

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2021

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
(State or other jurisdiction of
incorporation or organization)

35 West Wacker Drive,
Chicago, Illinois
(Address of principal executive offices)

36-1004130
(I.R.S. Employer
Identification No.)

60601
(Zip code)

(312) 326-8000

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	RRD	New York Stock Exchange
Preferred Stock Purchase Rights		New York Stock Exchange

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes No

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

Large Accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-Accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of November 1, 2021, 72.9 million shares of common stock were outstanding.

R.R. DONNELLEY & SONS COMPANY
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2021

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (“RRD”)

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

(UNAUDITED)

	September 30, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents	\$ 223.5	\$ 288.8
Receivables, less allowances for credit losses of \$9.6 in 2021 (2020 - \$15.9)	1,045.5	1,009.2
Inventories (Note 4)	379.9	302.1
Assets held-for-sale	19.1	23.1
Prepaid expenses and other current assets	145.5	133.4
Total current assets	1,813.5	1,756.6
Property, plant and equipment-net (Note 5)	408.3	438.8
Goodwill (Note 6)	406.8	410.6
Other intangible assets-net (Note 6)	54.5	68.8
Deferred income taxes	73.0	78.5
Operating lease assets	196.4	223.8
Other noncurrent assets	140.9	153.8
Total assets	\$ 3,093.4	\$ 3,130.9
LIABILITIES		
Accounts payable	\$ 822.3	\$ 804.5
Accrued liabilities and other	342.4	351.2
Short-term operating lease liabilities	66.6	73.4
Short-term and current portion of long-term debt (Note 15)	79.3	61.1
Total current liabilities	1,310.6	1,290.2
Long-term debt (Note 15)	1,433.6	1,442.0
Pension liabilities	74.2	89.5
Other postretirement benefits plan liabilities	50.4	55.8
Long-term income tax liability	60.3	68.3
Long-term operating lease liabilities	135.7	156.9
Other noncurrent liabilities	252.2	272.0
Total liabilities	3,317.0	3,374.7
Commitments and Contingencies (Note 14)		
EQUITY (Note 10)		
RRD stockholders' equity		
Preferred stock, \$1.00 par value		
Authorized: 2.0 shares; Issued: None	—	—
Common stock, \$0.01 par value		
Authorized: 165.0 shares;		
Issued: 89.0 shares in 2021 and 2020	0.9	0.9
Additional paid-in-capital	3,022.5	3,263.6
Accumulated deficit	(2,223.1)	(2,240.7)
Accumulated other comprehensive loss	(152.1)	(153.9)
Treasury stock, at cost, 16.1 shares in 2021 (2020 - 17.6 shares)	(885.1)	(1,127.6)
Total RRD stockholders' equity	(236.9)	(257.7)
Noncontrolling interests	13.3	13.9
Total equity	(223.6)	(243.8)
Total liabilities and equity	\$ 3,093.4	\$ 3,130.9

See Notes to Condensed Consolidated Financial Statements

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (“RRD”)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net sales	1,267.8	1,191.3	3,586.5	3,417.7
Cost of sales	1,012.9	943.6	2,890.0	2,729.4
Gross profit	254.9	247.7	696.5	688.3
Selling, general and administrative expenses (exclusive of depreciation and amortization)	141.2	138.0	438.3	436.7
Restructuring, impairment and other expense -net (Note 7)	4.0	54.2	19.5	93.8
Depreciation and amortization	32.3	36.2	99.0	112.3
Other operating expense	4.3	3.4	13.3	15.5
Income from operations	73.1	15.9	126.4	30.0
Interest expense-net	29.4	34.3	98.4	102.7
Loss on debt extinguishment	—	0.2	6.2	0.4
Investment and other income-net	(5.4)	(3.6)	(15.1)	(10.8)
Income (loss) from continuing operations before income taxes	49.1	(15.0)	36.9	(62.3)
Income tax expense (benefit)	21.0	(5.9)	19.7	(3.0)
Net income (loss) from continuing operations	28.1	(9.1)	17.2	(59.3)
Gain (loss) on sale of discontinued operations, net of tax	—	—	0.6	(6.9)
Gain (loss) from discontinued operations, net of tax	—	0.4	—	(12.6)
Net income (loss) from discontinued operations (Note 2)	—	0.4	0.6	(19.5)
Net income (loss)	28.1	(8.7)	17.8	(78.8)
Less: (loss) income attributable to noncontrolling interests	(0.2)	0.2	0.2	0.3
Net income (loss) attributable to RRD common stockholders	\$ 28.3	\$ (8.9)	\$ 17.6	\$ (79.1)

Basic net earnings (loss) per share attributable to RRD common stockholders (Note 11):

Continuing Operations	\$ 0.39	\$ (0.13)	\$ 0.23	\$ (0.83)
Discontinued Operations	\$ —	\$ 0.01	\$ 0.01	\$ (0.27)
Net earnings (loss) attributable to RR Donnelley stockholders	\$ 0.39	\$ (0.12)	\$ 0.24	\$ (1.10)

Diluted net earnings (loss) per share attributable to RRD common stockholders (Note 11):

Continuing Operations	\$ 0.38	\$ (0.13)	\$ 0.23	\$ (0.83)
Discontinued Operations	\$ —	\$ 0.01	\$ 0.01	\$ (0.27)
Net earnings (loss) attributable to RR Donnelley stockholders	\$ 0.38	\$ (0.12)	\$ 0.24	\$ (1.10)

Weighted average number of common shares outstanding:

Basic	73.4	72.4	73.1	72.1
Diluted	74.1	72.4	74.0	72.1

See Notes to Condensed Consolidated Financial Statements

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (“RRD”)
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss)	\$ 28.1	\$ (8.7)	\$ 17.8	\$ (78.8)
Other comprehensive (loss) income, net of tax (Note 12):				
Translation adjustments	(10.4)	17.4	(10.6)	4.2
Adjustments for net periodic pension and postretirement benefits plan cost	1.0	0.8	3.1	2.3
Changes in fair value of derivatives	0.2	0.3	9.2	(13.0)
Other comprehensive (loss) income	(9.2)	18.5	1.7	(6.5)
Comprehensive income (loss)	18.9	9.8	19.5	(85.3)
Less: comprehensive (loss) income attributable to non-controlling interests	(0.2)	0.6	0.1	0.5
Comprehensive income (loss) attributable to RRD common stockholders	\$ 19.1	\$ 9.2	\$ 19.4	\$ (85.8)

See Notes to Condensed Consolidated Financial Statements

R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (“RRD”)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(UNAUDITED)

	Nine Months Ended September 30,	
	2021	2020
OPERATING ACTIVITIES		
Net income (loss)	\$ 17.8	\$ (78.8)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Impairment charges and other-net	1.5	22.3
Depreciation and amortization	99.0	116.6
(Benefit) provision for credit losses	(3.2)	7.4
Share-based compensation	3.9	4.5
Deferred income taxes loss (benefit)	4.8	(3.9)
Net pension and other postretirement benefits plan income	(14.1)	(10.1)
(Gain) loss on disposition of businesses and other assets	(8.3)	9.3
Loss on debt extinguishment	6.2	0.4
Other	3.2	6.1
Changes in operating assets and liabilities:		
Accounts receivable-net	(37.8)	57.7
Inventories	(78.9)	(21.7)
Prepaid expenses and other current assets	(10.4)	(6.5)
Accounts payable	9.4	(91.3)
Current income taxes	(10.7)	(18.8)
Accrued liabilities and other	(7.8)	38.3
Pension and other postretirement benefits plan contributions	(3.6)	(6.3)
Net cash (used in) provided by operating activities	<u>(29.0)</u>	<u>25.2</u>
INVESTING ACTIVITIES		
Capital expenditures	(48.6)	(54.4)
(Payments) proceeds from disposition of businesses	(1.4)	16.8
Proceeds from sales of property, plant and equipment	16.6	29.7
Proceeds related to company-owned life insurance	0.2	4.4
Net cash used in investing activities	<u>(33.2)</u>	<u>(3.5)</u>
FINANCING ACTIVITIES		
Payments of current maturities and long-term debt	(444.6)	(168.8)
Proceeds from issuances of long-term debt	451.1	—
Proceeds from credit facility borrowings	837.0	578.0
Payments on credit facility borrowings	(837.0)	(210.0)
Debt issuance costs	(8.3)	—
Dividends paid	—	(2.1)
Payments of withholding taxes on share-based compensation	(2.5)	(0.6)
Other financing activities	(1.3)	(1.7)
Net cash (used in) provided by financing activities	<u>(5.6)</u>	<u>194.8</u>
Effect of exchange rate on cash, cash equivalents and restricted cash	1.2	2.1
Net (decrease) increase in cash, cash equivalents and restricted cash	(66.6)	218.6
Cash, cash equivalents and restricted cash at beginning of year	357.6	223.8
Cash, cash equivalents and restricted cash at end of period	<u>\$ 291.0</u>	<u>\$ 442.4</u>

Supplemental cash flow disclosures:

Operating cash flows provided by discontinued operations	\$ —	\$ 15.7
Investing cash flows used in discontinued operations	\$ —	\$ (1.3)

See Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements include the accounts of R.R. Donnelley & Sons Company and its subsidiaries (“RRD,” the “Company,” “we,” “us,” and “our”) and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in accordance with the rules and regulations of the United States Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These unaudited condensed consolidated interim financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods and should be read in conjunction with the consolidated financial statements and the related notes thereto included in our latest Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on February 24, 2021. Operating results for the nine months ended September 30, 2021 are not indicative of the results that may be expected for the fiscal year ending December 31, 2021. 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.

