RR Donnelley & Sons Co
Form 424B5
May 16, 2011
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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-162931

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus Supplement, Dated May 16, 2011

PROSPECTUS SUPPLEMENT

(To prospectus dated November 5, 2009)

$500,000,000

R.R. DONNELLEY & SONS COMPANY

% Notes due 2018

RR Donnelley is offering $500.0 million aggregate principal amount of its % notes due 2018. Interest on the notes will be paid semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2011. The notes will mature on May 15, 2018. We may redeem the notes at any time and from time to time, in whole or in part, at a redemption price as described in this prospectus supplement in the section entitled Description of the Notes Optional Redemption.

The notes will be our general unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding.

Investing in the notes involves risks. See Risk Factors beginning on page 10 of our Annual Report on Form 10-K for the year ended December 31, 2010, Management s Discussion and Analysis of Financial Condition and Results of Operation Outlook Risks Related to Market Conditions on page 27 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and page S-17 of this prospectus supplement.

	Per Note	Total
Public offering price(1)	%	$
Underwriting discounts and commissions	%	$
Proceeds to RR Donnelley, before expenses(1)	%	$

(1) Plus accrued interest, if any, from May , 2011, if settlement occurs after that date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the notes in book-entry form only through the facilities of The Depository Trust Company for the accounts of its participants, including Clearstream Banking, societe anonyme, and Euroclear Bank S.A./N.V., as operator of the Euroclear System, against payment in New York, New York on or about May , 2011.

Joint Book-Running Managers

BofA Merrill Lynch **Citi** **J.P. Morgan**

Co-Managers

Mitsubishi UFJ Securities **US Bancorp** **Fifth Third Securities, Inc.** **PNC Capital Markets LLC**
Scotia Capital **TD Securities** **UBS Investment Bank**

The date of this prospectus supplement is May , 2011.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate as of the date on the front of this prospectus supplement only. Our business, financial condition, results of operations and prospects may have changed since that date.

In this prospectus supplement, unless the context indicates otherwise, the terms RR Donnelley, we, us, Company and our refer to R.R. Donnelley & Sons Company and its subsidiaries.

Our name, logo and other trademarks mentioned in this prospectus supplement are the property of their respective owners.

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WHERE YOU CAN FIND MORE INFORMATION

Available Information

RR Donnelley is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and in accordance therewith files annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission, or the SEC, on a regular basis. You may read and copy this information or obtain copies of this information by mail from the SEC s public reference room, 100 F Street N.E., Room 1580, Washington, D.C. 20549, at prescribed rates. Further information on the operation of the SEC s public reference room in Washington, D.C. can be obtained by calling the SEC at 1-800-SEC-0330.

The SEC also maintains a web site that contains reports, proxy statements and other information about issuers, like RR Donnelley, who file electronically with the SEC. The address of that site is http://www.sec.gov. RR Donnelley s SEC filings are also available from our web site at http://www.rrdonnelley.com. Information on our web site is not part of this prospectus supplement or the accompanying prospectus.

We have filed with the SEC a registration statement on Form S-3 relating to the securities covered by this prospectus supplement. The accompanying prospectus is part of the registration statement and does not contain all of the information in the registration statement. Whenever a reference is made in this prospectus supplement or the accompanying prospectus to a contract or other document of ours, please be aware that the reference is only a summary and that you should refer to the exhibits that are part of the registration statement for a copy of the contract or other document. You may review a copy of the registration statement at the SEC s public reference room in Washington, D.C., as well as through the SEC s web site.

Documents Incorporated by Reference

We have incorporated by reference in this prospectus supplement and the accompanying prospectus certain documents that we file with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. This information incorporated by reference is a part of this prospectus supplement and the accompanying prospectus, unless we provide you with different information in this prospectus supplement or the accompanying prospectus or the information is modified or superseded by a subsequently filed document. Any information referred to in this way is considered part of this prospectus supplement and the accompanying prospectus from the date we file that document.

Any reports filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act on or after the date of this prospectus supplement and before the completion of the offering of the securities will be deemed to be incorporated by reference into this prospectus supplement and the accompanying prospectus and will automatically update, where applicable, and supersede any information contained in this prospectus supplement or the accompanying prospectus or incorporated by reference into this prospectus supplement and the accompanying prospectus.

This prospectus supplement and the accompanying prospectus incorporate the documents listed below that we have previously filed with the SEC (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules). They contain important information about us, our business and our financial condition.

RR Donnelley SEC Filings	Period or Date Filed
Annual Report on Form 10-K (our Annual Report on Form 10-K)	Year ended December 31, 2010
Quarterly Report on Form 10-Q	Quarter ended March 31, 2011
Current Report on Form 8-K	May 11, 2011

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You can obtain any of the documents incorporated by reference in this prospectus supplement and the accompanying prospectus from us or from the SEC through the SEC s web site at the address described above. Documents incorporated by reference are available from us without charge, excluding any exhibits to those documents unless we specifically incorporated by reference the exhibit in this prospectus supplement and the accompanying prospectus. You can obtain these documents from us by requesting them in writing or by telephone at the following address or number:

R.R. Donnelley & Sons Company

111 South Wacker Drive

Chicago, Illinois 60606

Telephone: (866) 425-8272

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FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and portions of the documents incorporated by reference herein and therein contain statements concerning our possible or assumed future actions, events or results of operations. These statements may include, or be preceded or followed by, the words may, will, should, might, could, would, potential, possible, believe, expect, anticipate, intend, similar expressions. We claim the protections of the Safe Harbor for Forward-Looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements and any such forward-looking statements are qualified in their entirety by reference to the following cautionary statements. Forward-looking statements are not guarantees of performance. All forward-looking statements speak only as of the date hereof or the date of any document that may be incorporated by reference herein, are based on current expectations and involve a number of assumptions, risks and uncertainties that could cause the actual results or outcomes to differ materially from those expressed or implied in our forward-looking statements. Factors that could cause such material differences include, without limitation, the following:

- the volatility and disruption of the capital and credit markets, and adverse changes in the global economy;
- successful execution and integration of acquisitions, including the integration of Bowne & Co., Inc. (Bowne);
- successful negotiation of future acquisitions; and our ability 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, system integration and other key strategies;
- the ability to divest non-core businesses;
- future growth rates in our core businesses;
- competitive pressures in all markets in which we operate;
- our 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 documentation 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 our 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 our 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;

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- 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 recently enacted 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 our 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;
- adverse outcomes of pending and threatened litigation; and
- other risks and uncertainties detailed from time to time in our filings with the SEC, including under Risk Factors in our Annual Report on Form 10-K and under Management s Discussion and Analysis of Financial Condition and Results of Operations Outlook Risks Related to Market Conditions in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.

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, you 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 statement in this prospectus supplement, the accompanying prospectus or any document incorporated by reference to reflect any new events or any change in conditions or circumstances. Even if these plans, estimates or beliefs change because of future events or circumstances after the date of these statements, or because anticipated or unanticipated events occur, we decline and cannot be required to accept an obligation to publicly release the results of revisions to these forward-looking statements.

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SUMMARY

This summary is not complete and does not contain all of the information that you should consider before buying the notes in this offering. You should read carefully the entire prospectus supplement and the accompanying prospectus, including in particular the section entitled Risk Factors beginning on page S-17 of this prospectus supplement and the more detailed information and financial statements and related notes appearing elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus, before making any investment decision.

Company Overview

R.R. Donnelley & Sons Company (RR Donnelley, the Company, we, us, and our) is a global provider of integrated communications. Founde more than 146 years ago, we work 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, we employ 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.

We operate primarily in the commercial print portion of the printing industry, with related product and service offerings designed to offer customers complete solutions for communicating their messages to target audiences. Our 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 our U.S. printing operations, managed as one integrated platform, along with related logistics, premedia and print management services. This segment s products and related service offerings include magazines, catalogs, retail inserts, books, directories, financial printing and related services, direct mail, forms, labels, office products, statement printing, premedia and logistics services.

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

International

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

The International segment accounted for approximately 25% of our consolidated net sales in 2010.

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Industry Overview

Overcapacity and pricing environment

The print and related services industry, in general, continues to have excess capacity and remains highly competitive. Despite some consolidation in recent years, the printing industry remains highly fragmented. Across our 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 our products and services will continue to be a focal point for customers in coming years. Therefore, we believe we need to continuously lower our cost structure and further differentiate our products and service offerings.

