RR Donnelley & Sons Co
Form 10-Q
May 02, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

OR

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

Commission File Number 1-4694

R.R. DONNELLEY & SONS COMPANY

(Exact name of registrant as specified in its charter)

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

(312) 326-8000

(Registrant s telephone number, including area code)

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

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

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

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

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

As of April 27, 2012, 180.3 million shares of common stock were outstanding.

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R.R. DONNELLEY & SONS COMPANY

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

(UNAUDITED)

	March 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 415.0	$ 449.7
Receivables, less allowances for doubtful accounts of $61.1 in 2012 (2011 $62.6)	1,858.8	1,844.2
Income taxes receivable	44.3	32.4
Inventories (Note 3)	518.9	510.9
Prepaid expenses and other current assets	137.7	131.4
Total current assets	2,974.7	2,968.6
Property, plant and equipment net (Note 4)	1,802.8	1,854.6
Goodwill (Note 5)	2,228.2	2,222.1
Other intangible assets net (Note 5)	568.3	590.3
Other noncurrent assets	638.8	646.1
Total assets	$ 8,212.8	$ 8,281.7
LIABILITIES		
Accounts payable	$ 973.8	$ 1,063.3
Accrued liabilities	758.4	817.0
Short-term and current portion of long-term debt (Note 14)	346.8	243.7
Total current liabilities	2,079.0	2,124.0
Long-term debt (Note 14)	3,408.5	3,416.8
Pension liability	1,050.4	1,076.3
Postretirement benefits	227.8	227.3
Other noncurrent liabilities	355.3	375.1
Total liabilities	7,121.0	7,219.5
Commitments and Contingencies (Note 13)		
EQUITY (Note 9)		
RR Donnelley shareholders equity		
Preferred stock, $1.00 par value		
Authorized: 2.0 shares; Issued: None		
Common stock, $1.25 par value		
Authorized: 500.0 shares;		
Issued: 243.0 shares in 2012 and 2011	303.7	303.7
Additional paid-in-capital	2,823.3	2,888.7

Retained earnings	333.4	342.4
Accumulated other comprehensive loss	(820.6)	(863.3)
Treasury stock, at cost, 62.7 shares in 2012 (2011 64.5 shares)	(1,567.4)	(1,628.8)
Total RR Donnelley shareholders equity	1,072.4	1,042.7
Noncontrolling interests	19.4	19.5
Total equity	1,091.8	1,062.2
Total liabilities and equity	$ 8,212.8	$ 8,281.7

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(UNAUDITED)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net sales		
Products	$ 2,196.5	$ 2,266.4
Services	328.4	317.1
Total net sales	2,524.9	2,583.5
Products cost of sales (exclusive of depreciation and amortization)	1,702.9	1,726.8
Services cost of sales (exclusive of depreciation and amortization)	242.1	229.4
Selling, general and administrative expenses (exclusive of depreciation and amortization)	283.5	326.9
Restructuring and impairment charges-net (Note 6)	50.0	50.8
Depreciation and amortization	125.0	140.2
Total operating expenses	2,403.5	2,474.1
Income from operations	121.4	109.4
Interest expense-net	60.7	57.9
Investment and other (income) expense-net	(1.2)	0.2
Loss on debt extinguishment	12.1	
Earnings before income taxes	49.8	51.3
Income tax expense	11.9	17.0
Net earnings	37.9	34.3
Less: Income attributable to noncontrolling interests	0.5	0.4
Net earnings attributable to RR Donnelley common shareholders	$ 37.4	$ 33.9
Net earnings per share attributable to RR Donnelley common shareholders (Note 10):		
Basic net earnings per share	$ 0.21	$ 0.16
Diluted net earnings per share	$ 0.21	$ 0.16
Dividends declared per common share	$ 0.26	$ 0.26
Weighted average number of common shares outstanding:		
Basic	179.4	207.2
Diluted	180.4	209.8