In 2020, to focus on our core product and service offerings, we completed our plan to exit our Logistics Business. This business included Print Logistics, which was disposed of on July 2, 2018; Courier Logistics, which was disposed of on March 2, 2020; DLS Worldwide, which was disposed of November 2, 2020; and International Logistics which was disposed of on November 3, 2020. These businesses were included in the Business Services segment and primarily provided logistics services to a broad range of clients in the United States and globally. The financial results of these businesses have been excluded from continuing operations and segment results for all periods presented unless otherwise noted. Refer to *Note 2 – Discontinued Operations* to our Condensed Consolidated Financial Statements for additional information.

Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash at September 30, 2021 and December 31, 2020 reported within the Condensed Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Condensed Consolidated Statement of Cash Flows.

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Cash and cash equivalents	\$ 223.5	\$ 288.8
Restricted cash - current (a)	67.5	62.6
Restricted cash - noncurrent (b)	—	6.2
Total cash, cash equivalents and restricted cash	<u>\$ 291.0</u>	<u>\$ 357.6</u>

(a) Included within Prepaid expenses and other current assets within the Condensed Consolidated Balance Sheets

(b) Included within Other noncurrent assets within the Condensed Consolidated Balance Sheets

Cash payments for income taxes were \$33.6 million and \$29.5 million for the nine months ended September 30, 2021 and 2020, respectively. Cash refunds for income taxes were \$1.7 million and \$4.6 million for the nine months ended September 30, 2021 and 2020, respectively. Income taxes receivable of \$18.1 million and \$16.3 million as of September 30, 2021 and December 31, 2020, respectively, are included within Prepaid expenses and other current assets.

2. Discontinued Operations

In the fourth quarter of 2020, we completed our plan to exit our Logistics business, which was a component of the Business Services reporting segment. The Logistics business was comprised of DLS Worldwide, International Logistics, Print Logistics and Courier Logistics. In November 2020, we sold our DLS Worldwide and International Logistics businesses as part of our strategic shift to exit non-core businesses in order to pursue portfolio optimization and to reduce debt. As part of this strategic shift, we previously sold Print Logistics in July 2018 and Courier Logistics in March 2020. During the nine months ended September 30, 2021, we finalized working capital adjustments and settled certain other contingencies related to the divested businesses, the impact of which is included in the Gain (loss) on sale of the discontinued operations, net of tax.

As part of the divestitures, we entered into transition services agreements with the buyers to assist them in the transition of certain functions, including, but not limited to, information technology, finance, and human resources. Further, we entered into several commercial agreements whereby we continue to receive logistics services from the divested business. Our involvement with the divested businesses is not material in the three or nine-month periods ended September 30, 2021.

We have reflected the Courier Logistics business, the DLS Worldwide business, and the International Logistics business, as discontinued operations for all periods presented in the Condensed Consolidated Statements of Operations.

Results of discontinued operations for the three and nine months ended September 30, 2020 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020		2020	
Net sales	\$	190.5	\$	558.5
Cost of sales		(164.1)		(484.1)
Selling, general, administrative and other operating expenses		(21.3)		(69.7)
Restructuring, impairment and other expense		(0.2)		(21.0)
Operating income (loss) from discontinued operations		4.9		(16.3)
Income tax expense		(4.5)		(3.2)
Net gain (loss) from discontinued operations	\$	0.4	\$	(19.5)

Net sales includes sales from the Logistics businesses to RRD which were previously eliminated in consolidation and have been recast and are now shown as external sales within the financial results of discontinued operations above. These net sales were \$11.0 million and \$33.8 million for the three and nine months ended September 30, 2020, respectively.

Restructuring, impairment, and other expenses included \$20.6 million of non-cash charges related to impairment of goodwill recorded in the nine months ended September 30, 2020.

3. Revenue Recognition

Disaggregation of Revenue

The following table presents net sales disaggregated by products and services:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Commercial print	421.7	\$ 347.7	\$ 1,098.5	\$ 986.6
Packaging	196.8	193.6	550.9	459.1
Direct marketing	135.1	125.9	379.6	416.8
Labels	133.2	124.7	393.2	359.9
Digital print and fulfillment	107.9	104.4	307.1	302.6
Statements	103.0	104.3	320.8	333.1
Supply chain management	61.8	77.4	201.8	212.0
Forms	47.1	48.2	144.7	149.2
Business process outsourcing	40.0	40.9	125.4	125.5
Digital and creative solutions	21.2	24.2	64.5	72.9
Total net sales	\$ 1,267.8	\$ 1,191.3	\$ 3,586.5	\$ 3,417.7

Variable Consideration

Certain clients may receive volume-based rebates or early payment discounts, which are accounted for as variable consideration. We estimate these amounts based on the expected amount to be earned by our clients and reduce revenue accordingly. We do not expect significant changes to estimates of variable consideration. Given the nature of our products and the history of returns, product returns are not significant.

Contract Balances

The following table provides information about contract liabilities from contracts with clients:

	Contract Liabilities Short-Term
Balance at December 31, 2020	\$15.6
Balance at September 30, 2021	\$12.7

Contract liabilities primarily relate to client advances received prior to completion of performance obligations. Reductions in contract liabilities are a result of our completion of performance obligations.

Revenue recognized during the nine months ended September 30, 2021 from amounts included in contract liabilities at the beginning of the period was \$13.1 million.

4. Inventories

The components of inventories, net of excess and obsolescence reserves for raw materials and finished goods, at September 30, 2021 and December 31, 2020 were as follows:

	September 30, 2021	December 31, 2020
Raw materials and manufacturing supplies	\$ 176.6	\$ 147.3
Work in process	87.2	64.8
Finished goods	136.4	107.9
LIFO reserve	(20.3)	(17.9)
Total inventories	<u>\$ 379.9</u>	<u>\$ 302.1</u>

5. Property, Plant and Equipment

The components of property, plant and equipment at September 30, 2021 and December 31, 2020 were as follows:

	September 30, 2021	December 31, 2020
Land	\$ 35.5	\$ 38.2
Buildings	361.2	361.0
Machinery and equipment	1,676.2	1,703.1
	2,072.9	2,102.3
Less: Accumulated depreciation	(1,664.6)	(1,663.5)
Total property, plant and equipment-net	<u>\$ 408.3</u>	<u>\$ 438.8</u>

During the three and nine months ended September 30, 2021 depreciation expense was \$22.0 million and \$68.0 million, respectively. During the three and nine months ended September 30, 2020 depreciation expense was \$24.1 million and \$77.8 million, respectively.

During the fourth quarter of 2017, we entered into an agreement to sell a printing facility in Shenzhen, China and transfer the related land use rights. As of September 30, 2021, we have received deposits in accordance with the terms of the agreement of approximately \$123.3 million which are recorded in other noncurrent liabilities on the Condensed Consolidated Balance Sheets. As of September 30, 2021, the carrying value of the building and land use rights is recorded in other noncurrent assets and is not material. In accordance with the agreement, additional scheduled deposits are required to be paid to us with the final payment due in 2022. Gross proceeds from the sale are expected to be approximately \$250.0 million, subject to changes in the exchange rate. If the buyer fails to comply with terms of the agreement or terminates for any reason, the Company is entitled to retain 30% of the purchase price as liquidated damages.

In the third quarter of 2021, the buyer missed the required scheduled deposit payment. As a result, we are taking necessary actions to preserve our rights under the agreement which may include terminating the agreement.