Technology

Technological changes, including the electronic distribution of documents and data, online distribution and hosting of media content, advances in digital printing, print-on-demand and Internet technologies, continue to impact the market for our products and services. We seek to leverage distinctive capabilities of our products and services to improve our customers communications, whether in paper form or through electronic communications. Our goal is to help our customers succeed by delivering effective and targeted communications in the right format to the right audiences at the right time. Our management believes that with our competitive strengths, including our broad range of complementary print-related services, strong logistics capabilities, technology leadership, depth of management experience, customer relationships and economies of scale, we have developed and can further develop valuable, differentiated solutions for our customers.

As a substitute for print, the impact of digital technologies has been felt mainly in directories, forms and statement printing, as electronic communication and transaction technology has eliminated or reduced the role of many traditional paper forms. Electronic substitution has continued to accelerate in directory printing in part driven by environmental concerns and cost pressures at key customers. Despite rapid growth in the adoption of e-books, we do not believe there has been a significant impact on the volume of print. However, our management does expect to see an increasing impact on print book volume as e-book penetration continues to expand. The future impact of technology on our business is difficult to predict and could result in additional expenditures to restructure impacted operations or develop new technologies. We seek to leverage our unified platform and strong customer relationships in order to serve a larger share of our customer s print and related services needs.

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

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Outlook

Vision and Strategy

Our 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.

Our long-term strategy is focused on maximizing long-term shareholder value by driving profitable growth, continuing our focus on productivity and maintaining a disciplined approach to capital deployment. To increase shareholder value, we pursue three major strategic objectives. These objectives are summarized below, along with more specific areas of focus.

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

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

Our management believes productivity improvement and cost reduction are critical to our competitiveness, while enhancing the value we deliver to our customers. We have implemented strategic initiatives across all platforms to reduce our overall cost structure and enhance productivity, including restructuring, consolidation, reorganization and integration of operations, and streamlining of administrative and support activities.

We seek to deploy our capital using a balanced approach in order to ensure financial flexibility and provide returns to shareholders. Priorities for capital deployment, over time, include principal and interest payments on debt obligations, dividend payments to shareholders, capital expenditures, targeted acquisitions and share repurchases. We believe 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. We also expect to make targeted acquisitions that extend our capabilities, drive cost savings and reduce future capital spending needs.

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Recent Developments

Share Repurchase Program

On May 3, 2011, our board of directors approved a program that authorizes the repurchase of up to $1 billion of our common stock through December 31, 2012. We intend to maintain our current dividend, though the share repurchase program and dividend are both subject to economic and market conditions, among other factors.

Share repurchases may be made from time to time through a variety of methods, as determined by our management. The repurchase authorizations do not obligate us to acquire any particular amount of common stock and may be modified, suspended or terminated at any time at our discretion.

In connection with the authorization, on May 5, 2011, we entered into an accelerated share repurchase (ASR) agreement with J.P. Morgan Securities LLC, as agent for JPMorgan Chase Bank, National Association, London Branch (JPM), under which we will repurchase shares of our common stock. Pursuant to the terms of the ASR, we paid $500 million to JPM on May 10, 2011, and JPM made an initial delivery to us of 19,940,179 shares of our common stock (equivalent to 80% of the number of shares of our common stock that could be purchased for $500 million based on the closing price of our common stock on May 9, 2011). On May 9, 2011 we borrowed $500 million under our revolving credit facility to acquire such shares.

The total number of shares of our common stock that will be purchased under the ASR will be based on the volume average weighted price of our common stock, subject to adjustment in accordance with the terms of the ASR, over a valuation period, which is expected to end around the end of the year unless JPM, at its option, designates an earlier valuation completion date. After the end of this period, we may receive additional shares of our common stock or, to the extent that the value of the initial number of shares delivered of our common stock, based on the volume weighted average price of our common stock (as adjusted) during the valuation period is greater than $500 million, be required to remit to JPM, at our election, cash or shares of our common stock.

The ASR is subject to terms customary for similar agreements, including terms providing for the effect of extraordinary corporate transactions and setting forth circumstances under which the ASR may be terminated early.

Following the ASR, our intention is to complete the remaining amount under the authorization by December 31, 2012.

2011 Acquisitions

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

2010 Acquisitions

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

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

purchase price for Nimblefish was $3.9 million, including debt assumed of $2.0 million. We subsequently repaid $1.9 million of the debt assumed in December 2010. Nimblefish s operations are included in the U.S. Print and Related Services segment.

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

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

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The Offering

The brief summary below describes the principal terms of the notes. Some of the terms and conditions described below are subject to important limitations and exceptions. The Description of the Notes section of this prospectus supplement contains a more detailed description of the terms and conditions of the notes.

Issuer	R.R. Donnelley & Sons Company
Notes Offered	$500.0 million aggregate principal amount of % notes due May 15, 2018 (the notes).
Maturity	The notes will mature on May 15, 2018.
Interest Rate and Payment Dates	The notes will bear interest at a rate of % per year, payable semiannually in arrears on May 15 and November 15 of each year, commencing on November 15, 2011.
Ranking	The notes will be our unsecured obligations and will rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding.
Optional Redemption	We may redeem the notes at any time or from time to time, in whole or in part, at a redemption price as described more fully under Description of the Notes Optional Redemption.
Change of Control and Below Investment Grade Rating	If a change of control event occurs with respect to RR Donnelley and the notes are rated below investment grade by both Moody s and S&P on the 60th day following the consummation of the change of control, unless we have exercised our right to redeem the notes, holders of notes will have the right to require us to repurchase all or part of their notes at a price equal to 101% of the aggregate principal amount of the notes repurchased together with accrued and unpaid interest, as described more fully under Description of the Notes Change of Control.
Use of Proceeds	We intend to use the net proceeds from this offering to fund (1) a tender offer for any and all of our outstanding 11.25% Notes due 2019 (the 2019 Notes) based on a market premium to be determined and (2) a partial tender offer for certain of our other outstanding notes and debentures based on prices to be determined. See Use of Proceeds.
Risk Factors	Investing in the notes involves risks. You should consider carefully all of the information set forth in this prospectus supplement and the accompanying prospectus, and in particular, should evaluate the specific factors set forth under Risk Factors beginning on page 9 of our Annual Report on Form 10-K, Management s Discussion and Analysis of Financial Condition and Results of Operations Outlook Risks Related to Market Conditions on page 27 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and page S-17 of this prospectus supplement before investing in the notes.

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Summary Consolidated Financial Data and Other Financial Data

The following tables set forth certain of our summary consolidated financial data and other financial data. We derived our summary consolidated financial data and other financial data as of and for the years ended December 31, 2008, 2009 and 2010 from our consolidated financial statements which were audited by Deloitte and Touche LLP. We derived our summary consolidated financial data and other financial data as of and for the three months ended March 31, 2010 and 2011 from our unaudited consolidated financial statements for those periods. We calculated our summary consolidated financial data and other financial data as of and for the twelve months ended March 31, 2011 by subtracting the data for the three months ended March 31, 2010 from the data for the year ended December 31, 2010, and then adding the corresponding data for the three months ended March 31, 2011.

Our summary consolidated and financial data and other financial data are not necessarily indicative of our future performance. The data provided in this table are only summary and do not provide all the data contained in our financial statements. This table should be read in conjunction with and is qualified in its entirety by our audited consolidated financial statements and related notes for the years ended December 31, 2010, 2009 and 2008, and sections of this prospectus entitled Use of Proceeds, Capitalization and Management s Discussion and Analysis of Financial Condition and Results of Operations and the documents incorporated by reference into this prospectus supplement.