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(UNAUDITED)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net earnings	$ 37.9	$ 34.3
Other comprehensive income, net of tax (Note 11):		
Translation adjustments	41.8	26.1
Adjustment for net periodic pension and postretirement benefit cost	0.7	6.7
Change in fair value of derivatives	0.3	0.1
Other comprehensive income	42.8	32.9
Comprehensive income	80.7	67.2
Less: comprehensive income attributable to noncontrolling interests	0.6	0.4
Comprehensive income attributable to RR Donnelley common shareholders	$ 80.1	$ 66.8

(See Notes to Condensed Consolidated Financial Statements)

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(UNAUDITED)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
OPERATING ACTIVITIES		
Net earnings	$ 37.9	$ 34.3
Adjustments to reconcile net earnings to net cash used in operating activities:		
Impairment charges	9.4	8.1
Depreciation and amortization	125.0	140.2
Provision for doubtful accounts receivable	2.7	4.2
Share-based compensation	7.4	6.5
Deferred taxes	8.4	(17.2)
Changes in uncertain tax positions	2.2	3.7
Gain on sale of investments and other assets net	(0.6)	(2.0)
Loss on debt extinguishment	12.1	
Other	12.4	7.8
Changes in operating assets and liabilities net of acquisitions:		
Accounts receivable net	1.7	(29.7)
Inventories	(2.5)	(17.1)
Prepaid expenses and other current assets	(6.4)	(9.5)
Accounts payable	(104.8)	(18.9)
Income taxes payable and receivable	(21.3)	12.8
Accrued liabilities and other	(135.6)	(130.4)
Net cash used in operating activities	(52.0)	(7.2)
INVESTING ACTIVITIES		
Capital expenditures	(45.3)	(47.1)
Acquisitions of business, net of cash acquired	0.5	(19.6)
Proceeds from return of capital and sale of investments and other assets	1.1	2.3
Purchases of other investments	(2.5)	
Transfers (to)/from restricted cash	(0.1)	0.1
Net cash used in investing activities	(46.3)	(64.3)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	450.0	
Net change in short-term debt	(0.5)	2.0
Payments of current maturities and long-term debt	(621.3)	(0.3)
Payments on credit facility borrowings		(10.0)
Proceeds of credit facility borrowings	262.0	
Proceeds from termination of interest rate swaps	11.0	
Debt issuance costs	(7.0)	
Issuance of common stock	4.9	6.3
Dividends paid	(46.4)	(53.7)
Distributions to noncontrolling interests	(0.7)	(0.7)

Net cash provided by (used in) financing activities	52.0	(56.4)
Effect of exchange rate on cash flows and cash equivalents	11.6	8.1
Net decrease in cash and cash equivalents	(34.7)	(119.8)
Cash and cash equivalents at beginning of period	449.7	519.1
Cash and cash equivalents at end of period	$ 415.0	$ 399.3

(See Notes to Condensed Consolidated Financial Statements)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

1. Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements include the accounts of R.R. Donnelley & Sons Company and its subsidiaries (the Company or RR Donnelley) and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the rules and regulations of the United States Securities and Exchange Commission (the SEC). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These unaudited condensed consolidated interim financial statements reflect all normal and recurring adjustments (see paragraph below for discussion of an other than normal adjustment) that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods and should be read in conjunction with the consolidated financial statements and the related notes thereto included in the Company s latest Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on February 22, 2012. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2012. All significant intercompany transactions have been eliminated in consolidation. These unaudited condensed consolidated interim financial statements include estimates and assumptions of management that affect the amounts reported in the condensed consolidated financial statements. Actual results could differ from these estimates.

During the first quarter of 2012, the Company identified and recognized $19.8 million to correct an over-accrual for rebates owed to certain office products customers, which understated accounts receivable and net sales during the years 2008 through 2011. Following qualitative and quantitative review, the Company concluded that the over-accrual was not material to any prior period and is not expected to be material to the full year 2012 or to the trend of annual operating results.