6. Goodwill and Other Intangible Assets

The carrying amount of goodwill at September 30, 2021 and December 31, 2020 were as follows:

	<u>Business Services</u>	<u>Marketing Solutions</u>	<u>Total</u>
Net book value as of December 31, 2020			
Goodwill	\$ 2,076.1	\$ 519.5	\$ 2,595.6
Accumulated impairment losses	(1,930.9)	(254.1)	(2,185.0)
Total	<u>145.2</u>	<u>265.4</u>	<u>410.6</u>
Foreign exchange	(3.8)	—	(3.8)
Net book value as of September 30, 2021			
Goodwill	2,067.0	519.5	2,586.5
Accumulated impairment losses	(1,925.6)	(254.1)	(2,179.7)
Total	<u>\$ 141.4</u>	<u>\$ 265.4</u>	<u>\$ 406.8</u>

The components of other intangible assets at September 30, 2021 and December 31, 2020 were as follows:

	<u>September 30, 2021</u>			<u>December 31, 2020</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Client relationships	\$ 412.7	\$ (369.6)	\$ 43.1	\$ 417.0	\$ (361.1)	\$ 55.9
Trade names	28.5	(17.1)	11.4	29.1	(16.2)	12.9
Trademarks, licenses and agreements	23.2	(23.2)	—	23.2	(23.2)	—
Patents	2.0	(2.0)	—	2.0	(2.0)	—
Total amortizable other intangible assets	<u>466.4</u>	<u>(411.9)</u>	<u>54.5</u>	<u>471.3</u>	<u>(402.5)</u>	<u>68.8</u>

Amortization expense for other intangible assets was \$4.7 million and \$14.2 million for the three and nine months ended September 30, 2021 and was \$4.8 million and \$14.5 million for the three and nine months ended September 30, 2020.

7. Restructuring, Impairment and Other

For the three and nine months ended September 30, 2021 and 2020, we recorded the following net restructuring, impairment and other expenses:

	<u>Three Months Ended September 30, 2021</u>				
	<u>Employee Terminations</u>	<u>Other Restructuring Charges</u>	<u>Multi-Employer Pension Plan Charges</u>	<u>Impairment and Other</u>	<u>Total</u>
Business Services	\$ 2.2	\$ 1.2	\$ 0.6	\$ (3.8)	\$ 0.2
Marketing Solutions	(0.2)	1.2	0.1	—	1.1
Corporate	0.5	2.1	0.1	—	2.7
Total	<u>\$ 2.5</u>	<u>\$ 4.5</u>	<u>\$ 0.8</u>	<u>\$ (3.8)</u>	<u>\$ 4.0</u>

	<u>Three Months Ended September 30, 2020</u>				
	<u>Employee Terminations</u>	<u>Other Restructuring Charges</u>	<u>Multi-Employer Pension Plan Charges</u>	<u>Impairment and Other</u>	<u>Total</u>
Business Services	\$ 4.6	\$ 2.2	\$ 0.1	\$ 0.1	\$ 7.0
Marketing Solutions	2.2	1.3	0.1	1.1	4.7
Corporate	2.2	3.2	37.1	—	42.5
Total	<u>\$ 9.0</u>	<u>\$ 6.7</u>	<u>\$ 37.3</u>	<u>\$ 1.2</u>	<u>\$ 54.2</u>

	Nine Months Ended September 30, 2021				
	Employee Terminations	Other Restructuring Charges	Multi-Employer Pension Plan Charges	Impairment and Other	Total
Business Services	\$ 3.6	\$ 5.8	\$ 1.8	\$ (4.3)	\$ 6.9
Marketing Solutions	0.3	4.7	0.3	0.5	5.8
Corporate	2.4	5.6	(1.2)	—	6.8
Total	<u>\$ 6.3</u>	<u>\$ 16.1</u>	<u>\$ 0.9</u>	<u>\$ (3.8)</u>	<u>\$ 19.5</u>

	Nine Months Ended September 30, 2020				
	Employee Terminations	Other Restructuring Charges	Multi-Employer Pension Plan Charges	Impairment and Other	Total
Business Services	\$ 16.7	\$ 5.0	\$ 1.8	\$ (1.2)	\$ 22.3
Marketing Solutions	4.3	1.8	0.3	1.1	7.5
Corporate	8.9	18.0	37.1	—	64.0
Total	<u>\$ 29.9</u>	<u>\$ 24.8</u>	<u>\$ 39.2</u>	<u>\$ (0.1)</u>	<u>\$ 93.8</u>

Restructuring, Impairment and Other

For the three and nine months ended September 30, 2021, we recorded net restructuring charges of \$2.5 million and \$6.3 million for employee termination costs. These charges primarily relate to announced facility closures and the reorganization of selling, general and administrative functions across each segment. We also incurred \$4.5 million and \$16.1 million of other restructuring charges during the three and nine months ended September 30, 2021, comprised of lease terminations and environmental costs. We recorded net gains of \$4.0 million and \$5.4 million on the sale of restructured facilities for the three and nine months ended September 30, 2021.

For the three and nine months ended September 30, 2020, we recorded net restructuring charges of \$9.0 million and \$29.9 million for employee termination costs. These charges primarily related to the closure of the Chilean operations and other facility closures in the Business Services segment and the reorganization of selling, general and administrative functions across each segment. We also incurred other restructuring charges of \$6.7 million and \$24.8 million for the three and nine months ended September 30, 2020 and recorded net gains of \$0.3 million and \$1.8 million on the sale of restructured facilities for the three and nine months ended September 30, 2020.

Restructuring and Multiemployer Pension Plan (“MEPP”) Reserves

Restructuring and MEPP reserves as of December 31, 2020 and September 30, 2021, and changes during the nine months ended September 30, 2021, were as follows:

	December 31, 2020	Restructuring and Other Charges	Foreign Exchange and Other	Cash Paid	September 30, 2021
Employee terminations	\$ 6.2	\$ 6.3	\$ 0.1	\$ (6.2)	\$ 6.4
MEPP withdrawal obligations	70.2	0.9	—	(23.2)	47.9
Other	12.2	16.1	(0.1)	(13.0)	15.2
Total	<u>\$ 88.6</u>	<u>\$ 23.3</u>	<u>\$ —</u>	<u>\$ (42.4)</u>	<u>\$ 69.5</u>

The current portion of restructuring reserves of \$26.1 million at September 30, 2021 was included in Accrued liabilities and other, while the long-term portion of \$43.4 million, primarily related to MEPP withdrawal obligations, employee terminations in litigation and other, was included in Other noncurrent liabilities at September 30, 2021. The liabilities for the withdrawal obligations associated with our previous decision to withdraw from all MEPPs included in Accrued liabilities and other and Other noncurrent liabilities are \$7.1 million and \$40.8 million, respectively, as of September 30, 2021.

Payments on our MEPP withdrawal obligations are scheduled to be substantially completed by 2034. Changes based on uncertainties in these estimated withdrawal obligations could affect the ultimate charges related to MEPP withdrawals. Refer to *Note 14 – Commitment and Contingencies* to our *Condensed Consolidated Financial Statements* for further details.

The restructuring liabilities classified as “other” primarily consisted of reserves for employee termination litigation and environmental matters. Any potential recoveries or additional charges could affect amounts reported in our condensed consolidated financial statements.

8. Retirement Plans

Components of net pension and other postretirement benefits plan (“OPEB”) income for the three and nine months ended September 30, 2021 and 2020 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Pension income:				
Service cost	\$ 0.3	\$ 0.2	\$ 0.9	\$ 0.7
Interest cost	5.1	6.8	15.3	20.5
Expected return on plan assets	(9.6)	(10.2)	(28.7)	(30.4)
Amortization, net	2.9	2.5	8.8	7.5
Net pension income	<u>\$ (1.3)</u>	<u>\$ (0.7)</u>	<u>\$ (3.7)</u>	<u>\$ (1.7)</u>
OPEB income:				
Interest cost	1.1	1.9	3.2	5.5
Expected return on plan assets	(3.0)	(3.1)	(8.9)	(9.4)
Amortization, net	(1.5)	(1.5)	(4.7)	(4.5)
Net OPEB income	<u>\$ (3.4)</u>	<u>\$ (2.7)</u>	<u>\$ (10.4)</u>	<u>\$ (8.4)</u>

During the nine months ended September 30, 2021 and 2020, we contributed \$3.6 million and \$6.3 million, respectively, to our retirement plans.

