.3%
Total net sales	10,611.0	10,018.9	592.1	5.9%
Products cost of sales (exclusive of depreciation and amortization)	7,185.2	6,857.8	327.4	4.8%
Services cost of sales (exclusive of depreciation and amortization)	906.6	785.1	121.5	15.5%
Selling, general and administrative expenses (exclusive of depreciation and amortization)	1,236.3	1,123.4	112.9	10.0%
Restructuring and impairment charges	667.8	157.9	509.9	322.9%
Depreciation and amortization	549.9	539.2	10.7	2.0%
Total operating expenses	10,545.8	9,463.4	1,082.4	11.4%
Income from operations	$ 65.2	$ 555.5	$ (490.3)	(88.3%)

Consolidated

Net sales of products for the year ended December 31, 2011 increased $418.7 million, or 4.7%, to $9,375.1 million versus the prior year. Net sales of products increased due to the acquisition of Bowne, higher volume driven by increased business in Asia, Latin America and commercial print reporting units, changes in foreign exchange rates of $59.5 million, or 0.7%, and increases in pass-through paper sales. These increases were partially offset by decreases in net sales primarily attributable to lower volume within the books and directories reporting unit, the production and distribution of materials for the U.S. Census in 2010, continued price pressures and a decline in capital markets transactions activity.

Net sales from services for the year ended December 31, 2011 increased $173.4 million, or 16.3%, to $1,235.9 million versus the prior year. Net sales from services increased due to the acquisition of Bowne and higher logistics volumes. Additionally, net sales from services increased due to changes in foreign exchange rates of $8.1 million, or 0.8%.

Products cost of sales increased $327.4 million to $7,185.2 million for the year ended December 31, 2011 versus the prior year, primarily due to the acquisition of Bowne and higher materials costs, partially offset by lower incentive compensation expense, a gain on pension curtailment and a higher recovery on by-products. Products cost of sales as a percentage of products net sales remained constant.

Services cost of sales increased $121.5 million to $906.6 million for the year ended December 31, 2011 versus the prior year, primarily due to the acquisition of Bowne and higher logistics volume. Services cost of sales as a percentage of net sales decreased from 73.9% to 73.4%, reflecting lower incentive compensation expense, a gain on pension curtailment and productivity improvements, partially offset by an unfavorable mix within the financial print reporting unit and an increase in costs of transportation within the logistics reporting unit.

Selling, general and administrative expenses increased $112.9 million to $1,236.3 million, or from 11.2% to 11.7% as a percentage of consolidated net sales, for the year ended December 31, 2011 versus the prior year, due to the acquisition of Bowne and higher pension and other benefits-related expenses, partially offset by a gain on pension curtailment. These increases were also partially offset by cost savings from lower incentive compensation expense and restructuring activities.

For the year ended December 31, 2011, the Company recorded a net restructuring and impairment provision of $667.8 million compared to $157.9 million in 2010. In 2011, these charges included non-cash pre-tax charges of $392.3 million for the impairment of goodwill for the commercial and forms and labels reporting units within the U.S. Print and Related Services segment and the Latin America and Canada reporting units within the International segment. The goodwill impairment charge resulted from reductions in the estimated fair value of the commercial, forms and labels, Canada and Latin America reporting units, based on lower expectations for future revenue, profitability and cash flows due to continued impacts of electronic substitution on demand for business forms and other products, as well as continued price pressure. In addition, the Company recorded a non-cash charge of $90.7 million primarily related to the impairment of acquired customer relationship intangible assets in the forms and labels reporting unit within the U.S. Print and Related Services segment. For the year ended December 31, 2011, the Company also recorded $76.7 million for workforce reductions of 2,899 employees (of whom 2,790 were terminated as of December 31, 2011) associated with actions resulting from the reorganization of certain operations, primarily related to the closings of certain facilities and headcount reductions due to the Bowne acquisition. In addition, these charges related to the completed or announced closing of four books and directories manufacturing facilities and one commercial manufacturing facility within the U.S. Print and Related Services segment. These actions also included the reorganization of certain operations within the books and directories and magazines, catalogs and retail inserts reporting units within the U.S. Print and Related Services segment, as well as the reorganization of certain operations within the Latin America and Europe reporting units within the International segment. Additionally, the Company incurred other restructuring charges, including lease termination and other facility closure costs of $59.6 million, of which $15.1 million related to multi-employer pension plan partial withdrawal charges primarily due to the completed closing of three manufacturing facilities, and $48.5 million of impairment charges primarily for land, buildings, machinery and equipment and leasehold improvements associated with the facility closings.