2. Acquisitions

For the three months ended March 31, 2012, the Company recorded $0.3 million of acquisition-related expenses, associated with acquisitions contemplated, within selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

2011 Acquisitions

On November 21, 2011, the Company acquired StratusGroup, Inc. (Stratus), a full service manufacturer of custom pressure sensitive label and paperboard packaging products for health and beauty, food, beverage and other segments. Stratus decorative labeling and paperboard resources complement the Company s prime label, corrugated and other global packaging capabilities. The purchase price for Stratus was $29.0 million, net of cash acquired of $0.1 million. Stratus operations are included in the U.S. Print and Related Services segment.

On September 6, 2011, the Company acquired Genesis Packaging & Design Inc. (Genesis), a full service provider of custom packaging, including designing, printing, die cutting, finishing and assembling. The addition of Genesis complements the Company s existing packaging and merchandising business with a centrally located facility and enhanced ability to service customers in a range of industries. The purchase price for Genesis was $10.1 million. Genesis operations are included in the U.S. Print and Related Services segment.

On August 16, 2011, the Company acquired LibreDigital, Inc. (LibreDigital), a leading provider of digital content distribution, e-reading software, content conversion, data analytics and business intelligence services. LibreDigital s capabilities enable the Company to offer a broader selection of digital content creation and

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delivery services to publishing, retail, e-reader provider and other customers. The purchase price for LibreDigital was $19.5 million, net of cash acquired of $0.1 million. LibreDigital s operations are included in the U.S. Print and Related Services segment.

On August 15, 2011, the Company acquired Sequence Personal LLC (Sequence), a provider of proprietary software that enables readers to select relevant content to be digitally produced as specialized publications. Sequence s software offers publishers and other customers a practical way to increase revenues by allowing advertisers to select unique ad selection criteria for targeted delivery. The purchase price for Sequence, which includes the Company s estimate of contingent consideration, was $14.6 million, net of cash acquired of $0.1 million. A former equity holder of Sequence may receive contingent consideration in the form of cash payments of up to $14.0 million, subject to Sequence achieving certain milestones related to volume or revenue in 2013 and 2014. The Company estimated the fair value of the contingent consideration as of the acquisition date to be $6.8 million, using a probability weighting of the potential payouts. Subsequent changes in the estimated contingent consideration will be recognized in the Condensed Consolidated Statement of Operations. Sequence s operations are included in the U.S. Print and Related Services segment.

On June 21, 2011, the Company acquired Helium, Inc. (Helium), an online community offering publishers, catalogers and other customers stock and custom content, as well as a comprehensive range of editorial solutions. The ability to bundle Helium s content development solutions with the Company s complete offering of content delivery resources addresses customers needs across the full breadth of the supply chain. As the Company previously held a 23.7% equity investment in Helium, the purchase price for the remaining equity of Helium was $57.0 million, net of cash acquired of $0.1 million, and included an amount due from Helium of $1.1 million. The fair value of the Company s previously held equity investment was $12.8 million, resulting in the recognition of a $10.0 million gain, which was reflected in investment and other (income) expense in the Consolidated Statements of Operations for the year ended December 31, 2011. The fair value of the previously held equity investment was determined based on the purchase price paid for the remaining equity less an estimated control premium. The inputs used to determine the fair value of the previously held equity investment were determined to be Level 3 under the fair value hierarchy. Helium s operations are included in the U.S. Print and Related Services segment.

On March 24, 2011, the Company acquired Journalism Online, LLC (Journalism Online), an online provider of tools that allow consumers to purchase online subscriptions from publishers. Journalism Online s Press+ offering provides subscription management and online content payment services that increase the breadth of services the Company offers to its existing base of publishing customers. The purchase price for Journalism Online was $19.6 million, net of cash acquired of $0.4 million. Journalism Online s operations are included in the U.S. Print and Related Services segment.