9. Share-Based Compensation

In March 2021, we awarded our annual share-based compensation grants, which consisted of 0.8 million restricted stock units with a grant date fair value of \$4.52 per unit and 0.8 million performance share units also with a grant date fair value of \$4.52 per unit. The restricted stock units are subject to a three year ratable vesting period and the performance share units are subject to a three year performance period. Dividends are not paid on restricted stock units. As of September 30, 2021, there were 1.5 million and 2.2 million outstanding restricted shares and performance restricted shares, respectively.

In addition, in March 2021 we granted 0.9 million cash-settled restricted stock units (“phantom restricted stock units”) and 0.9 million cash-settled performance stock units (“phantom performance stock units”). Our share price on the date of grant was \$4.52. The phantom restricted stock units vest and are payable in three equal installments over a period of three years after the grant date. The phantom performance stock units are subject to a three year performance period. Phantom stock units are not shares of our common stock and therefore the recipients of these awards do not receive ownership interest in the Company or stockholder voting rights. Phantom stock unit 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, termination of the grantee’s employment under certain circumstances or a change in control of the Company. All phantom stock unit awards are classified as liability awards due to their expected settlement in cash and are included in Accrued liabilities and other in the Condensed Consolidated Balance Sheets. Compensation expense for these awards is measured based upon the fair value of the awards at the end of each reporting period. Dividends are not paid on phantom stock units. As of September 30, 2021, there were 1.9 million and 2.3 million outstanding cash-settled phantom and performance cash-settled phantom shares, respectively.

Compensation expense for these plans was \$3.1 million and \$19.3 million for the three and nine months ended September 30, 2021 and \$2.1 million and \$5.2 million for the three and nine months ended September 30, 2020, respectively.

10. Equity

Our equity as of December 31, 2020 and September 30, 2021, and changes during the three and nine months ended September 30, 2021, were as follows:

	Common Stock	Additional Paid-in- Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total RRD's Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2020	\$ 0.9	\$ 3,263.6	\$ (1,127.6)	\$ (2,240.7)	\$ (153.9)	\$ (257.7)	\$ 13.9	\$ (243.8)
Net (loss) income				(1.3)		(1.3)	0.2	(1.1)
Other comprehensive loss					(6.4)	(6.4)	(0.2)	(6.6)
Share-based compensation		0.2				0.2		0.2
Issuance of share-based awards, net of withholdings and other		(158.4)	156.0			(2.4)		(2.4)
Distributions to noncontrolling interests						—	(0.7)	(0.7)
Balance at March 31, 2021	\$ 0.9	\$ 3,105.4	\$ (971.6)	\$ (2,242.0)	\$ (160.3)	\$ (267.6)	\$ 13.2	\$ (254.4)
Net (loss) income				(9.4)		(9.4)	0.2	(9.2)
Other comprehensive income					17.4	17.4	0.1	17.5
Share-based compensation		2.4				2.4		2.4
Issuance of share-based awards, net of withholdings and other		(77.8)	77.7			(0.1)		(0.1)
Balance at June 30, 2021	\$ 0.9	\$ 3,030.0	\$ (893.9)	\$ (2,251.4)	\$ (142.9)	\$ (257.3)	\$ 13.5	\$ (243.8)
Net income (loss)				28.3		28.3	(0.2)	28.1
Other comprehensive loss					(9.2)	(9.2)		(9.2)
Share-based compensation		1.3				1.3		1.3
Issuance of share-based awards, net of withholdings and other		(8.8)	8.8			—		—
Balance at September 30, 2021	\$ 0.9	\$ 3,022.5	\$ (885.1)	\$ (2,223.1)	\$ (152.1)	\$ (236.9)	\$ 13.3	\$ (223.6)

On August 27, 2021, our Board of Directors approved an amendment to the Stockholder Rights Agreement. The amendment extends the Stockholder Rights Agreement final expiration date to August 28, 2022.

Our equity as of December 31, 2019 and September 30, 2020, and changes during three and nine months ended September 30, 2020, were as follows:

	Common Stock	Additional Paid-in- Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total RRD's Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2019	\$ 0.9	\$ 3,348.0	\$ (1,219.6)	\$ (2,336.8)	\$ (176.2)	\$ (383.7)	\$ 13.4	\$ (370.3)
Net (loss) income				(13.0)		(13.0)	0.1	(12.9)
Other comprehensive income					(31.0)	(31.0)	(0.2)	(31.2)
Share-based compensation		1.4				1.4		1.4
Issuance of share-based awards, net of withholdings and other		(82.3)	81.8			(0.5)		(0.5)
Cash dividends paid				(2.1)		(2.1)		(2.1)
Cumulative impact of adopting ASU 2016-03, net of tax				(0.3)		(0.3)		(0.3)
Distributions to noncontrolling interests						—	(0.7)	(0.7)
Balance at March 31, 2020	\$ 0.9	\$ 3,267.1	\$ (1,137.8)	\$ (2,352.2)	\$ (207.2)	\$ (429.2)	\$ 12.6	\$ (416.6)
Net loss				(57.2)		(57.2)		(57.2)
Other comprehensive income					6.2	6.2		6.2
Share-based compensation		1.8				1.8		1.8
Issuance of share-based awards, net of withholdings and other		(7.7)	7.6			(0.1)		(0.1)
Balance at June 30, 2020	\$ 0.9	\$ 3,261.2	\$ (1,130.2)	\$ (2,409.4)	\$ (201.0)	\$ (478.5)	\$ 12.6	\$ (465.9)
Net (loss) income				(8.9)		(8.9)	0.2	(8.7)
Other comprehensive income					18.1	18.1	0.4	18.5
Share-based compensation		1.3				1.3		1.3
Balance at September 30, 2020	\$ 0.9	\$ 3,262.5	\$ (1,130.2)	\$ (2,418.3)	\$ (182.9)	\$ (468.0)	\$ 13.2	\$ (454.8)

On April 6, 2020, the Board of Directors of the Company made a decision to suspend all dividends payments as part of the Company's response to the COVID-19 pandemic.

11. Earnings per Share

Basic earnings per share is calculated by dividing net earnings attributable to RRD common stockholders by the weighted average number of common shares outstanding for the period. In computing diluted earnings per share, basic earnings per share is adjusted for the assumed issuance of all potentially dilutive share-based awards, including stock options, restricted stock units and performance share units. Performance share units are excluded if the performance targets upon which the issuance of the shares is contingent have not been achieved and the respective performance period has not been completed as of the end of the current period. Additionally, stock options are considered anti-dilutive when the exercise price exceeds the average market value of our stock price during the applicable period. In periods when we are in a net loss, share-based awards are excluded from the calculation of earnings per share as their inclusion would have an anti-dilutive effect.

During the nine months ended September 30, 2021 and 2020, no shares of common stock were purchased by us; however, shares were withheld for tax liabilities upon the vesting of equity awards.

The reconciliation of the numerator and denominator of the basic and diluted earnings per share calculation and the anti-dilutive share-based awards for the three and nine months ended September 30, 2021 and 2020 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Basic net earnings (loss) per share attributable to RRD common stockholders:				
Continuing operations	\$ 0.39	\$ (0.13)	\$ 0.23	\$ (0.83)
Discontinued operations	\$ —	\$ 0.01	\$ 0.01	\$ (0.27)
Net earnings (loss) attributable to RR Donnelley stockholders	\$ 0.39	\$ (0.12)	\$ 0.24	\$ (1.10)
Diluted net earnings (loss) per share attributable to RRD common stockholders:				
Continuing operations	\$ 0.38	\$ (0.13)	\$ 0.23	\$ (0.83)
Discontinued operations	\$ —	\$ 0.01	\$ 0.01	\$ (0.27)
Net earnings (loss) attributable to RR Donnelley stockholders	\$ 0.38	\$ (0.12)	\$ 0.24	\$ (1.10)
Numerator:				
Net earnings (loss) attributable to RRD common stockholders - continuing operations	\$ 28.3	\$ (9.3)	\$ 17.0	\$ (59.6)
Net earnings (loss) from discontinued operations, net of income taxes	—	0.4	0.6	(19.5)
Net earnings (loss) attributable to RRD common stockholders	\$ 28.3	\$ (8.9)	\$ 17.6	\$ (79.1)
Denominator:				
Basic weighted average number of common shares outstanding	73.4	72.4	73.1	72.1
Dilutive options and awards	0.7	—	0.9	—
Diluted weighted average number of common shares outstanding	74.1	72.4	74.0	72.1
Weighted average number of anti-dilutive share-based awards:				
Stock options	0.2	0.3	0.2	0.3
Restricted stock units	—	1.5	—	1.1
Total	0.2	1.8	0.2	1.4
Dividends declared per common share	\$ —	\$ —	\$ —	\$ 0.03