For the year ended December 31, 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 (substantially all of whom were terminated as of December 31, 2011) 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.

Depreciation and amortization increased $10.7 million to $549.9 million for the year ended December 31, 2011 compared to 2010, primarily due to higher amortization expense associated with customer relationship intangible assets resulting from the acquisition of Bowne, partially offset by the impact of lower capital spending in recent years compared to historical levels. Depreciation and amortization included $112.2 million and $99.3 million of amortization of purchased intangibles related to customer relationships, patents, trade names, licenses and non-compete agreements for the years ended December 31, 2011 and 2010, respectively.

Income from operations for the year ended December 31, 2011 was $65.2 million compared to $555.5 million for the year ended December 31, 2010, a decrease of 88.3%. The decrease was primarily driven by higher restructuring and impairment charges, continued price pressure and higher pension and other benefits-related expenses, partially offset by higher volume, primarily related to the Bowne acquisition, a gain on pension curtailment, lower incentive compensation expense and benefits achieved from restructuring activities.

Net interest expense increased by $20.7 million for the year ended December 31, 2011 versus the same period in 2010, primarily due to the issuance of $400 million of 7.625% senior notes on June 21, 2010 and $600 million of 7.25% senior notes on June 1, 2011, partially offset by the repayment of $325.7 million of 4.95% senior notes that matured on May 15, 2010. Additionally, net interest expense increased due to borrowings under the unsecured and committed revolving credit agreement (the Credit Agreement) used to finance the Company s ASR and increased borrowing rates and commitment fees related to the rating actions of credit rating agencies. These increases were also partially offset by interest savings due to the repurchase of debt in June and September 2011.

Net investment and other income (expense) for the years ended December 31, 2011 and 2010 was income of $10.6 million and expense of $9.9 million, respectively. The year ended December 31, 2011 included a $10.0 million gain recognized on the acquisition of Helium, in which the Company previously held an equity investment. For year ended December 31, 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 as reflected below.

Loss on debt extinguishment for the year ended December 31, 2011 was $69.9 million. The loss was due to the repurchases of $227.8 million of the 11.25% senior notes due February 1, 2019, $100 million of the 6.125% senior notes due January 15, 2017 and $100 million of the 5.50% senior notes due May 15, 2015. These senior notes were repurchased to improve the debt maturity profile of the Company and to take advantage of the low interest rate environment.

The effective income tax rate for the year ended December 31, 2011 was 49.0% compared to 32.8% in 2010. The tax benefit for the year ended December 31, 2011 reflected recognition of $74.8 million of previously unrecognized tax benefits due to the expiration of U.S. federal statutes of limitations for certain years. The 2010 effective tax rate reflected the release of a valuation allowance on deferred tax assets due to the forecasted increase in net earnings for certain operations within Latin America.

Income (loss) attributable to noncontrolling interests was income of $1.5 million for the year ended December 31, 2011 and a loss of $4.6 million for the year ended December 31, 2010. The loss in 2010 as compared to income in 2011 primarily reflects the impact of the 2010 currency devaluation in Venezuela.

Net loss attributable to RR Donnelley common shareholders for the year ended December 31, 2011 was $122.6 million, or $0.63 per diluted share, compared to net earnings attributable to RR Donnelley common shareholders of $221.7 million, or $1.06 per diluted share, for the year ended December 31, 2010. In addition to the factors described above, the per share results reflect a decrease in weighted average diluted shares outstanding of 15.9 million primarily due to the purchase of shares during the year ended December 31, 2011 as a result of the accelerated share repurchase program.