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

For the three months ended March 31, 2011, the Company recorded $0.4 million of acquisition-related expenses, associated with acquisitions completed or contemplated, within selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

The Stratus, Genesis, LibreDigital, Sequence, Helium and Journalism Online acquisitions were recorded by allocating the cost of the acquisitions to the assets acquired, including intangible assets, based on their estimated fair values at the acquisition date. The excess of the cost of the acquisitions and the fair value of the previously-

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

held investments in Helium and contingent consideration over the net amounts assigned to the fair value of the assets acquired was recorded as goodwill. The tax deductible goodwill related to these acquisitions is expected to be $47.3 million. Based on the valuations, the final purchase price allocations for these acquisitions were as follows:

Accounts receivable	$ 6.0
Inventories	2.3
Prepaid expenses and other current assets	0.4
Property, plant and equipment and other long-term assets	16.8
Amortizable intangible assets	16.2
Goodwill	117.8
Accounts payable and accrued liabilities	(8.2)
Other noncurrent liabilities	(2.9)
Deferred taxes-net	14.2
Total purchase price-net of cash acquired	162.6
Less: fair value of Company s previously held investments in Helium	13.9
Less: fair value of contingent consideration	6.8
Net cash paid	$ 141.9

The fair values of property, plant and equipment, amortizable intangible assets, contingent consideration and goodwill associated with the acquisitions of Stratus, Genesis, LibreDigital, Sequence, Helium and Journalism Online were determined to be Level 3 under the fair value hierarchy. Property, plant and equipment values were estimated based on discussions with machinery and equipment brokers, dealer quotes and internal expertise related to the equipment and current marketplace conditions. Customer relationships intangible asset values were estimated based on expected future cash flows discounted using an estimated weighted average cost of capital. Estimates of future customer attrition rates were considered in estimating the expected future cash flows from customer relationships. Tradename intangible asset values were estimated based on the relief of royalty method.

Pro forma results

The following unaudited pro forma financial information for the three months ended March 31, 2012 and 2011 presents the combined results of operations of the Company and the 2011 acquisitions described above, as if the acquisitions had occurred at January 1, 2011.

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

	Three Months Ended March 31,	
	2012	2011
Net sales	$ 2,524.9	$ 2,594.8
Net earnings attributable to RR Donnelley common shareholders	37.7	40.4
Net earnings per share attributable to RR Donnelley common shareholders:		
Basic	$ 0.21	$ 0.20
Diluted	$ 0.21	$ 0.19

The unaudited pro forma financial information for the three months ended March 31, 2012 and 2011 includes $24.3 million and $29.0 million, respectively, for the amortization of purchased intangibles. The unaudited pro forma financial information includes restructuring and impairment charges from operations of $50.0 million and $51.2 million for the three months ended March 31, 2012 and 2011, respectively. Additionally, the pro forma adjustments affecting net earnings attributable to RR Donnelley common shareholders for the three months ended March 31, 2012 and 2011 were as follows:

	Three Months Ended March 31,	
	2012	2011
Depreciation and amortization of purchased assets, pre-tax	$	$ (0.9)
Acquisition-related expenses, pre-tax		0.3
Restructuring and impairment charges, pre-tax		(0.4)
Inventory fair value adjustment, pre-tax	0.3	(0.3)
Other pro forma adjustments, pre-tax	0.1	9.2
Income taxes	(0.1)	1.6

3. Inventories

	March 31, 2012	December 31, 2011
Raw materials and manufacturing supplies	$ 229.6	$ 218.0
Work in process	166.8	171.2
Finished goods	221.9	218.1
LIFO reserve	(99.4)	(96.4)
Total	$ 518.9	$ 510.9

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

4. Property, Plant and Equipment

	March 31, 2012	December 31, 2011
Land	$ 107.6	$ 107.4
Buildings	1,186.1	1,173.2
Machinery and equipment	6,035.4	6,054.4
	7,329.1	7,335.0
Less: Accumulated depreciation	(5,526.3)	(5,480.4)
Total	$ 1,802.8	$ 1,854.6

During the three months ended March 31, 2012 and 2011, depreciation expense was $95.4 million and $106.2 million, respectively.