	Year Ended			Three Months Ended		Last Twelve Months Ended
	December 31, 2008	December 31, 2009	December 31, 2010	March 31, 2010	March 31, 2011	March 31, 2011
	(dollars in millions)					
Statement of Operations						
Total net sales	$ 11,581.6	$ 9,857.4	$ 10,018.9	$ 2,415.1	$ 2,583.5	$ 10,187.3
Cost of sales	8,576.3	7,462.9	7,642.9	1,841.7	1,956.2	7,757.4
Selling, general and administrative expenses	1,220.5	1,088.5	1,123.4	273.5	326.9	1,176.8
Restructuring and impairment charges, net	1,184.7	382.7	157.9	15.5	50.8	193.2
Depreciation and amortization	640.6	579.0	539.2	138.6	140.2	540.8
Income (loss) from continuing operations	(40.5)	344.3	555.5	145.8	109.4	519.1
Interest expense, net	226.4	234.6	222.6	55.7	57.9	224.8
Investment and other expenses, net	(2.4)	(16.6)	(9.9)	(9.0)	(0.2)	(1.1)
Earnings (loss) from continuing operations before income taxes	(269.3)	93.1	323.0	81.1	51.3	293.2
Income tax expense (benefit)	(83.9)	114.5	105.9	32.4	17.0	90.5
Net earnings (loss) from continuing operations	(185.4)	(21.4)	217.1	48.7	34.3	202.7
Income from discontinued operations, net of tax	1.8					
Net earnings (loss)	(183.6)	(21.4)	217.1	48.7	34.3	202.7
Less: Income (loss) attributable to noncontrolling interests	6.3	5.9	(4.6)	(3.9)	0.4	(0.3)
Net earnings (loss) attributable to RR Donnelley common shareholders	(189.9)	(27.3)	221.7	52.6	33.9	203.0
Other Financial Data						
Adjusted EBITDA[(1)]	$ 1,784.8	$ 1,307.6	$ 1,266.1	$ 301.9	$ 300.8	$ 1,265.0
Net cash provided by (used in):						
Operating activities	1,018.0	1,425.8	752.5	75.6	(7.2)	669.7
Investing activities	(351.2)	(260.9)	(674.5)	(63.3)	(64.3)	(675.5)
Financing activities	(678.9)	(1,028.0)	(58.0)	(51.6)	(56.4)	(62.8)
Depreciation and amortization	640.6	579.0	539.2	138.6	140.2	540.8
Capital expenditures	322.9	195.0	229.4	39.9	47.1	236.6
Balance Sheet Data						
Cash and cash equivalents	$ 324.0	$ 499.2	$ 519.1	$ 451.3	$ 399.3	$ 399.3
Total assets	9,494.3	8,747.6	9,083.2	8,570.5	8,966.4	8,966.4
Total debt	4,126.8	3,322.4	3,530.0	3,318.7	3,518.2	3,518.2
Net debt[(2)]	3,802.8	2,823.2	3,010.9	2,867.4	3,118.9	3,118.9

Total shareholders equity	2,341.9	2,161.0	2,245.4	2,158.1	2,257.7	2,257.7

(1) We have included Adjusted EBITDA which is a non-GAAP financial measure as defined under the rules of the SEC. Adjusted EBITDA is defined as income (loss) from continuing operations adjusted for restructurings and impairments, acquisition-related expenses and depreciation and amortization. Adjusted EBITDA is not a recognized term under GAAP and does not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, Adjusted EBITDA is not intended to be a measure of free cash flow available for management s discretionary use, as it does not consider certain cash requirements such as tax payments and debt service requirements.

We believe that certain non-GAAP financial measures, such as Adjusted EBITDA, when presented in conjunction with comparable GAAP measures, are useful to investors because that information is an appropriate measure for evaluating our operating performance. Internally, we use Adjusted EBITDA as an indicator of business performance, and evaluate management s effectiveness with specific reference to Adjusted EBITDA. Adjusted EBITDA should be considered in addition to, not a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. You are encouraged to evaluate each adjustment and the reasons we consider them appropriate for supplemental analysis. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Additionally, since not all companies use identical calculations, the presentations of Adjusted EBITDA may not be comparable to similarly titled measures of other companies or other calculations pursuant to our debt instruments including our revolving credit facility.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- it does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- it does not reflect changes in, or cash requirements for, our working capital needs;
- it does not reflect the significant interest expense, or the cash requirements necessary to service interest on our debts;
- it does not reflect our income tax expense or the cash requirements to pay our taxes;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements; and
- other companies in our industry may measure Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

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The following table sets forth the reconciliation of income (loss) from continuing operations for the periods below to Adjusted EBITDA:

	Year Ended			Three Months Ended		Last Twelve Months Ended
	December 31, 2008	December 31, 2009	December 31, 2010	March 31, 2010	March 31, 2011	March 31, 2011
	(dollars in millions)					
Income (loss) from continuing operations	$ (40.5)	$ 344.3	$ 555.5	$ 145.8	$ 109.4	$ 519.1
Adjustments						
Restructurings and impairments - net(a)	1,184.7	382.7	157.9	15.5	50.8	193.2
Acquisition-related expenses(b)		1.6	13.5	2.0	0.4	11.9
Depreciation and amortization	640.6	579.0	539.2	138.6	140.2	540.8
Total adjustments	1,825.3	963.3	710.6	156.1	191.4	745.9
Adjusted EBITDA	$ 1,784.8	$ 1,307.6	$ 1,266.1	$ 301.9	$ 300.8	$ 1,265.0

(a) Restructurings and impairments net consists of the following:

1. For 2008, pre-tax restructuring and impairment charges were $1,184.7 million, including (1) $1,125.4 million of non-cash charges for the impairment of goodwill and intangible assets; (2) charges of $44.1 million for employee termination costs, substantially all of which were associated with restructuring actions resulting from the reorganization of certain operations and the exiting of certain business activities; (3) $10.6 million of other restructuring costs, primarily lease termination costs; and (4) $4.6 million for impairment of other long-lived assets.

2. For 2009, pre-tax restructuring and impairment charges were $382.7 million, including (1) $128.5 million of non-cash charges for the impairment of goodwill; (2) 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; (3) $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; (4) $32.1 million of other restructuring costs, primarily lease termination costs; and (5) $24.7 million for impairment of long-lived assets.

3. For 2010, pre-tax restructuring and impairment charges were $157.9 million, including (1) $61.0 million and $26.9 million of non-cash charges for the impairment of goodwill and intangible assets, respectively; (2) charges of $35.9 million for employee termination costs, substantially all of which were associated with restructuring actions resulting from the reorganization of certain operations and the exiting of certain business activities; (3) $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) $4.6 million for impairment of other long-lived assets.

4. For the three months ended March 31, 2010, pre-tax restructuring and impairment charges were $15.5 million, including charges of (1) $9.2 million for employee termination costs, substantially all of which were associated with restructuring actions resulting from the reorganization of certain operations and the exiting of certain business activities; (2) $5.3 million of other restructuring costs; and (3) $1.0 million for impairment of long-lived assets.

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5. For the three months ended March 31, 2011, pre-tax restructuring and impairment charges were $50.8 million, including charges of (1) $24.8 million for employee termination costs, substantially all of which were associated with restructuring actions resulting from the reorganization of certain operations; (2) $17.9 million of other restructuring costs, primarily lease termination costs; and (3) $8.1 million for impairment of long-lived assets. The majority of the restructuring and impairment charges related to the closings of certain facilities and headcount reductions were due to the Bowne acquisition.

6. For the last twelve months ended March 31, 2011, pre-tax restructuring and impairment charges were $193.2 million, including (1) $61.0 million of non-cash charges for the impairment of goodwill; (2) $26.9 million of non-cash charges for the impairment of intangible assets; (3) charges of $51.5 million for employee termination costs, substantially all of which were associated with restructuring actions resulting from the reorganization of certain operations and the exiting of certain business activities; (4) $42.1 million of other restructuring cost and (5) $11.7 million for impairment of other long-lived assets.

(b) Acquisition-related expenses in each period consist of charges related to legal, accounting and other expenses associated with acquisitions completed or contemplated.

(2) Net debt equals total debt, including current maturities, less cash and cash equivalents. This non-GAAP financial measure should be used in addition to, but not as a substitute for, financial measures calculated in accordance with GAAP. See footnote (1) above.

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RISK FACTORS

An investment in the notes is subject to numerous risks, including those listed in our Annual Report on Form 10-K, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and the additional risks described below. You should carefully consider the following risks, along with the information provided elsewhere in this prospectus supplement and the accompanying prospectus. These risks could materially affect our ability to meet obligations under the notes. You could lose all or part of your investment in and expected return on the notes.

Risks Related to the Offering

There is no established trading market for the notes and one may not develop.

There is currently no established trading market for the notes and an active market may not develop. If an active market does develop such market may cease at any time. As a result, you may not be able to resell your notes for an extended period of time, if at all. Consequently, your lenders may be reluctant to accept the notes as collateral for loans. In addition, in response to prevailing interest rates and market conditions generally or other factors referred to in the section entitled Forward-Looking Statements, the notes could trade at a price lower than their initial offering price and you may not be able to liquidate your investment.

The claims of holders of the notes will be structurally subordinated to claims of creditors of our subsidiaries because our subsidiaries will not guarantee the notes which may limit your recovery as a creditor.