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U.S. Print and Related Services

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

	Year Ended December 31, 2011	2010
	(in millions, except percentages)	
Net sales	$ 7,846.5	$ 7,532.2
Income from operations	232.9	638.9
Operating margin	3.0%	8.5%
Restructuring and impairment charges	505.1	94.0
Journalism Online contingent compensation	15.3	

Reporting unit	2011 Net Sales	2010 Net Sales	$ Change	% Change
	(in millions, except percentages)			
Magazines, catalogs and retail inserts	$ 1,903.9	$ 1,934.2	$ (30.3)	(1.6%)
Books and directories	1,292.5	1,425.6	(133.1)	(9.3%)
Variable print(1)	1,250.1	1,233.4	16.7	1.4%
Financial print	907.6	556.5	351.1	63.1%
Forms and labels	789.0	822.4	(33.4)	(4.1%)
Logistics	688.9	598.4	90.5	15.1%
Commercial(1)	639.6	588.0	51.6	8.8%
Office products	220.7	212.4	8.3	3.9%
Premedia	154.2	161.3	(7.1)	(4.4%)
Total U.S. Print and Related Services	$ 7,846.5	$ 7,532.2	$ 314.3	4.2%

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.

(1) 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, 2011 were $7,846.5 million, an increase of $314.3 million, or 4.2%, compared to 2010. Net sales increased due to the acquisition of Bowne, as well as higher logistics and commercial volumes. The increases not related to the Bowne acquisition were more than offset by lower volume in books and directories, the production and distribution of materials for the U.S. Census in 2010, continued price pressures and a decline in capital markets transactions activity within financial print. An analysis of net sales by reporting unit follows:

Magazine, catalogs and retail inserts: Sales decreased due to continued price pressures and lower volume, partially offset by higher pass-through paper sales.

Books and directories: Sales decreased primarily as a result of lower volume in consumer books, educational books and directories, as well as lower pass-through paper sales in directories. The decrease in the volume of consumer books was due to the increasing popularity of e-books and the liquidation of a large bookstore chain. The decrease in the volume of educational books was the result of lower state funding for education instructional materials.

Variable print: Sales increased due to the acquisition of Bowne, higher volume due to a contract with a large retail chain and higher direct mailings from financial services customers. These increases were partially offset by the production and distribution of materials for the U.S. Census in 2010, lower statement printing volume, reduction in pass-through postage sales and increased price pressure.

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Financial print: Sales increased as a result of the Bowne acquisition and higher volume in compliance and investment management transactions. These increases were partially offset by a decline in capital markets transactions activity.

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

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

Commercial: Sales increased due to higher volume from new customers, as well as an increase in pass-through sales due to growth in print management, partially offset by increased price pressure.

Office products: Sales increased due to new business from existing customers.

Premedia: Sales decreased primarily due to continued price pressures and lower volume from existing customers, partially offset by higher volume from new customers.

Income from operations decreased $406.0 million for the year ended December 31, 2011, mainly driven by higher restructuring and impairment charges, continued price pressures and lower volumes in books and directories, partially offset by the acquisition of Bowne and lower incentive compensation expense. Operating margins decreased from 8.5% for the year ended December 31, 2010 to 3.0% for the year ended December 31, 2011, primarily due to higher restructuring and impairment charges. Operating margins also decreased due to higher pass-through paper sales in magazines, catalogs and retail inserts, increased compliance volume in financial print and higher pass-through sales due to growth in print management.

International

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

	Years Ended December 31,	
	2011	**2010**
	(in millions, except percentages)	
Net sales	$ 2,764.5	$ 2,486.7
Income from operations	35.4	149.5
Operating margin	1.3%	6.0%
Restructuring and impairment charges	157.0	50.6

Reporting unit	**2011 Net Sales**	**2010 Net Sales**	**$ Change**	**% Change**
	(in millions, except percentages)			
Asia	$ 629.6	$ 550.6	$ 79.0	14.3%
Business process outsourcing	574.3	553.4	20.9	3.8%
Latin America	522.4	457.9	64.5	14.1%
Europe	473.4	401.8	71.6	17.8%
Global Turnkey Solutions	290.9	300.6	(9.7)	(3.2%)
Canada	273.9	222.4	51.5	23.2%
Total International	$ 2,764.5	$ 2,486.7	$ 277.8	11.2%

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Net sales for the International segment for the year ended December 31, 2011 were $2,764.5 million, an increase of $277.8 million, or 11.2%, compared to 2010. The net sales increase was due to the acquisition of Bowne, increased business in Asia and Latin America, changes in foreign exchange rates of $67.1 million, or 2.7%, as well as higher pass-through paper sales. An analysis of net sales by reporting unit follows:

Asia: Sales increased due to higher domestic sales of catalogs and retail inserts, increased volume from technology manuals and packaging products and changes in foreign exchange rates, partially offset by a decline in capital markets transactions activity and continued price pressures.