Assets Held for Sale

Primarily as a result of restructuring actions, certain facilities and equipment are considered held for sale. The net book value of assets held for sale was $19.5 million and $20.2 million at March 31, 2012 and December 31, 2011, respectively. These assets were included in other current assets in the Condensed Consolidated Balance Sheets at March 31, 2012 and December 31, 2011 at the lower of their historical net book value or their estimated fair value, less estimated costs to sell.

5. Goodwill and Other Intangible Assets

Goodwill at March 31, 2012 and December 31, 2011 was as follows:

	U.S. Print and Related Services	International	Total
Net book value as of December 31, 2011			
Goodwill	$ 3,242.6	$ 1,278.4	$ 4,521.0
Accumulated impairment losses	(1,209.5)	(1,089.4)	(2,298.9)
Total	2,033.1	189.0	2,222.1
Foreign exchange and other adjustments	(0.6)	6.7	6.1
Net book value as of March 31, 2012			
Goodwill	3,242.0	1,314.1	4,556.1
Accumulated impairment losses	(1,209.5)	(1,118.4)	(2,327.9)
Total	$ 2,032.5	$ 195.7	$ 2,228.2

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

The components of other intangible assets at March 31, 2012 and December 31, 2011 were as follows:

	March 31, 2012			December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationship intangibles	$ 1,171.8	$ (640.1)	$ 531.7	$ 1,164.4	$ (613.6)	$ 550.8
Patents	98.3	(97.9)	0.4	98.3	(95.8)	2.5
Trademarks, licenses and agreements	28.8	(24.8)	4.0	28.7	(24.4)	4.3
Trade names	24.0	(9.9)	14.1	23.9	(9.3)	14.6
Total amortizable intangible assets	1,322.9	(772.7)	550.2	1,315.3	(743.1)	572.2
Indefinite-lived trade names	18.1		18.1	18.1		18.1
Total other intangible assets	$ 1,341.0	$ (772.7)	$ 568.3	$ 1,333.4	$ (743.1)	$ 590.3

Amortization expense for other intangible assets was $24.3 million and $28.5 million for the three months ended March 31, 2012 and 2011, respectively. The following table outlines the estimated annual amortization expense related to other intangible assets as of March 31, 2012:

For the year ending December 31,	Amount
2012	$ 90.4
2013	87.3
2014	84.7
2015	77.1
2016	49.5
2017 and thereafter	185.5
Total	$ 574.5

6. Restructuring and Impairment Charges

Restructuring and Impairment Costs Charged to Results of Operations

For the three months ended March 31, 2012 and 2011, the Company recorded the following net restructuring and impairment charges:

	March 31, 2012				March 31, 2011			
	Employee Terminations	Other Charges	Impairment	Total	Employee Terminations	Other Charges	Impairment	Total
U.S. Print and Related Services	$ 28.4	$ 3.3	$ 8.0	$ 39.7	$ 14.8	$ 16.5	$ 6.9	$ 38.2
International	3.8	0.6	1.0	5.4	7.9	0.8	0.5	9.2
Corporate	4.6		0.3	4.9	2.1	0.6	0.7	3.4

Total	$ 36.8	$ 3.9	$ 9.3	$ 50.0	$ 24.8	$ 17.9	$ 8.1	$ 50.8

For the three months ended March 31, 2012, the Company recorded net restructuring charges of $36.8 million for employee termination costs for 1,365 employees, of whom 872 were terminated as of March 31, 2012. These terminations resulted from the reorganization of sales and administrative functions across all segments, as well as facility closures and the reorganization of certain operations. The completed or announced

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

facility closures in the three months ended March, 31 2012 included two manufacturing facilities within the U.S. Print and Related Services segment and one manufacturing facility within the International segment. Additionally, the Company incurred lease termination and other restructuring charges of $3.9 million for the three months ended March 31, 2012. The Company also recorded $9.3 million of impairment charges primarily related to machinery and equipment associated with the facility closings for the three months ended March 31, 2012. The fair values of the machinery and equipment were determined to be Level 3 under the fair value hierarchy and were estimated based on discussions with machinery and equipment brokers, dealer quotes and internal expertise related to the current marketplace conditions.