The notes will not be guaranteed by any of our subsidiaries. Accordingly, none of our subsidiaries is obligated to pay any amounts due pursuant to the notes, or to make any funds available therefor. Consequently, claims of holders of the notes will be structurally subordinated to the claims of creditors of these subsidiaries, including trade creditors. As a result, in the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, such subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to us, which may limit your recovery as a creditor.

We may be unable to repurchase the notes upon a change in control or a disposition of all or substantially all of our assets or properties.

Upon the occurrence of (i) certain events that constitute a Change of Control and (ii) a Below Investment Grade Rating Event, we will be required to offer to repurchase all outstanding notes at a price equal to 101% of the principal amount of the notes, together with accrued and unpaid interest, if any, to the date of the repurchase.

However, we may not have sufficient funds when required under the indenture governing the notes to make the required repurchase of the notes. If we fail to make or complete a repurchase of the notes in that circumstance, we will be in default under the indenture governing the notes. If we are required to repurchase a significant portion of the notes, we may require third-party financing. We cannot be sure that we would be able to obtain third-party financing on favorable terms, or at all.

One of the circumstances under which a change of control may occur is upon the sale or disposition of all of our properties or assets. However, the phrase all or substantially all will likely be interpreted under applicable state law and will be dependant upon particular facts or circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or disposition of all or substantially all of our properties or assets has occurred, in which case, the ability of a holder of the notes to obtain the benefit of the offer for repurchase of all or a portion of the notes held by such holder may be impacted.

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We expect that the trading price of the notes will be significantly affected by changes in the interest rate environment and our credit quality, each of which could change substantially at any time.

We expect that the trading price of the notes will depend on a variety of factors, including, without limitation, the interest rate environment and our credit quality. Each of these factors may be volatile, and may or may not be within our control.

If interest rates, or expected future interest rates, rise during the term of the notes, the yield of the notes will likely decrease. Because interest rates and interest rate expectations are influenced by a wide variety of factors, many of which are beyond our control, we cannot assure you that changes in interest rates or interest rate expectations will not adversely affect the trading price of the notes.

Furthermore, the trading price of the notes will likely be significantly affected by any change in our credit quality and any ratings assigned to us or our debt. Because our credit quality is influenced by a variety of factors, some of which are beyond our control, we cannot guarantee that we will maintain or improve our credit quality during the term of the notes. As a result of our activities in connection with our share repurchase program, we expect a ratings downgrade shortly following the announcement of this offering to a level below the investment grade ratings disclosed in our liquidity discussions in our Form 10-Q for the quarter ended March 31, 2011. This offering and the expected use of proceeds may also impact our credit quality and ratings. In addition, because we may choose to take actions that adversely affect our credit quality, such as incurring additional debt or repurchasing shares of our common stock, there can be no guarantee that our credit quality will not decline during the term of the notes, which would likely negatively impact the trading price of the notes. Furthermore, a downgrade of our corporate credit ratings could adversely affect our access to capital markets, and our cost of borrowing and result in more restrictive covenants in future debt agreements.

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RATIO OF EARNINGS TO FIXED CHARGES

	For the Three Months Ended March 31,	For the Fiscal Years Ended December 31,				
	2011	2010	2009	2008	2007	2006
Ratio of earnings to fixed charges	1.65x	2.12x	1.29x	0.09x	1.30x	4.18x

The ratio has been computed by dividing earnings available for fixed charges by fixed charges. For purposes of computing the ratio:

- earnings available for fixed charges consist of (i) earnings (loss) from continuing operations before income taxes, noncontrolling interests, cumulative effect of change in accounting principle, excluding (a) equity income or loss of minority-owned companies, (b) fixed charges before capitalized interest, and (c) amortization of capitalized interest, and (ii) dividends received from investees under the equity method, less income attributable to noncontrolling interests; and

- fixed charges consist of (i) interest on indebtedness, whether expensed or capitalized, including amortization of discounts related to indebtedness and (ii) that portion of rental expense we believe is representative of interest.

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USE OF PROCEEDS

We expect the net proceeds from this offering of notes to be approximately $ million after deducting the underwriting discount and our estimated expenses relating to the offering. We intend to use the net proceeds from this offering to fund (1) a tender offer for any and all of our outstanding 2019 Notes based on a market premium to be determined and (2) a partial tender offer for certain of our other outstanding notes and debentures based on prices to be determined.

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CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2011 on an actual basis and on an as adjusted basis to give effect to the sale of the notes offered hereby and the application of those net proceeds as described under Use of Proceeds, assuming that (1) we tender for any and all of our outstanding 2019 Notes and that all outstanding 2019 Notes are repurchased in that tender, (2) we tender for other outstanding notes and $100 million of other notes are purchased in those tender offers, and (3) that we pay $100 million in premiums in connection with those tender offers, which will reduce our As Adjusted shareholders equity. You should read this table in conjunction with the consolidated financial statements and the related notes incorporated by reference in this prospectus supplement and the accompanying prospectus.

	As of March 31, 2011	
	Actual	As Adjusted
	($ amounts in millions)	
Total debt (including current portion):		
Revolving credit facility[1]	$ 110.0	$ 110.0
2019 Notes	400.0	
Other existing notes and debentures	2,975.1	2,875.1
Notes offered hereby		500.0
Other existing indebtedness[2]	33.1	33.1
Total debt (including current portion)	3,518.2	3,518.2
Total RR Donnelley shareholders equity[3]	2,238.1	2,138.1
Noncontrolling interests	19.6	19.6
Total capitalization	$ 5,775.9	$ 5,675.9

(1) We have a $1.75 billion 3-year unsecured revolving credit facility (the revolving credit facility) that can be used for general corporate purposes, including acquisitions, letters of credit and as a backstop for our commercial paper program. This facility is subject to a number of restrictive covenants, including financial covenants. The financial covenants require a minimum interest coverage ratio and a maximum leverage ratio, both to be computed on a pro forma basis as defined in the revolving credit facility. Based on our results of operations for the twelve months ended March 31, 2011, we could utilize approximately an additional $1.6 billion of the $1.75 billion of the revolving credit facility and not be in violation of those financial covenants. On May 9, 2011, we borrowed $500 million under our revolving credit facility to acquire shares of common stock under our accelerated share repurchase program. As of May 16, 2011, there were $645 million of borrowings outstanding under the revolving credit facility. Additionally, as of March 31, 2011, we had $108.3 million of credit facilities outside of the United States, most of which were uncommitted. As of March 31, 2011, we had $59.3 million in outstanding letters of credit, of which $37.4 million reduced availability under our revolving credit facility.

(2) At March 31, 2011, other existing indebtedness consisted of international short-term borrowings, vendor financing arrangements and capital leases.

(3) On May 10, 2011, pursuant to the terms of our ASR with JPM, as agent for JPMorgan Chase Bank, National Association, London Branch, we paid $500 million to JPM and JPM made an initial delivery to us of 19,940,179 shares of our common stock (equivalent to 80% of the number of shares of our common stock that could be purchased for $500 million based on the closing price of our common stock on May 9, 2011). We acquired these shares as part of our previously announced program that authorizes the repurchase of up to $1.0 billion of our common stock. The total number of shares of our common stock that will be purchased under the ASR will be based on the volume average weighted price of our common stock, subject to adjustment in accordance with the terms of the ASR, over a valuation period, which is expected to end around the end of the year unless JPM, at its option, designates an earlier valuation completion date. After the end of this period, we may receive additional shares of our common stock or, to the extent that the value of the initial number of shares delivered of our common stock, based on the volume weighted average price of our common stock (as adjusted) during the valuation period is greater than $500 million, be required to remit to JPM, at our election, cash or shares of our common stock.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management s Discussion and Analysis of Financial Condition and Results of Operations is excerpted from our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and our Annual Report on Form 10-K for the year ended December 31, 2010, each of which is incorporated herein by reference. Please refer to those incorporated documents for a complete discussion and analysis of our financial condition and results of operations for the periods indicated. The following discussion is qualified in its entirety by the complete discussion therein, except to the extent that the information contained in this prospectus supplement differs from the information contained in the incorporated documents, the information in this prospectus supplement controls.

BUSINESS

R.R. Donnelley & Sons Company (RR Donnelley, the Company, we, us, and our) is a global provider of integrated communications. Found more than 146 years ago, we work 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, we employ 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.

We operate primarily in the commercial print portion of the printing industry, with related product and service offerings designed to offer customers complete solutions for communicating their messages to target audiences. Our 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 our U.S. printing operations, managed as one integrated platform, along with related logistics, premedia and print management services. This segment s products and related service offerings include magazines, catalogs, retail inserts, books, directories, financial printing and related services, direct mail, forms, labels, office products, statement printing, premedia and logistics services.