12. Other Comprehensive (Loss) Income

The components of other comprehensive (loss) income and income tax expense (benefit) allocated to each component for the three and nine months ended September 30, 2021 and 2020 were as follows:

	Three Months Ended September 30, 2021			Nine Months Ended September 30, 2021		
	Before Tax Amount	Income Tax	Net of Tax Amount	Before Tax Amount	Income Tax	Net of Tax Amount
Translation adjustments	\$ (10.4)	\$ —	\$ (10.4)	\$ (10.6)	\$ —	\$ (10.6)
Adjustments for net periodic pension and OPEB cost	1.4	0.4	1.0	4.1	1.0	3.1
Change in fair value of derivatives	0.2	—	0.2	12.3	3.1	9.2
Other comprehensive (loss) income	<u>\$ (8.8)</u>	<u>\$ 0.4</u>	<u>\$ (9.2)</u>	<u>\$ 5.8</u>	<u>\$ 4.1</u>	<u>\$ 1.7</u>

	Three Months Ended September 30, 2020			Nine Months Ended September 30, 2020		
	Before Tax Amount	Income Tax	Net of Tax Amount	Before Tax Amount	Income Tax	Net of Tax Amount
Translation adjustments	\$ 17.4	\$ —	\$ 17.4	\$ 4.2	\$ —	\$ 4.2
Adjustments for net periodic pension and OPEB cost	1.0	0.2	0.8	3.0	0.7	2.3
Change in fair value of derivatives	0.5	0.2	0.3	(17.0)	(4.0)	(13.0)
Other comprehensive income (loss)	<u>\$ 18.9</u>	<u>\$ 0.4</u>	<u>\$ 18.5</u>	<u>\$ (9.8)</u>	<u>\$ (3.3)</u>	<u>\$ (6.5)</u>

Accumulated other comprehensive loss by component as of December 31, 2020 and September 30, 2021, and changes during the nine months ended September 30, 2021, were as follows:

	Changes in the Fair Value of Derivatives	Pension and OPEB Cost	Translation Adjustments	Total
Balance at December 31, 2020	\$ (11.0)	\$ (178.5)	\$ 35.6	\$ (153.9)
Other comprehensive loss before reclassifications	(2.3)	—	(10.5)	(12.8)
Amounts reclassified from accumulated other comprehensive loss	11.5	3.1	—	14.6
Net change in accumulated other comprehensive loss	9.2	3.1	(10.5)	1.8
Balance at September 30, 2021	<u>\$ (1.8)</u>	<u>\$ (175.4)</u>	<u>\$ 25.1</u>	<u>\$ (152.1)</u>

Accumulated other comprehensive loss by component as of December 31, 2019 and September 30, 2020, and changes during the nine months ended September 30, 2020, were as follows:

	Changes in the Fair Value of Derivatives	Pension and OPEB Cost	Translation Adjustments	Total
Balance at December 31, 2019	\$ 1.0	\$ (185.7)	\$ 8.5	\$ (176.2)
Other comprehensive loss before reclassifications	(15.1)	—	4.0	(11.1)
Amounts reclassified from accumulated other comprehensive loss	2.1	2.3	—	4.4
Net change in accumulated other comprehensive loss	(13.0)	2.3	4.0	(6.7)
Balance at September 30, 2020	<u>\$ (12.0)</u>	<u>\$ (183.4)</u>	<u>\$ 12.5</u>	<u>\$ (182.9)</u>

Reclassifications from accumulated other comprehensive loss for the three and nine months ended September 30, 2021 and 2020 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,		Classification in the Condensed Consolidated Statements of Operations
	2021	2020	2021	2020	
Amortization of pension and OPEB cost:					
Net actuarial loss	\$ 2.7	\$ 3.9	\$ 8.1	\$ 6.9	Investment and other income-net
Net prior service credit	(1.3)	(2.9)	(4.0)	(3.9)	Investment and other income-net
Reclassifications before tax	1.4	1.0	4.1	3.0	
Income tax benefit	0.4	0.2	1.0	0.7	
Reclassification, net of tax	1.0	0.8	\$ 3.1	\$ 2.3	
Derivatives:					
Net realized loss	\$ 0.3	\$ 1.3	\$ 11.5	\$ 2.1	Interest expense-net
Reclassification, net of tax	0.3	1.3	11.5	2.1	
Total reclassifications, net of tax	\$ 1.3	\$ 2.1	\$ 14.6	\$ 4.4	

13. Segment Information

Our segments and their product and service offerings are summarized below:

Business Services

Business Services provides customized solutions at scale to help clients inform, service and transact with their customers. The segment's primary product and service offerings include commercial print, packaging, labels, statement printing, supply chain management, forms and business process outsourcing. This segment also includes all of our operations in Asia, Europe, Canada and Latin America.

Marketing Solutions

Marketing Solutions leverages an integrated portfolio of data analytics, creative services and multichannel execution to deliver comprehensive, end-to-end solutions. The segment's primary product and service offerings include direct marketing, in-store marketing, digital print, kitting, fulfillment, digital and creative solutions and list services.

Corporate

Certain selling general and administrative expenses are not directly attributable to our operating segments and are therefore reported at Corporate. These expenses include executive, legal, finance, communications, certain facility costs and last-in-first-out inventory provisions. In addition, certain costs and earnings of employee benefit plans, such as pension and OPEB expense (income) and share-based compensation, are included in Corporate and not allocated to the operating segments. Corporate also manages our cash pooling structures, which enables participating international locations to draw on our international cash resources to meet local liquidity needs.

Information by Segment

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

	Three Months Ended September 30, 2021					
	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Depreciation and Amortization	Capital Expenditures
Business Services	\$1,018.8	\$(15.2)	\$1,003.6	\$84.8	\$22.1	\$11.8
Marketing Solutions	268.5	(4.3)	264.2	17.1	7.8	2.6
Total operating segments	1,287.3	(19.5)	1,267.8	101.9	29.9	14.4
Corporate	—	—	—	(28.8)	2.4	4.3
Total operations	\$1,287.3	\$(19.5)	\$1,267.8	\$73.1	\$32.3	\$18.7

**Three Months Ended
September 30, 2020**

	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Depreciation and Amortization	Capital Expenditures
Business Services	\$953.0	\$(16.2)	\$936.8	\$69.1	\$23.5	\$10.2
Marketing Solutions	258.7	(4.2)	254.5	10.3	11.4	2.6
Total operating segments	1,211.7	(20.4)	1,191.3	79.4	34.9	12.8
Corporate	—	—	—	(63.5)	1.3	3.5
Total operations	\$1,211.7	\$(20.4)	\$1,191.3	\$15.9	\$36.2	\$16.3

**Nine Months Ended
September 30, 2021**

	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Depreciation and Amortization	Capital Expenditures	Assets of Operations As of September 30, 2021
Business Services	\$ 2,879.5	\$ (44.2)	\$ 2,835.3	\$ 193.2	\$ 67.4	\$ 32.1	\$ 2,263.7
Marketing Solutions	765.1	(13.9)	751.2	39.9	23.9	7.2	651.8
Total operating segments	3,644.6	(58.1)	3,586.5	233.1	91.3	39.3	2,915.5
Corporate	—	—	—	(106.7)	7.7	9.3	177.9
Total operations	\$ 3,644.6	\$ (58.1)	\$ 3,586.5	\$ 126.4	\$ 99.0	\$ 48.6	\$ 3,093.4

**Nine Months Ended
September 30, 2020**

	Total Sales	Intersegment Sales	Net Sales	Income (Loss) from Operations	Depreciation and Amortization	Capital Expenditures	Assets of Operations As of December 31, 2020
Business Services	\$ 2,667.4	\$ (42.0)	\$ 2,625.4	\$ 123.9	\$ 71.7	\$ 30.0	\$ 2,220.9
Marketing Solutions	808.4	(16.1)	792.3	33.4	37.6	9.0	674.3
Total operating segments	3,475.8	(58.1)	3,417.7	157.3	109.3	39.0	2,895.2
Corporate	—	—	—	(127.3)	3.0	15.4	235.7
Total operations	\$ 3,475.8	\$ (58.1)	\$ 3,417.7	\$ 30.0	\$ 112.3	\$ 54.4	\$ 3,130.9

Net restructuring, impairment and other expenses by segment are described in Note 7, *Restructuring, Impairment and Other*.