For the three months ended March 31, 2011, the Company recorded net restructuring charges of $24.8 million for employee termination costs for 709 employees, all of whom were terminated as of March 31, 2012. 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 books and directories manufacturing facility within the U.S. Print and Related Services segment. Additionally, the Company incurred other restructuring charges, including lease termination and other facility closure costs of $17.9 million for the three months ended March 31, 2011. The Company also recorded $8.1 million of impairment charges primarily for machinery and equipment and leasehold improvements associated with the facility closings for the three months ended March 31, 2011. The fair values of the machinery and equipment and leasehold improvements were determined to be Level 3 under the fair value hierarchy and were estimated based on discussions with machinery and equipment brokers, dealer quotes and internal expertise related to the current marketplace conditions.

Restructuring Reserve

Activity impacting the Company s restructuring reserve for the three months ended March 31, 2012 was as follows:

	December 31, 2011	Restructuring Charges	Foreign Exchange and Other	Cash Paid	March 31, 2012
Employee terminations	$ 27.2	$ 36.8	$ 0.1	$ (16.5)	$ 47.6
Multi-employer pension withdrawal obligations	27.9	0.1		(0.8)	27.2
Lease terminations and other	32.6	3.8	0.2	(11.0)	25.6
Total	$ 87.7	$ 40.7	$ 0.3	$ (28.3)	$ 100.4

The current portion of restructuring reserves of $58.8 million at March 31, 2012 was included in accrued liabilities, while the long-term portion of $41.6 million at March 31, 2012, primarily related to multi-employer pension plan withdrawal obligations and lease termination costs, was included in other noncurrent liabilities.

The Company anticipates that payments associated with the employee terminations reflected in the above table will be substantially completed by March of 2013 and payments on the multi-employer pension plan withdrawal obligations are scheduled to be substantially completed by 2031.

As of March 31, 2012, the restructuring liabilities classified as lease terminations and other consisted of lease terminations, other facility closing costs and contract termination costs. Payments on certain of the lease obligations are scheduled to continue until 2026. Market conditions and the Company s ability to sublease these

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properties could affect the ultimate charge related to these lease obligations. Any potential recoveries or additional charges could affect amounts reported in the Condensed Consolidated Financial Statements of future periods.

7. Employee Benefits

The components of the estimated net pension and postretirement benefits (income) expense for the three months ended March 31, 2012 and 2011 were as follows:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Pension (income) expense		
Service cost	$ 1.9	$ 21.3
Interest cost	47.4	48.1
Expected return on assets	(65.8)	(67.1)
Amortization, net	7.1	12.2
Net pension (income) expense	$ (9.4)	$ 14.5
Postretirement benefits (income) expense		
Service cost	$ 1.7	$ 2.3
Interest cost	4.6	6.2
Expected return on assets	(3.5)	(3.8)
Amortization, net	(5.0)	(1.2)
Net postretirement benefits (income) expense	$ (2.2)	$ 3.5

On November 2, 2011, the Company announced a freeze on further benefit accruals under all U.S. pension plans as of December 31, 2011. Beginning January 1, 2012, participants ceased earning additional benefits under the plans and no new participants will enter these plans.

8. Share-Based Compensation

The Company recognizes compensation expense based on estimated grant date fair values for all share-based awards issued to employees and directors, including stock options, restricted stock units and performance share units. The total compensation expense related to all share-based compensation plans was $7.4 million and $6.5 million for the three months ended March 31, 2012 and 2011, respectively.