The International segment includes our 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, statement printing premedia and logistics services. Additionally, this segment includes our 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.

We separately report our net sales and related costs of sales for our product and service offerings. Our 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. Our service offerings primarily consist of logistics, premedia, EDGAR-related and XBRL financial services and certain business process outsourcing services.

We also made significant progress in the integration of Bowne during the first quarter. Restructuring actions to eliminate duplicate facilities and personnel have been implemented throughout the affected operations. Along with our continuing focus on productivity improvement, these actions are expected to result in significant cost savings.

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Outlook

Competition and Strategy

The print and related services industry, in general, continues to have excess capacity and remains highly competitive. Despite some consolidation in recent years, the printing industry remains highly fragmented. Across our 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 our products and services will continue to be a focal point for customers in coming years. Therefore, we believe that we need to continue to lower our cost structure and differentiate our 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 our products and services. We seek to leverage the distinctive capabilities of our products and services to improve our customers communications, whether in paper form or through electronic communications. Our goal remains to help our customers succeed by delivering effective and targeted communications in the right format to the right audiences at the right time. Management believes that with our competitive strengths, including our broad range of complementary print-related services, strong logistics capabilities, technology leadership, depth of management experience, customer relationships and economies of scale, we have developed and can further develop valuable, differentiated solutions for our customers. We seek to leverage our unified platform and strong customer relationships in order to serve a larger share of our customers print and related services needs.

As a substitute for print, the impact of digital technologies has been felt mainly in directories, forms and statement printing, as electronic communication and transaction technology has eliminated or reduced the role of many traditional paper forms. Electronic substitution has continued to accelerate in directory printing in part driven by environmental concerns and cost pressures at key customers. Despite rapid growth in the adoption of e-books, we do not believe there has been a significant impact on the volume of print. However, management does expect to see an increasing impact on print book volume as e-book penetration continues to expand. The future impact of technology on our business is difficult to predict and could result in additional expenditures to restructure impacted operations or develop new technologies. In addition, we have made targeted acquisitions that offer customers innovative services and solutions and further secure our position as a technology leader in the industry.

We have implemented a number of strategic initiatives to reduce our 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 our operations and management structure on a regular basis to balance appropriate risks and opportunities to maximize efficiencies and to support our long-term strategic goals. In addition, the integration of Bowne will continue to result in additional restructuring charges.

Seasonality

Advertising and consumer spending trends affect demand in several of the end-markets served by us. 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. We expect the seasonality impact in 2011 and future years to be in line with historical patterns.

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Raw Materials

The primary raw materials we use in our print businesses are paper and ink. We negotiate with leading suppliers to maximize our purchasing efficiencies and use a wide variety of paper grades, formats, ink formulations and colors. In addition, a substantial amount of paper used by us 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 our consolidated financial results. Recent strengthening of economic conditions, combined with paper industry capacity reductions, caused paper prices to increase during the first quarter of 2011, and increases in future years are expected. Generally, customers directly absorb the impact of changing prices on customer-supplied paper. With respect to paper purchased by us, we have historically passed substantially all increases and decreases through to our customers. Contractual arrangements and industry practice should support our continued ability to pass on any future paper price increases to a large extent, but there is no assurance that market conditions will continue to enable us to successfully do so. In addition, management believes that paper supply is consolidating, and there may be shortfalls in the future in supplies necessary to meet the demands of the entire marketplace. Higher paper prices and tight paper supplies may have an impact on customers demand for printed products.

We continue to monitor the impact of changes in the price of crude oil and other energy costs, which impacts our ink suppliers, logistics operations and manufacturing costs. Crude oil prices continue to be volatile. We believe our logistics operations will continue to be able to pass a substantial portion of any increases in fuel prices directly to our customers in order to offset the impact of related cost increases. We generally cannot pass on to customers the impact of higher energy prices on our manufacturing costs. We 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 our consolidated annual results of operations, financial position or cash flows.

Distribution

Our 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 our logistics operations, we manage the distribution of most customer products printed by us 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 our customers are willing to print and mail. On April 17, 2011, new postage rates went into effect for certain classes of mail in the United States. The new rates increased the cost of mailing these classes of mail by approximately 1.7%, which is the cap under the Postal Accountability and Enhancement Act (the Act). Under the Act, it is anticipated that postage will increase annually by an amount equal to or slightly less than the Consumer Price Index. As a leading provider of print logistics and the largest mailer of standard mail in the U.S., we work closely with the U.S. Postal Service and our customers on programs to minimize costs and ensure the viability of postal distribution. While we do not directly absorb the impact of higher postal rates on our 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. In addition, we offer innovative products and services to minimize customers postal costs and have invested in equipment and technology to meet customer demand for these services.

Risks Related to Market Conditions

We perform our annual goodwill impairment tests as of October 31, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. As part of its interim review for indicators of impairment, management analyzed potential changes in value of individual reporting units based on each reporting unit s operating results for the three months ended March 31, 2011 compared to expected results as of October 31, 2010. In addition, management considered how

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other key assumptions, including discount rates and expected long-term growth rates, used in the last fiscal year s impairment analysis, could be impacted by changes in market conditions and economic events. Based on this interim assessment, management concluded that as of March 31, 2011, no events or changes in circumstances indicated that it was more likely than not that the fair value for any reporting unit had declined below its carrying value. Significant change in global economic conditions could result in changes to expectations of future financial results and key valuation assumptions. These changes could result in revisions of management s estimates of the fair value of our reporting units and could result in a review for impairment of goodwill prior to October 31, 2011, our next annual measurement date. Any required interim impairment reviews could result in a material goodwill impairment charge.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AS COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2010

Executive Summary

The changes in our income from operations, operating margin, net earnings attributable to RR Donnelley common shareholders and net earnings attributable to RR Donnelley common shareholders per diluted share for the three months ended March 31, 2011, from the three months ended March 31, 2010, were due primarily to the following (in millions, except margin and per share data):

	Income from Operations	Operating Margin	Net Earnings Attributable to RR Donnelley Common Shareholders	Net Earnings Attributable to RR Donnelley Common Shareholders Per Diluted Share
For the three months ended March 31, 2010	$ 145.8	6.0%	$ 52.6	$ 0.25
2011 restructuring and impairment charges	(50.8)	(2.0%)	(34.3)	(0.17)
2010 restructuring and impairment charges	15.5	0.6%	10.6	0.05
Acquisition-related expenses	1.6	0.1%	1.4	0.01
2010 Venezuela devaluation			4.5	0.02
Operations	(2.7)	(0.5%)	(0.9)	
For the three months ended March 31, 2011	$ 109.4	4.2%	$ 33.9	$ 0.16

2011 pre-tax restructuring and impairment charges: included charges of $24.8 million for employee termination costs, substantially all of which were associated with restructuring actions resulting from the reorganization of certain operations; $17.9 million of other restructuring costs, primarily lease termination costs; and $8.1 million for impairment of long-lived assets. The majority of the restructuring and impairment charges related to the closings of certain facilities and headcount reductions due to the Bowne & Co., Inc. (Bowne) acquisition.

2010 pre-tax restructuring and impairment charges: included charges of $9.2 million for employee termination costs, substantially all of which were associated with restructuring actions resulting from the reorganization of certain operations and the exiting of certain business activities; $5.3 million of other restructuring costs; and $1.0 million for impairment of long-lived assets.

Acquisition-related expenses: included pre-tax charges of $0.4 million ($0.4 million after-tax) related to legal, accounting and other expenses for the three months ended March 31, 2011 associated with acquisitions completed. For the three months ended March 31, 2010, these pre-tax charges were $2.0 million ($1.8 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.

Operations: reflected higher pension and other benefits-related expenses and continued price pressures, which were partially offset by higher volume in the International segment as well as higher print and other

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logistics services volumes and capital market transactions and cost savings from restructuring actions and productivity efforts. See further details in the review of operating results by segment that follows below.

During the first quarter of 2011, our net sales benefited from the acquisition of Bowne. On a consolidated basis, our net sales increased $168.4 million, or approximately 7.0%, from the first quarter of 2010. However, pro forma for acquisitions, net sales declined approximately 0.4% (See Note 2 to the Condensed Consolidated Financial Statements included in our Quarterly Report on Form 10-Q for the period ended March 31, 2011). The pro forma net sales decline was primarily attributable to the one-time production and distribution of materials for the U.S. Census in the first quarter of 2010, along with continued price pressure and reductions in pass-through paper sales in directories. This decrease was mostly offset by increased business internationally, particularly in Asia, Europe and Latin America, as well as higher print and other logistics services volumes and capital market transactions. Lastly, changes in foreign exchange rates increased net sales $15.4 million, or 0.6%.