14. Commitments and Contingencies

We are subject to laws and regulations relating to the protection of the environment. We provide for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. Such accruals are adjusted as new information develops or circumstances change and are generally not discounted. We have been designated as a potentially responsible party or have received claims in four active federal and state Superfund and other multiparty remediation sites. In addition to these sites, we may also have the obligation to remediate six other previously and currently owned facilities. At the Superfund sites, the Comprehensive Environmental Response, Compensation and Liability Act provides that our liability could be joint and several, meaning that we could be required to pay an amount in excess of our proportionate share of the remediation costs.

Our understanding of the financial strength of other potentially responsible parties at the multiparty sites and of other liable parties at the previously owned facilities has been considered, where appropriate, in the determination of our estimated liability. We believe that our recorded accruals, recorded in Accrued liabilities and other and Other noncurrent liabilities, are adequate to cover our share of the potential costs of remediation at each of the multiparty sites and the previously and currently owned facilities. It is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly remediation and other compliance efforts that we may undertake in the future. However, in our opinion, compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, will not have a material effect on our consolidated results of operations, financial position or cash flows.

In April 2019, we received a subpoena from the SEC related to previous business dealings with the Brazilian Ministry of Education. The SEC and Department of Justice (“DOJ”) are investigating the matter, and we are cooperating as they conduct their investigations.

In addition, the Brazil authorities are also investigating the matter and in June 2021 the Company learned that Brazil's Comptroller General of the Union (“CGU”) issued an administrative enforcement notice with charges related to previous business dealings between an administrative body of the Brazilian Ministry of Education and the Company's former Brazilian subsidiary, RR Donnelley Editora e Gráfica (“RRD-Brazil”). The administrative enforcement notice forms the basis of an administrative proceeding against the former Brazilian subsidiary (which filed for bankruptcy liquidation in March 2019) and its immediate parent, RR Donnelley Holdings B.V. The Company also is named as a party in this proceeding. The administrative enforcement notice alleges that former employees of RRD-Brazil engaged in anticompetitive and other business misconduct in connection with services provided to the Ministry of Education. We are pursuing our defenses in this matter and analyzing potential courses of action with local legal counsel.

From time to time, our clients file voluntary petitions for reorganization under United States bankruptcy laws. In such cases, certain pre-petition payments received by us from these parties could be considered preference items and subject to return.

We also regularly investigate matters reported to our whistleblower hotline and are currently investigating matters in certain foreign locations. In addition, we may be party to litigation arising in the ordinary course of business.

We believe that the final resolution of these preference items, investigations, and litigation will not have a material effect on our consolidated results of operations, financial position or cash flows.

Contingencies related to LSC Communication, Inc. and Subsidiaries (“LSC”) and Donnelley Financial Solutions, Inc. (“Donnelley Financial”)

As a result of the spinoff of LSC Communications, Inc. and Subsidiaries (“LSC”) and Donnelley Financial Solutions, Inc. (“Donnelley Financial”) on October 1, 2016, we are contingently liable for obligations under various operating leases for office, warehouse and manufacturing locations of LSC and Donnelley Financial. In the event that LSC or Donnelley Financial, or any successor lessee, fail to make lease payments or fail to pay other obligations under these lease agreements, we may be required to satisfy those obligations to the lessor. Our exposure to these potential contingent liabilities decreases over time as LSC and Donnelley Financial pay monthly lease obligations and as the leases expire. As of September 30, 2021 these potential contingent obligations were \$34.9 million and \$1.4 million for LSC and Donnelley Financial, respectively.

On April 13, 2020, LSC announced that it, along with most of its U.S. subsidiaries, voluntarily filed for business reorganization under Chapter 11 of the U.S. Bankruptcy Code. In September 2020, a third-party (the “Buyer”) purchased the assets and assumed certain obligations of LSC. Although the Buyer assumed the majority of LSC’s existing leases, we continue to be contingently liable for these leases until their termination or renewal.

In May and June 2020 we became aware that LSC failed to make required monthly contributions to certain of their multiemployer pension plans (“MEPP”). In accordance with laws and regulations governing multiemployer pension plans, we believe that we and Donnelley Financial, as former members of the control group, are contingently liable on a joint and several liability basis for LSC’s MEPP obligations. We believe that the total undiscounted MEPP obligations for which LSC was responsible was approximately \$100 million and was payable over an average 13-year period. The amount of our ultimate liability related to LSC’s MEPP obligations is contingent upon the outcome of our negotiations with Donnelley Financial concerning how the obligations will be apportioned between us and Donnelley Financial. These negotiations commenced during the third quarter of 2020, when the parties agreed to enter into mediation, and then arbitration, after an agreement was not reached through the mediation process. During the first quarter of 2021, Donnelley Financial filed notice to commence the arbitration process. Arbitration is scheduled to take place in the fourth quarter of 2021.

In 2020, we recorded a contingent liability of approximately \$37.1 million representing our estimate of the aggregate payments we believe we will be required to make with respect to LSC’s MEPP liabilities. This amount however could be adjusted in the future based on the final allocation as a result of the arbitration process. Payments to settle this liability are scheduled to be completed by 2034.

In 2021, we and Donnelley Financial commenced negotiations with each of the three MEPPs to settle the MEPP liabilities and, we successfully negotiated and executed settlements with two of the three plans. In the nine months ended September 30, 2021, as a result of these settlements, we recorded a \$2.2 million gain in restructuring, impairment and other expense on the Condensed Consolidated Statement of Operations reflecting our estimated share of the reduced liability. Cash payments made by us during the nine months ended September 30, 2021 were approximately \$18.4 million and primarily related to the settlement of the two MEPP plans. As of September 30, 2021, we have \$13.7 million accrued representing our estimate for our share of the remaining liability.

15. Debt

Debt at September 30, 2021 and December 31, 2020 consisted of the following:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
8.875% debentures due April 15, 2021	—	55.6
7.000% notes due February 15, 2022	79.3	79.3
6.500% notes due November 15, 2023	75.0	75.0
Term Loan due January 15, 2024 (a)	149.3	535.8
6.000% notes due April 1, 2024	61.7	61.7
6.125% secured notes due November 1, 2026	451.0	—
8.250% notes due July 1, 2027	245.8	245.8
6.625% debentures due April 15, 2029	103.4	103.4
8.500% notes due April 15, 2029	303.1	301.6
8.820% debentures due April 15, 2031	54.5	54.5
Unamortized debt issuance costs	(10.2)	(9.6)
Total debt	1,512.9	1,503.1
Less: current portion	79.3	61.1
Long-term debt	\$ 1,433.6	\$ 1,442.0

(a) As of September 30, 2021 and December 31, 2020, the interest rate on the Term Loan due January 15, 2024 was 5.08% and 5.15%, respectively.

The fair values of the notes and debentures, which were determined using the market approach based upon quoted prices or interest rates available to us for debt obligations with similar terms and maturities, were determined to be Level 2 under the fair value hierarchy. The fair value of our total debt at September 30, 2021 and December 31, 2020 was greater than its book value by approximately \$201.1 million and \$142.9 million, respectively.

On April 28, 2021, we completed an offering of \$400.0 million aggregate principal amount of 6.125% senior secured notes due 2026 (the “2026 Notes”) at par. On May 10, 2021, we completed an additional \$50.0 million offering of the 2026 Notes that were issued at a \$1.1 million premium, increasing the aggregate principal amount of the 2026 Notes to \$450.0 million. The 2026 Notes are general senior secured obligations of the Company and are guaranteed by our domestic, wholly-owned subsidiaries that are guarantors of the ABL Credit Facility and Term Loan. Interest on the 2026 Notes is payable semi-annually on May 1 and November 1 of each year, commencing on November 1, 2021. The 2026 Notes mature on November 1, 2026. The proceeds from the offerings of the 2026 Notes were used to repay \$387.6 million of principal outstanding under our Term Loan and to reduce the outstanding balance under our senior secured asset-based revolving credit facility (the “ABL Credit Facility”), including the amount borrowed for repayment of the \$55.6 million principal outstanding of the 8.875% Debentures that matured on April 15, 2021.

On April 16, 2021, we amended our ABL Credit Facility to, among other things, extend the maturity date from September 29, 2022 to April 16, 2026 and reduce the aggregate commitments from \$800.0 million to \$650.0 million.

The amount available to be borrowed under the ABL Credit Facility is equal to the lesser of (a) \$650.0 million and (b) a borrowing base formula based on the amount of accounts receivable, inventory, machinery, equipment and, if we were to so elect in the future subject to the satisfaction of certain conditions, fee-owned real estate of ours and our material domestic subsidiaries, subject to certain eligibility criteria and advance rates (collectively, the “Borrowing Base”). The aggregate amount of real estate, machinery and equipment that can be included in the Borrowing Base formula is limited to \$175.0 million.