Stock Options

The Company granted 1,221,000 and 200,000 stock options during the three months ended March 31, 2012 and 2011, respectively. The fair market value of each stock option award was estimated on the date of grant using the Black-Scholes-Merton option pricing model. The fair market value of the stock options was determined using the following weighted average assumptions:

	2012	2011
Expected volatility	39.71%	36.69%
Risk-free interest rate	1.18%	2.54%
Expected life (years)	6.25	6.25
Expected dividend yield	5.06%	4.57%

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The weighted average fair market value of options granted was $2.96 and $4.39 for the three months ended March 31, 2012 and 2011, respectively.

The following table is a summary of the Company s stock option activity:

	Shares Under Option (Thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (millions)
Outstanding at December 31, 2011	3,995	$ 20.75	5.9	$ 9.5
Granted	1,221	13.22	9.9	
Exercised	(197)	7.09		
Cancelled/forfeited/expired	(245)	30.73		
Outstanding at March 31, 2012	4,774	$ 18.87	6.9	$ 5.8
Exercisable at March 31, 2012	819	$ 7.09	6.9	$ 4.3

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company s closing stock price on March 31, 2012 and December 31, 2011, respectively, and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their in-the-money options on March 31, 2012 and December 31, 2011. This amount will change in future periods based on the fair market value of the Company s stock and the number of options outstanding. Total intrinsic value of options exercised for the three months ended March 31, 2012 and 2011 was $1.2 million and $1.0 million, respectively.

Compensation expense related to stock options for the three months ended March 31, 2012 and 2011 was $1.1 million and $0.8 million, respectively. As of March 31, 2012, $5.1 million of total unrecognized compensation expense related to stock options is expected to be recognized over a weighted average period of 3.0 years.

Restricted Stock Units

Nonvested restricted stock unit awards as of March 31, 2012 and December 31, 2011, and changes during the three months ended March 31, 2012, were as follows:

	Shares (Thousands)	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2011	4,989	$ 13.94
Granted	817	10.65
Vested	(2,386)	15.74
Forfeited	(77)	12.84
Nonvested at March 31, 2012	3,343	$ 11.86

Compensation expense related to restricted stock units for the three months ended March 31, 2012 and 2011 was $5.8 million and $5.4 million, respectively. As of March 31, 2012, there was $28.6 million of unrecognized compensation expense related to approximately 3.1 million restricted stock unit awards, with a weighted average grant date fair market value of $11.79, that are expected to vest over a weighted average period of 2.4 years. The fair value of these awards was determined on the date of grant based on the Company s stock price reduced by the present value of expected dividends through the vesting period.

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Performance Share Units

During the three months ended March 31, 2012 and 2011, 233,000 and 235,000 performance share unit awards were granted to certain executive officers, payable upon the achievement of certain established performance targets for the three years ending December 31, 2014 and 2013, respectively. Distributions under these awards are payable at the end of the performance period in common stock or cash, at the Company s discretion. The performance periods for the shares awarded during the three months ended March 31, 2012 and 2011 are January 1, 2012 through December 31, 2014 and January 1, 2011 through December 31, 2013, respectively. The total potential payouts for awards granted during the three months ended March 31, 2012 and 2011 range from 116,500 to 233,000 shares and 117,500 to 235,000 shares, respectively, should certain performance targets be achieved. For the three months ended March 31, 2012 and 2011, the grant date fair market values of the awards granted were $10.12 and $15.54, respectively. The fair value of these awards was determined on the date of grant based on the Company s stock price reduced by the present value of expected dividends through the vesting period. These awards are subject to forfeiture upon termination of employment prior to vesting, subject in some cases to early vesting upon specified events, including death or permanent disability of the grantee or a change in control of the Company.

Compensation expense for the awards granted in 2012 and 2011 is currently being recognized based on the maximum estimated payout of 233,000 and 235,000 shares, for each respective period. Compensation expense related to performance share unit awards for the three months ended March 31, 2012 and 2011 was $0.5 million and $0.3 million, respectively. As of March 31, 2012, there was $4.3 million of unrecognized compensation expense related to performance share unit awards, which is expected to be recognized over a weighted average period of 2.3 years.