Financial Review

In the financial review that follows, we discuss our consolidated results of operations, financial position, cash flows and certain other information. This discussion should be read in conjunction with our condensed consolidated financial statements and related notes included in our Quarterly Report on Form 10-Q for the period ended March 31, 2011.

The following table shows the results of operations for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,			
	2011	2010	$ Change	% Change
	(in millions)			
Net sales				
Products	$ 2,266.4	$ 2,170.9	$ 95.5	4.4%
Services	317.1	244.2	72.9	29.9%
Total net sales	2,583.5	2,415.1	168.4	7.0%
Products cost of sales (exclusive of depreciation and amortization shown below)	1,726.8	1,660.8	66.0	4.0%
Services cost of sales (exclusive of depreciation and amortization shown below)	229.4	180.9	48.5	26.8%
Selling, general and administrative expenses (exclusive of depreciation and amortization shown below)	326.9	273.5	53.4	19.5%
Restructuring and impairment charges	50.8	15.5	35.3	227.7%
Depreciation and amortization	140.2	138.6	1.6	1.2%
Total operating expenses	2,474.1	2,269.3	204.8	9.0%
Income from operations	$ 109.4	$ 145.8	$ (36.4)	(25.0%)

Consolidated

Net sales of products for the three months ended March 31, 2011 increased $95.5 million, or 4.4%, to $2,266.4 million versus the same period in the prior year. Net sales of products increased due to the acquisition of Bowne, higher volume driven by increased business in Asia, Europe and Latin America and higher capital market transactions. Changes in foreign exchange rates also increased net sales by $14.1 million, or 0.6%. These increases were partially offset by decreases in net sales primarily attributable to the production and distribution of materials for the U.S. Census in the first quarter of 2010, continued price pressure and reductions in pass-through paper sales in directories.

Net sales from services for the three months ended March 31, 2011 increased $72.9 million, or 29.9%, to $317.1 million versus the same period in the prior year. Net sales from services increased due to the acquisition of Bowne, higher logistics volumes driven in part by growth in mail center and commingling services and changes in foreign exchange rates of $1.3 million, or 0.5%.

Products cost of sales increased $66.0 million to $1,726.8 million for the three months ended March 31, 2011 versus the same period in the prior year primarily due to the acquisition of Bowne and increased capital market transactions, partially offset by higher pricing on materials. Products cost of sales as a percentage of products net sales decreased from 76.5% to 76.2%, reflecting continued productivity efforts and a higher recovery on print-related by-products, partially offset by continued price pressures.

Services cost of sales increased $48.5 million to $229.4 million for the three months ended March 31, 2011 versus the same period in the prior year primarily due to the acquisition of Bowne and logistics volume increases. As a percentage of services net sales, services cost of sales decreased from 74.1% to 72.3%, reflecting the acquisition of Bowne and continued productivity efforts.

Selling, general and administrative expenses increased $53.4 million to $326.9 million for the three months ended March 31, 2011 versus the same period in the prior year due to the acquisition of Bowne and higher pension and other benefits-related expenses, partially offset by cost savings from restructuring activities. Selling, general and administrative expenses as a percentage of consolidated net sales increased from 11.3% to 12.7%, reflecting the acquisition of Bowne and increased pension and other benefits-related expenses.

For the three months ended March 31, 2011, we recorded net restructuring and impairment charges of $50.8 million compared to $15.5 million in the same period of 2010. In 2011, these charges included $24.8 million for workforce reductions of 709 employees (of whom 436 were terminated as of March 31, 2011) associated with actions resulting from the reorganization of certain operations. These charges primarily related to the closings of certain facilities and headcount reductions due to the Bowne acquisition. In addition, these charges included the announced closing of one book and directories manufacturing facility within the U.S. Print and Related Services segment. Additionally, we incurred other restructuring charges, including lease termination and other facility closure costs, of $17.9 million and impairment charges primarily for machinery and equipment and leasehold improvements associated with the announced facility closings of $8.1 million. Restructuring charges for the three months ended March 31, 2010 included $9.2 million for workforce reductions of 504 employees (all of whom were terminated as of March 31, 2011) associated with actions resulting from the reorganization of certain operations. These charges primarily related to the reorganization of certain operations within the business process outsourcing and Latin America reporting units within the International segment, as well as the continuing charges resulting from the closing of two Global Turnkey Solutions manufacturing facilities in 2009 within the International segment. In addition, we recorded $1.0 million of impairment charges of other long-lived assets and $5.3 million of other restructuring costs, including lease termination and other facility closure costs. Management believes that certain restructuring activities will continue throughout the remainder of 2011, as we continue to integrate Bowne and streamline its manufacturing, sales and administrative operations.

Depreciation and amortization increased $1.6 million to $140.2 million for the three months ended March 31, 2011 compared to the same period in 2010, primarily due to higher amortization expense associated with customer relationship intangible assets resulting from the acquisition of Bowne, partially offset by the impact of lower capital spending in recent years compared to historical levels. Depreciation and amortization included $28.5 million and $24.7 million of amortization of purchased intangibles related to customer relationships, patents, trade names, licenses and non-compete agreements for the three months ended March 31, 2011 and 2010, respectively.

Income from operations for the three months ended March 31, 2011 was $109.4 million, a decrease of 25.0% compared to the three months ended March 31, 2010. The decrease was primarily driven by the higher restructuring and impairment charges in 2011, continued price pressure and higher pension and other benefits-related expenses, partially offset by higher volume, primarily related to the Bowne acquisition, procurement savings and benefits achieved from restructuring activities.

Net interest expense increased by $2.2 million for the three months ended March 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, partially offset by the repayment of $325.7 million of 4.95% senior notes that matured on May 15, 2010.

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Net investment and other expense for the three months ended March 31, 2011 and 2010 was an expense of $0.2 million and $9.0 million, respectively. For the three months ended March 31, 2010, we 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 effective income tax rate for the three months ended March 31, 2011 was 33.1% compared to 40.0% in the same period of 2010. The higher effective tax rate in 2010 was primarily due to a $3.3 million charge in the three months ended March 31, 2010 associated with the enactment of the Patient Protection and Affordable Care Act.

Income (loss) attributable to noncontrolling interests was income of $0.4 million for the three months ended March 31, 2011 and a loss of $3.9 million for the three months ended March 31, 2010. The loss in 2010 as compared to income in 2011 primarily reflects the impact of the 2010 currency devaluation in Venezuela.

Net earnings attributable to RR Donnelley common shareholders for the three months ended March 31, 2011 was $33.9 million or $0.16 per diluted share compared to $52.6 million or $0.25 per diluted share for the three months ended March 31, 2010. In addition to the factors described above, the per share results reflect an increase in weighted-average diluted shares outstanding of 0.8 million due to higher dilution resulting from the issuance of shares related to the vesting of restricted stock units and exercise of stock options.

U.S. Print and Related Services

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

	Three Months Ended March 31,	
	2011	2010
	(in millions)	
Net sales	$ 1,941.1	$ 1,836.8
Income from operations	141.9	163.8
Operating margin	7.3%	8.9%
Restructuring and impairment charges	38.2	5.9

	For the Three Months Ended March, 31,			
Reporting unit	2011	2010	$ Change	% Change
	(in millions)			
Magazines, catalogs and retail inserts	$ 458.0	$ 454.8	$ 3.2	0.7%
Books and directories	316.7	328.6	(11.9)	(3.6%)
Variable print	315.0	341.3	(26.3)	(7.7%)
Financial print	240.8	125.5	115.3	91.9%
Forms and labels	199.3	206.5	(7.2)	(3.5%)
Logistics	161.4	136.1	25.3	18.6%
Commercial	154.2	147.2	7.0	4.8%
Office products	57.7	59.9	(2.2)	(3.7%)
Premedia	38.0	36.9	1.1	3.0%
Total U.S. Print and Related Services	$ 1,941.1	$ 1,836.8	$ 104.3	5.7%

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Net sales for the U.S. Print and Related Services segment for the three months ended March 31, 2011 were $1,941.1 million, an increase of $104.3 million, or 5.7%, compared to the same period in 2010. Net sales increased due to the acquisition of Bowne and higher logistics volumes and capital market transactions. The increases not related to the Bowne acquisition were more than offset by the production and distribution of materials for the U.S. Census in 2010, continued price pressures and lower volume in both books and directories. An analysis of net sales by reporting unit follows:

Magazines, catalogs and retail inserts: Sales increased due to increases in pass-through paper sales and volume, mostly offset by continued price pressures.