Borrowings under the ABL Credit Facility bear interest at a rate dependent on the average quarterly availability and is calculated according to a base rate (except in certain circumstances, based on the prime rate) or a Eurocurrency rate (except in certain circumstances, based on LIBOR) plus an applicable margin. The applicable margin for base rate loans ranges from 0.25% to 0.75% and the applicable margin for Eurocurrency loans ranges from 1.25% to 1.75%. In addition, a fee is payable quarterly on the unused portion of the total commitments. This fee accrues at a rate of either 0.25% or 0.375% depending upon the average usage of the facility. Borrowings under the ABL Credit Facility may be used for working capital and general corporate purposes.

Based on our Borrowing Base as of September 30, 2021 and letters of credit, we had approximately \$515.7 million borrowing capacity available under the ABL Credit Facility. The weighted average interest rate on borrowings under our ABL Credit Facility was 1.5% and 1.8% during the nine months ended September 30, 2021 and 2020, respectively. There were no outstanding borrowings on our ABL Credit Facility as of September 30, 2021 and December 31, 2020.

During the second quarter of 2021, we utilized proceeds from the offerings of the 2026 Notes to repay \$387.6 million of principal outstanding on our term loan B (the "Term Loan"), which we entered into on October 15, 2018 and is scheduled to mature on January 15, 2024. The repayment was applied to eliminate the quarterly principal payments that were previously required. The Term Loan bears interest based on the London Interbank Offered Rate (LIBOR) plus a margin of 5% or a base rate plus a margin of 4%. Debt extinguishment costs in conjunction with the partial repayment of the Term Loan were \$6.2 million, which included unamortized debt issuance costs and discount and is recorded in Loss on debt extinguishment for the nine months ended September 30, 2021 on the Condensed Consolidated Statement of Operations.

The credit agreements for our ABL Credit Facility (the "ABL Credit Agreement") and Term Loan (the "Term Loan Credit Agreement"), and the indenture for the 2026 Notes (the "2026 Notes Indenture") contain customary affirmative and negative covenants including negative covenants restricting, among other things, our ability to incur or guarantee debt, or issue preferred stock, make certain loans or investments, make certain restricted payments (including payments on certain other debt, external dividends, and stock repurchases), incur liens securing other debt, consummate certain fundamental transactions, enter into certain transactions with affiliates and consummate asset sales. The ABL Credit Agreement contains a covenant which requires us to maintain a minimum fixed charge coverage ratio of 1.0 to 1.0 if availability under the ABL Credit Facility declines below certain levels. The Term Loan Credit Agreement and the 2026 Notes Indenture require that the net cash proceeds of significant asset sales be used to prepay the Term Loan and purchase the 2026 Notes to the extent that the net cash proceeds are not used for reinvestment in assets useful to our business, certain acquisitions and investments, repayment of certain borrowings under our ABL Credit Facility or to reduce, prepay, repay or purchase certain indebtedness, in each case, subject to certain restrictions and limitations set forth in the Term Loan Credit Agreement and the 2026 Notes Indenture.

Interest paid was \$16.6 million and \$71.3 million for the three and nine months ended September 30, 2021 and \$18.6 million and \$86.4 million for the three and nine months ended September 30, 2020.

Interest income was \$0.4 million and \$1.1 million for the three and nine months ended September 30, 2021 and \$0.2 million and \$1.1 million for the three and nine months ended September 30, 2020.

16. Derivatives

All derivatives are recorded as other current or noncurrent assets or other current or noncurrent liabilities in the Condensed Consolidated Balance Sheets at their respective fair values. Unrealized gains and losses related to derivatives are recorded in the Condensed Consolidated Statements of Operations, or in other comprehensive income (loss), net of applicable income taxes, depending on the purpose for which the derivative is held. At the inception of a hedge transaction, we formally document the hedge relationship and the risk management objective for undertaking the hedge. In addition, we assess both at inception of the hedge and on an ongoing basis, whether the derivative in the hedging transaction has been highly effective in offsetting changes in fair value or cash flows of the hedged item and whether the derivative is expected to continue to be highly effective. The impact of any ineffectiveness is also recognized in the Condensed Consolidated Statements of Operations.

We are exposed to the impact of foreign currency fluctuations based on our global operations. Foreign currency fluctuations affect the U.S. dollar value of revenues earned and expenses incurred in foreign currencies. We are also exposed to currency risk to the extent we own assets or incur liabilities, or enter into other transactions that are not in the functional currency of the subsidiary in which we operate. We employ different practices to manage these risks, including where appropriate the use of derivative instruments, such as foreign currency forwards. To the extent the gains and losses associated with the fair values of foreign currency derivatives are recognized in the Consolidated Statements of Operations, they are generally offset by gains and losses on underlying payables and receivables. We do not use derivative financial instruments for trading or speculative purposes. The aggregate notional value of the forward contracts at September 30, 2021 and December 31, 2020 was \$271.0 million and \$220.7 million, respectively. The fair values of foreign currency contracts were determined to be Level 2 under the fair value hierarchy and are valued using market exchange rates.

In 2019 and 2020, we entered into interest rate swap agreements to manage interest rate risk exposure, effectively changing the interest rate on \$400.0 million of our floating-rate Term Loan based on LIBOR to a fixed-rate. The interest rate swaps, with a notional value of \$400.0 million, were designated as cash flow hedges against the variability of cash flows associated with our Term Loan scheduled to mature on January 15, 2024, which are attributable to changes in the benchmark interest rate. In the second quarter of 2021, we terminated interest rate swap agreements with a notional value of \$300.0 million in conjunction with the partial repayment of our Term Loan. The termination of these agreements resulted in a loss of \$9.2 million recorded within interest expense on the Condensed Consolidated Statement of Operations for the nine months ended September 30, 2021.

The fair value of the remaining \$100.0 million interest rate swap was determined to be Level 2 under the fair value hierarchy and was developed using the market standard methodology of netting the discounted future variable cash payments and the discounted expected fixed cash receipts. Credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, are incorporated in the fair value to account for potential nonperformance risk. We evaluate the credit value adjustments of the interest rate swap agreement, which take into account the possibility of counterparty and our own default, on at least a quarterly basis.

Our foreign currency contracts and interest rate swap are subject to master netting agreements that allow us to settle positive and negative positions with the respective counterparties. Under these master netting agreements, net settlement generally permits us or the counterparty to determine the net amount payable for contracts due on the same date and in the same currency for similar types of derivative transactions. The master netting agreements generally also provide for net settlement of all outstanding contracts with a counterparty in the case of an event of default or a termination event.

We manage credit risk for our derivative positions on a counterparty-by-counterparty basis, considering the net portfolio exposure with each counterparty, consistent with our risk management strategy for such transactions. Our agreements with each of our counterparties contain a provision where we could be declared in default on our derivative obligations if we either default or, in certain cases, are capable of being declared in default of any of our indebtedness greater than specified thresholds. These agreements also contain a provision where we could be declared in default subsequent to a merger or restructuring type event if the creditworthiness of the resulting entity is materially weakened.

As of September 30, 2021 and December 31, 2020, the fair values of our derivative financial instruments and their classifications on the Condensed Consolidated Balance Sheets were as follows:

	<u>Classification on Consolidated Balance Sheets</u>	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Derivative assets			
Foreign currency contracts:			
Not designated as hedging instruments	Prepaid expenses and other current assets	\$ 1.7	\$ 5.9
Derivative liabilities			
Foreign currency contracts:			
Not designated as hedging instruments	Accrued liabilities and other	\$ 0.1	\$ 2.3
Interest rate swap agreements:			
Designated as cash flow hedges	Accrued liabilities and other	1.2	5.0
Designated as cash flow hedges	Other noncurrent liabilities	1.0	9.6

The pre-tax (gains) losses recognized on derivative financial instruments in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2021 and 2020 were as follows:

	Classification of (Gain) Loss Recognized in the Consolidated Statements of Operations	Three Months Ended September 30,		Nine Months Ended September 30,	
		2021	2020	2021	2020
Derivatives not designated as hedges					
Foreign currency contracts	Selling, general and administrative expenses	\$ (1.3)	\$ (6.3)	\$ (6.4)	\$ (5.2)
Derivatives designated as cash flow hedges					
Interest rate swap agreements	Interest expense, net	0.3	1.3	11.5	2.1

The pre-tax losses (gains) recognized on derivative financial instruments in the Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2021 and 2020 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Derivatives designated as cash flow hedges				
Interest rate swap agreements	\$ 0.1	\$ 0.9	\$ (0.8)	\$ 19.1

17. New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12 “Simplifying the Accounting for Income Taxes (Topic 740)” (“ASU 2019-12”), which simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Accounting Standards Codification (“ASC”) 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The standard also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 is effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, however early adoption was permitted. We adopted ASU 2019-12 on January 1, 2021 and the changes did not have a material impact on our income tax provision.