9. Equity

The following table summarizes the Company s equity activity for the three months ended March 31, 2012:

	RR Donnelley Shareholders Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2011	$ 1,042.7	$ 19.5	$ 1,062.2
Net earnings	37.4	0.5	37.9
Other comprehensive income	42.7	0.1	42.8
Stock-based compensation	7.4		7.4
Issuance of share-based awards, net of withholdings and other	(11.4)		(11.4)
Cash dividends paid	(46.4)		(46.4)
Distributions to noncontrolling interests		(0.7)	(0.7)
Balance at March 31, 2012	$ 1,072.4	$ 19.4	$ 1,091.8

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The following table summarizes the Company s equity activity for the three months ended March 31, 2011:

	RR Donnelley Shareholders Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2010	$ 2,224.3	$ 21.1	$ 2,245.4
Net earnings	33.9	0.4	34.3
Other comprehensive income	32.9		32.9
Stock-based compensation	6.2		6.2
Issuance of share-based awards, net of withholdings and other	(5.5)		(5.5)
Cash dividends paid	(53.7)		(53.7)
Distributions to noncontrolling interests		(1.9)	(1.9)
Balance at March 31, 2011	$ 2,238.1	$ 19.6	$ 2,257.7

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

As part of the share repurchase program the Company entered into an accelerated share repurchase agreement (ASR) in 2011 with an investment bank under which the Company repurchased $500.0 million of its common stock, receiving an initial delivery of 19.9 million shares on May 10, 2011 and an additional 9.3 million shares on November 17, 2011.

10. Earnings per Share Attributable to RR Donnelley Common Shareholders

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Numerator:		
Net earnings attributable to RR Donnelley common shareholders	$ 37.4	$ 33.9
Denominator:		
Weighted average number of common shares outstanding	179.4	207.2
Dilutive options and awards (a)	1.0	2.6
Diluted weighted average number of common shares outstanding	180.4	209.8
Net earnings per share attributable to RR Donnelley common shareholders:		
Basic	$ 0.21	$ 0.16
Diluted	$ 0.21	$ 0.16

Dividends declared per common share	$ 0.26	$ 0.26

(a) Dilutive options and awards take into consideration the dilution of certain unvested restricted stock awards, performance share unit awards and unexercised stock option awards. For the three months ended March 31, 2012 and 2011, restricted stock units of 2.8 million and 3.4 million, respectively, were excluded as their effect would be anti-dilutive. For the three months ended March 31, 2012 and 2011, performance share units

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of 0.4 million and 0.2 million, respectively, were excluded as their effect would be anti-dilutive. For the three months ended March 31, 2012 and 2011, options to purchase 4.4 million shares and 3.6 million shares, respectively, were anti-dilutive because the option exercise price exceeded the fair value of the stock.

As discussed in Note 9, during 2011 the Company entered into an ASR with an investment bank under which the Company repurchased $500.0 million of its common stock. Both the initial and final delivery of shares resulted in a reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted net earnings per share.

11. Comprehensive Income

Income tax expense allocated to each component of other comprehensive income as of March 31, 2012 and 2011 was as follows:

	Three Months Ended March 31, 2012		
	Before Tax Amount	Income Tax Expense	Net of Tax Amount
Translation adjustments	$ 41.8	$	$ 41.8
Adjustment for net periodic pension and postretirement benefit cost	1.6	0.9	0.7
Change in fair value of derivatives	0.5	0.2	0.3
Other comprehensive income	$ 43.9	$ 1.1	$ 42.8

	Three Months Ended March 31, 2011		
	Before Tax Amount	Income Tax Expense	Net of Tax Amount
Translation adjustments	$ 26.1	$	$ 26.1
Adjustment for net periodic pension and postretirement benefit cost	10.9	4.2	6.7
Change in fair value of derivatives	0.2	0.1	0.1
Other comprehensive income	$ 37.2	$ 4.3	$ 32.9

12. Segment Information

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

U.S. Print and Related Services

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

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International

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

Corporate

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

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