Books and directories: Sales decreased primarily as a result of lower volume in both books and directories as well as lower pass-through paper sales in directories.

Variable print: Sales decreased as a result of the production and distribution of materials for the U.S. Census in 2010 and lower statement printing volume, partially offset by the acquisition of Bowne and higher direct mailings from financial services customers.

Financial print: Sales increased due to the Bowne acquisition, increased capital market transactions and higher investment management and compliance volume.

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

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.

Commercial: Sales increased due to higher volume from new customers, partially offset by increased price pressure.

Office products: Sales decreased due to lower volume and unfavorable mix.

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

U.S. Print and Related Services segment income from operations decreased $21.9 million for the three months ended March 31, 2011 mainly driven by higher restructuring and impairment charges and continued price pressures, partially offset by the acquisition of Bowne. Operating margins in the U.S. Print and Related Services segment decreased from 8.9% to 7.3% for the three months ended March 31, 2011, substantially all of which was attributable to higher restructuring and impairment charges.

International

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

	Three Months Ended March 31,

	2011	2010
	(in millions)	
Net sales	$ 642.4	$ 578.3
Income from operations	44.1	33.7
Operating margin	6.9%	5.8%
Restructuring and impairment charges	9.2	9.5

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Reporting unit	Net Sales for the Three Months Ended March, 31, 2011	2010	$ Change	% Change
		(in millions)		
Asia	$ 135.9	$ 98.4	$ 37.5	38.1%
Business process outsourcing	135.0	148.3	(13.3)	(9.0%)
Europe	114.1	95.9	18.2	19.0%
Latin America	112.6	97.9	14.7	15.0%
Global Turnkey Solutions	74.6	82.1	(7.5)	(9.1%)
Canada	70.2	55.7	14.5	26.0%
Total International	$ 642.4	$ 578.3	$ 64.1	11.1%

Net sales for the International segment for the three months ended March 31, 2011 were $642.4 million, an increase of $64.1 million, or 11.1%, compared to the same period in 2010. The net sales increase is due to increased business in Asia, Europe and Latin America, the acquisition of Bowne and changes in foreign exchange rates of $15.2 million, or 2.6%. An analysis of net sales by reporting unit follows:

Asia: Sales increased due to higher volume of books exported to the U.S. and Europe, higher domestic sales of catalogs and retail inserts and increased volume from technology manuals and packaging products, partially offset by continued price pressures.

Business process outsourcing: Sales decreased due to lower direct mailings, pass-through sales and expiring contracts.

Europe: Sales increased due to higher commercial print volume, increased technology manuals and other packaging products volume and the acquisition of Bowne, partially offset by declining prices and lower directory volume.

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

Global Turnkey Solutions: Sales decreased due to lower volume from one existing customer and an expiring contract, partially offset by volume increases across the rest of the reporting unit.

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

Income from operations increased $10.4 million primarily due to increased business in Asia, Europe and Latin America and the acquisition of Bowne. Operating margins as a percentage of sales increased from 5.8% to 6.9% for the three months ended March 31, 2011. The increase resulted from higher volumes, partially offset by lower prices.

Corporate

Corporate operating expenses in the three months ended March 31, 2011 were $76.6 million, an increase of $24.9 million compared to the same period in 2010. The increase was driven by higher pension and other benefits-related expenses, an increase in information technology spending, higher restructuring and impairment charges of $3.3 million and the acquisition of Bowne.

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Liquidity and Capital Resources

The following describes our cash flows for the three months ended March 31, 2011 and 2010.

Cash Flows From Operating Activities

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

Net cash used in operating activities was $7.2 million for the three months ended March 31, 2011, compared to net cash provided by operating activities of $75.6 million for the same period last year. The decrease in operating cash flow reflects significantly higher incentive compensation payments in the first quarter of 2011 compared to 2010 because the payments in 2010 were under the 2009 incentive compensation plan, which deferred payments over four years. Additionally, the higher incentive compensation payments in 2011 were due to better operating results in 2010 as compared to the results in 2009. The remaining decreases were due to restructuring payments related to the Bowne acquisition and increases in working capital associated with higher financial services and international volumes, partially offset by the $57.5 million payment in January 2010 related to the termination of the long-term customer contract in 2009.

Cash Flows From Investing Activities

Net cash used in investing activities for the three months ended March 31, 2011 was $64.3 million compared to $63.3 million for the three months ended March 31, 2010. Net cash used for the acquisition of Journalism Online, LLC (Journalism Online) in the three months ended March 31, 2011 was $19.6 million. We used $12.0 million to purchase a long-term investment and $11.7 million to purchase a short-term deposit during the three months ended March 31, 2010. Capital expenditures were $47.1 million, an increase of $7.2 million compared to the first quarter of 2010. We expect that capital expenditures for 2011 will be approximately $250 million to $275 million, compared to $229.4 million in 2010.

Cash Flows From Financing Activities

Net cash used in financing activities for the three months ended March 31, 2011 was $56.4 million compared to $51.6 million in the same period of 2010. Net repayments under our revolving credit facility agreement (the Credit Agreement) were $10.0 million for the three months ended March 31, 2011. The net change in short-term debt was a cash inflow of $2.0 million during the three months ended March 31, 2011 as compared to a cash outflow of $3.8 million in 2010.

Dividends

On January 13, 2011, our Board of Directors declared a quarterly cash dividend of $0.26 per common share payable to RR Donnelley shareholders of record on January 28, 2011, and the total amount of $53.7 million was paid on March 1, 2011. On April 7, 2011, our Board of Directors declared a quarterly cash dividend of $0.26 per common share payable on June 1, 2011 to RR Donnelley shareholders of record on April 22, 2011.

Liquidity

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

Cash and cash equivalents of $399.3 million as of March 31, 2011 included $54.3 million that were readily available in the U.S. and $345.0 million that were available at international locations, most of which is subject to U.S. federal income taxes and some of which could be subject to local country taxes if repatriated to the U.S. In addition, repatriation of some foreign cash is further restricted by local laws. We maintain a cash pooling structure that enables participating international locations to draw on our overseas cash resources to meet local liquidity needs. In addition, foreign cash balances may be loaned to U.S. operating entities on a temporary basis in order to reduce our short-term borrowing costs or for other purposes.

We have a $1.75 billion revolving unsecured and committed credit agreement which expires December 17, 2013, subject to a possible one-year extension if agreed to by the lending financial institutions. Borrowings and the Credit Agreement bear interest at a rate dependent on our credit ratings at the time of borrowing and will be calculated according to a base or Eurocurrency rate plus an applicable margin. We pay annual commitment fees at rates dependent on our credit ratings. The Credit Agreement can be used for general corporate purposes, including letters of credit and as a backstop for the issuance of commercial paper. The Credit Agreement is subject to a number of financial covenants that, in part, may limit the use of proceeds, and our ability to create liens on assets, incur subsidiary debt, engage in mergers and consolidations, or dispose of assets. The financial covenants require a minimum interest coverage ratio and a maximum leverage ratio, both to be computed on a pro forma basis as defined in the Credit Agreement.

We also have $108.3 million in credit facilities outside of the U.S., most of which are uncommitted. As of March 31, 2011, we had $59.3 million in outstanding letters of credit, of which $37.4 million reduced availability under the Credit Agreement and $14.0 million reduced availability under uncommitted facilities outside of the U.S. As of March 31, 2011, we had no commercial paper outstanding. The failure of a financial institution supporting the Credit Agreement would reduce the size of our committed facility unless a replacement institution were added. Currently, the Facility is supported by 21 U.S. and international financial institutions. The availability on the Credit Agreement as of March 31, 2011 is shown in the following table:

	March 31, 2011 (in millions)
Availability	
Committed credit facility	$ 1,750.0
Availability reduction from covenants	70.6
	1,679.4
Usage	
Borrowings under the committed credit facility	110.0
	110.0
Current availability at March 31, 2011	$ 1,569.4

We were in compliance with our debt covenants as of March 31, 2011, and expect to remain in compliance based on management s estimates of operating and financial results for 2011 and the foreseeable future; however, as of March 31, 2011, as shown in the table above, we may borrow approximately $1.6 billion of the $1.75 billion currently not utilized under the Credit Agreement, as borrowings above $1.6 billion would cause us to violate certain debt covenants in the Credit Agreement. In addition, we met all the conditions required to borrow under the Credit Agreement as of March 31, 2011, and we expect to continue to meet the applicable borrowing conditions.