Business process outsourcing: Sales increased due to changes in foreign exchange rates and higher pass-through sales, partially offset by lower direct mailings and expiring contracts.

Latin America: Sales increased due to increased commercial print volumes in Argentina, Chile and Mexico, higher sales of books in Brazil and Chile, as well as changes in foreign exchange rates, partially offset by the continued decline in forms volumes in Brazil and continued price pressures.

Europe: Sales increased due to higher pass-through paper sales, changes in foreign exchange rates, increased commercial print volume and the acquisition of Bowne, partially offset by lower prices, as well as a decrease in technology and telecommunications packaging and directories volume.

Global Turnkey Solutions: Sales decreased due to lower volume from existing customers and an expiring contract, partially offset by volume increases from a new customer contract and other existing customers.

Canada: Sales increased due to the acquisition of Bowne and changes in foreign exchange rates, partially offset by a decline in capital markets transactions activity and lower forms volume.

Income from operations decreased $114.1 million for the year ended December 31 2011, primarily due to higher impairment charges and continued price pressure, partially offset by the acquisition of Bowne. Operating margins decreased from 6.0% for the year ended December 31, 2010 to 1.3% for the year ended December 31, 2011, primarily due to higher impairment charges, increased pass-through paper sales in Europe and lower prices, partially offset by higher volume.

Corporate

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

	Years Ended December 31,	
	2011	**2010**
	(in millions)	
Operating expenses	$ 203.1	$ 232.9
Restructuring and impairment charges	5.7	13.3
Acquisition-related expenses	2.2	13.5
Gain on pension curtailment	38.7	

Corporate operating expenses for the year ended December 31, 2011 were $203.1 million, a decrease of $29.8 million compared to 2010. The decrease was primarily driven by a gain on pension curtailment of $38.7 million, largely offset by higher pension and other benefits-related expenses. The decrease was also due to a lower bad debt provision, as well as a decline in acquisition-related and incentive compensation expenses, partially offset by an increase in information technology costs related to recent acquisitions and higher workers compensation expense.

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

	Income from 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; $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 loss on debt extinguishment due to the change in the hedged forecasted interest payments resulting from the repurchase of the 4.95% senior notes.

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.

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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 operations. 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, 2010 and 2009, which reflects the results of acquired businesses from the relevant acquisition dates:

	2010	2009	$ Change	% Change
	(in millions, except percentages)			
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)	6,857.8	6,789.8	68.0	1.0%
Services cost of sales (exclusive of depreciation and amortization)	785.1	673.1	112.0	16.6%
Selling, general and administrative expenses (exclusive of depreciation and amortization)	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 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 due to the acquisition of Bowne and changes in foreign exchange rates of $8.5 million, or 0.1%. 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.

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 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 (substantially all of whom were terminated as of December 31, 2011) 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 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 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 income (expense) for the years ended December 31, 2010 and 2009 was $9.9 million and $3.6 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.

The Company recorded a loss on debt extinguishment of $13.0 million for the year ended December 31, 2009. There was no loss on debt extinguishment for the year ended December 31, 2010. The 2009 loss was due to the repurchases of $640.6 million of the senior notes maturing in 2012 and 2010. 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 loss on debt extinguishment 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 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 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.

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U.S. Print and Related Services

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

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

Reporting unit	2010 Net Sales	2009 Net Sales	$ Change	% Change
	(in millions, except percentages)			
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)	1,233.4	1,174.8	58.6	5.0%
Forms and labels	822.4	829.5	(7.1)	(0.9%)
Commercial(1)	588.0	576.6	11.4	2.0%
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%

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.

(1) 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, increased sales from the production of mailings for the U.S. Census and the acquisition of Bowne. 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.

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.

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.

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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 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 from operations and certain items impacting comparability within the International segment:

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

Reporting unit	2010 Net Sales	2009 Net Sales	$ Change	% Change
	(in millions, except percentages)			
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%
Total International	$ 2,486.7	$ 2,420.4	$ 66.3	2.7%

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 due to the acquisition of Bowne and changes in foreign exchange rates of $7.4 million, or 0.3%. 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.

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