On March 24, 2011, we acquired Journalism Online for a purchase price of $20.0 million. We financed the acquisition with cash on hand.

On May 3, 2011, our Board of Directors approved a program that authorizes the repurchase of up to $1.0 billion of our 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 our management. The repurchase authorizations

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do not obligate us to acquire any particular amount of common stock or adopt any particular method of repurchase and may be modified, suspended or terminated at any time at our discretion. We terminated our existing authorization of October 29, 2008 for the repurchase of up to 10 million shares of our common stock. See Summary Recent Developments Share Repurchase Program

Risk Management

We are exposed to interest rate risk on our variable debt and price risk on our fixed-rate debt. As of March 31, 2011, approximately 79.5% of our outstanding debt was comprised of fixed-rate debt. At March 31, 2011, our exposure to rate fluctuations on variable-interest borrowings was $724.2 million, including $600.0 million notional value of interest rate swap agreements (See Note 15, *Derivatives*, to the Condensed Consolidated Financial Statements included on our Quarterly Report on Form 10-Q for the period ended March 31, 2011) and $124.2 million in borrowings under the Credit Agreement, international credit facilities and other long-term debt.

We are exposed to the impact of foreign currency fluctuations in certain countries in which we operate. The exposure to foreign currency movements is limited in most countries because the operating revenues and expenses of our various subsidiaries and business units are substantially in the local currency of the country in which they operate. To the extent that borrowings, sales, purchases, revenues, expenses or other transactions are not in the local currency of the operating unit, we are exposed to currency risk and may enter into foreign exchange forward contracts to hedge the currency risk. As of March 31, 2011, the aggregate notional amount of outstanding foreign exchange forward contracts was approximately $129.2 million. Net unrealized losses from these foreign exchange forward contracts were $0.1 million at March 31, 2011. We do not use derivative financial instruments for trading or speculative purposes.

We assess market risk based on changes in interest rates utilizing a sensitivity analysis that measures the potential loss in earnings, fair values and cash flows based on a hypothetical 10% change in interest rates. Using this sensitivity analysis, such changes would not have a material effect on interest income or expense and cash flows; and would change the fair values of fixed rate debt at March 31, 2011 and December 31, 2010 by approximately $93.1 million and $101.8 million, respectively.

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

Executive Summary

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

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

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2010 restructuring and impairment charges: included $61.0 million and $26.9 million of non-cash charges for the impairment of goodwill and intangible assets, respectively; charges of $35.9 million for employee termination costs, substantially all of which were associated with restructuring actions resulting from the reorganization of certain operations and the exiting of certain business activities; $29.5 million of other restructuring costs, of which $13.6 million related to multi-employer pension plan partial withdrawal charges primarily attributable to two closed manufacturing facilities within the U.S. Print and Related Services segment; and $4.6 million for impairment of other long-lived assets.

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

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

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

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

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 our affordable housing investments in 2010 and 2009, respectively.

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

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

2010 Overview

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

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

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

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

Financial Review

In the financial review that follows, we discuss our consolidated results of operations, financial position, cash flows and certain other information. This discussion should be read in conjunction with our consolidated financial statements accompanying our Annual Report on Form 10-K.

Discussion

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

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

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Consolidated

Net sales of products for the year ended December 31, 2010 increased $31.0 million, or 0.3%, to $8,956.4 million versus the prior year. Net sales of products increased due to the increased sales from the production of mailings for the U.S. Census and higher volume in Asia. In addition, net sales increased $38.4 million, or 0.4%, due to the acquisition of Bowne and $8.5 million, or 0.1%, from changes in foreign exchange rates. 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 $22.8 million, or 2.4%, due to the acquisition of Bowne.

Products cost of sales increased $68.0 million to $6,857.8 million for the year ended December 31, 2010 versus the prior year, primarily due to the acquisition of Bowne, volume increases, higher LIFO inventory provisions and higher incentive compensation expense, partially offset by higher pricing on by-products recoveries and lower material costs. Products cost of sales as a percentage of products net sales increased from 76.1% to 76.6%, reflecting the continued price pressures on net sales, higher LIFO inventory provisions and higher incentive compensation expense as a result of us 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, we 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, we recorded $35.9 million for workforce reductions of 1,458 employees (of whom 1,354 were terminated as of December 31, 2010) associated with actions resulting from the reorganization of certain operations. These actions included the reorganization of certain operations within the Financial Print reporting unit within the U.S. Print and Related Services segment due to the acquisition of Bowne. In addition, these actions included the closing of one Latin America manufacturing facility, one business process outsourcing manufacturing facility and one Global Turnkey Solutions manufacturing facility within the International segment. Further, continuing charges resulting from the closing of two Global Turnkey Solutions manufacturing facilities in 2009 within the International segment were recorded in 2010. These actions also included the reorganization of certain operations within the magazine, catalog and retail insert and variable

print reporting units and the closing of one forms and labels manufacturing facility within the U.S. Print and Related Services segment. In addition, we 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 us 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, we recorded $24.7 million of impairment charges for other long-lived assets and $32.1 million of other restructuring costs, including lease termination and other facility closure costs.

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

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

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

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

The effective income tax rate for the year ended December 31, 2010 was 32.8% compared to 123.0% in 2009. The lower effective tax rate in 2010 reflects the release of a valuation allowance on deferred tax assets due to the forecasted increase in net earnings for certain operations within the Latin America reporting unit. The higher rate in 2009 reflected a larger impact from the non-deductible, non-cash goodwill impairment charges and the partially deductible charges, discounted for future cash payments, of $118.6 million for the termination of a significant long-term customer contract in the business process outsourcing reporting unit within the International segment.

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

Net earnings (loss) from continuing operations attributable to RR Donnelley common shareholders for the year ended December 31, 2010 was $221.7 million, or $1.06 per diluted share, compared to a loss of $27.3 million, or $0.13 per diluted share, for the year ended December 31, 2009. In addition to the factors described above, the per share results reflect an increase in weighted average diluted shares outstanding of 4.5 million primarily resulting from our net loss in 2009 causing all outstanding options and unvested share awards to be anti-dilutive, as well as increases in the average stock price and the issuance of shares related to the vesting of restricted stock units and stock options.

U.S. Print and Related Services

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

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

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

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

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

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

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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.

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

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

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

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

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

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

International

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

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

Reporting unit	2010 Net Sales	2009 Net Sales	$ Change	% Change

		(in millions)		
Business process outsourcing	$ 553.4	$ 603.3	$ (49.9)	(8.3%)
Asia	550.6	436.2	114.4	26.2%
Latin America	457.9	467.9	(10.0)	(2.1%)
Europe	401.8	388.7	13.1	3.4%
Global Turnkey Solutions	300.6	321.6	(21.0)	(6.5%)
Canada	222.4	202.7	19.7	9.7%
Total International	$ 2,486.7	$ 2,420.4	$ 66.3	2.7%

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

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

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

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

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

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

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

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

Corporate

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

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

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

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RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2009 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2008

(in millions, except per share data)

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

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

2008 restructuring and impairment charges: included $1,125.4 million of non-cash charges for the impairment of goodwill and intangible assets; charges of $44.1 million for employee termination costs, substantially all of which were associated with restructuring actions resulting from the reorganization of certain operations and the exiting of certain business activities; $10.6 million of other restructuring costs, primarily lease termination costs; and $4.6 million for impairment of other long-lived assets.

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

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

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

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

Income tax adjustments: included $15.6 million of income tax expense in 2009 due to the reorganization of entities within the International segment. In addition, reflected tax benefits of $228.8 million realized in 2008 related to the decline in value and reorganization of certain entities within the International segment, as well as a benefit of $38.0 million in 2008 from the recognition of uncertain tax positions upon the final settlement of certain U.S. federal tax audits for the years 2000 2002.

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

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

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

Consolidated

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

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

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

Services cost of sales decreased $130.3 million to $673.1 million for the year ended December 31, 2009 versus the prior year, primarily due to volume decreases partially offset by higher incentive compensation expense. Services cost of sales as a percentage of services net sales increased from 72.0% to 72.2%, reflecting the impact of price pressures on net sales and higher incentive compensation expense, partially offset by the benefits of continued productivity efforts.

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

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

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

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

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

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

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

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

U.S. Print and Related Services

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

International

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

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

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

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

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

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

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

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

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

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

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

Corporate

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

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