Accounting Pronouncements Issued and Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform, which provides companies with optional guidance, including expedients and exceptions for applying generally accepted accounting principles to contracts and other transactions affected by reference rate reform, such as LIBOR, was effective upon issuance and will be applied to future contracts with changes to the reference rate. To date, we have had no such modification to any of our contracts. We are currently evaluating the prospective impact of the standard, and we will adopt ASU 2020-04 upon such contract modification. The impact of the standard is not expected to be material to our Consolidated Financial Statements.

18. Subsequent Events

On November 3, 2021, the Company entered into a definitive merger agreement (the “Merger Agreement”) to be acquired by affiliates of Atlas Holdings LLC (“Atlas”), in an all-cash transaction with a total enterprise value of approximately \$2.1 billion. Pursuant to the Merger Agreement, subject to the terms and conditions therein, Atlas will acquire all of the outstanding shares of the Company’s common stock, and the Company’s stockholders will receive \$8.52 per share in cash for each share of Company common stock. The transaction is expected to close in the first half of 2022, subject to customary closing conditions, including approval by the Company’s stockholders and receipt of regulatory approvals. Upon completion of the transaction, the Company’s shares will no longer trade on The New York Stock Exchange.

The Company and Atlas have made customary representations, warranties and covenants in the Merger Agreement. Subject to certain exceptions outlined in the Merger Agreement, the Company has agreed to covenants relating to the Company’s business during the period between the execution of the Merger Agreement and the consummation of the transaction, including restrictions on its ability to issue any shares of its capital stock, repurchase any shares of its capital stock and incurring additional indebtedness.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Company Overview

R.R. Donnelley & Sons Company (“RRD,” the “Company,” “we,” “us,” and “our”), a Delaware corporation, helps organizations communicate more effectively by working to create, manage, produce, distribute and process content on behalf of our clients. We assist clients in developing and executing multichannel communication strategies that engage audiences, reduce costs, drive revenues and enhance compliance. Our innovative content management offering, production platform, supply chain management, outsourcing capabilities and customized consultative expertise assists our clients in the delivery of integrated messages across multiple media to highly targeted audiences at optimal times to their customers in virtually every private and public sector. We have strategically located operations that provide local service and responsiveness while leveraging the economic, geographic and technological advantages of a global organization.

Segment Descriptions

Our segments and their product and service offerings are summarized below:

Business Services

Business Services provides customized solutions at scale to help clients inform, service and transact with their customers. The segment’s primary product and service offerings include commercial print, packaging, labels, statement printing, supply chain management, forms and business process outsourcing. This segment also includes all of our operations in Asia, Europe, Canada and Latin America.

Marketing Solutions

Marketing Solutions leverages an integrated portfolio of data analytics, creative services and multichannel execution to deliver comprehensive, end-to-end solutions. The segment’s primary product and service offerings include direct marketing, in-store marketing, digital print, kitting, fulfillment, digital and creative solutions and list services.

Corporate

Certain selling general and administrative expenses are not directly attributable to our operating segments and are therefore reported at Corporate. These expenses include executive, legal, finance, communications, certain facility costs and last-in-first-out inventory provisions. In addition, certain costs and earnings of employee benefit plans, such as OPEB expense (income) and share-based compensation, are included in Corporate and not allocated to the operating segments. Corporate also manages our cash pooling structures, which enables participating international locations to draw on our international cash resources to meet local liquidity needs.

Discontinued Operations

In the fourth quarter of 2020, we sold DLS Worldwide and International Logistics which completed our plan to exit our Logistics business, a component of the Business Services reporting segment. The Logistics business was comprised of DLS Worldwide, International Logistics, Print Logistics and Courier Logistics. These transactions are part of our strategy to optimize our portfolio and reduce debt. As part of our plan, we previously sold the Print Logistics business in July 2018 and the Courier Logistics business in March 2020. Accordingly, we have reflected the Print Logistics business, Courier Logistics business, the DLS Worldwide business, and the International Logistics business as discontinued operations. The financial results of these businesses have been excluded from continuing operations and segment results for all periods presented unless otherwise noted. Refer to *Note 2 –Discontinued Operations* to our Condensed Consolidated Financial Statements for additional information.

Executive Overview

Response to COVID-19

In 2020, the COVID-19 pandemic created, and continues to create, significant business challenges for companies around the world, including many of our clients across the broad number of industries we serve. In response to the pandemic, we established a formal operating plan that we are utilizing to manage our business through this challenging global business environment. Our operating plan consists of three clear priorities: to protect the health and safety of our employees, to sustain operational and supply chain continuity, and to effectively manage our business performance and liquidity throughout this very volatile period.

EMPLOYEES HEALTH AND SAFETY

We are continually evolving our policies and procedures to adhere to the latest best practices being provided by the Centers for Disease Control (“CDC”) and World Health Organization (“WHO”). Our cross-functional COVID Task Force created at the onset of the pandemic has developed safety measures, policies, and procedures for our workplace. We have implemented flexible working policies, including telecommuting and staggered shifts, while allowing for voluntary leaves of absence. We have encouraged vaccinations and recently have begun to welcome employees back into our offices using a cautious approach. We continue to enforce social distancing policies within all of our facilities, follow local and state guidelines concerning face coverings, and provide training for adherence to personal hygiene best practices in line with CDC and WHO guidelines.

SUPPLY CHAIN CONTINUITY

We have activated our business continuity plans and are leveraging our strong supply chain partnerships to continue to meet the ongoing needs of our 30,000 global clients. We remain fully operational across the 28 countries in which we operate.

BUSINESS IMPACT

Although the COVID-19 pandemic significantly impacted the Company’s financial results in 2020, and continues to create challenges in 2021, we believe that there are three primary factors that are helping mitigate the top line impact from the pandemic. These factors include our diverse portfolio of products and services, the lack of client concentration, and the products and services we have introduced to meet the evolving needs of our clients.

The extent to which the pandemic will continue to impact our business, results of operations, financial position and cash flows will depend on future developments which remain highly uncertain and cannot be fully predicted or estimated at this time. However, amidst the global uncertainty posed by COVID-19, we are positioning the Company to weather economic uncertainty and protect the short and long-term interests of our stakeholders. Continuing into 2021, we remain laser-focused on lowering our cost structure and on maintaining a sufficient level of liquidity.

Third Quarter Overview

Net sales increased by \$76.5 million, or 6.4%, for the three months ended September 30, 2021 compared to the same period in 2020. Third quarter net sales were favorably impacted by \$10.8 million due to changes in foreign exchange rates. Net sales also increased due to higher volume reflecting strengthening demand for most of our products and services. Notably, higher demand for books and trading cards have contributed to the growth in our Commercial Print products. The increase also reflects continued recovery from the COVID-19 pandemic, partially offset by large, non-recurring pandemic-related orders in 2020 and last year’s Census project, which was fully completed in the third quarter of 2020.

Income from operations for the three months ended September 30, 2021 was \$73.1 million, an increase of \$57.2 million compared to income of \$15.9 million for the prior year period. The increase was primarily driven by higher sales, cost control initiatives and lower restructuring and impairment expenses, partially offset by unfavorable impact of foreign exchange rates on expenses.

We continue to assess opportunities to reduce our cost structure and enhance productivity throughout the business. During the three months ended September 30, 2021, we realized significant cost savings from recent and previous restructuring activities including the reorganization of administrative and support functions across all segments, several facility consolidations, and asset rationalization. These savings were partially offset by higher variable incentive compensation and the effect of unfavorable exchange rates on expenses.

Net cash used in operating activities for the nine months ended September 30, 2021 was \$29.0 million as compared to \$25.2 million provided by operating activities for the nine months ended September 30, 2020. The decreased cash flow in 2021 was primarily driven by \$23.9 million of LSC bankruptcy related payments primarily associated with lump sum settlements of two MEPP plans, working capital investments, particularly inventory, higher tax and incentive compensation payments, and a \$9.2 million payment to terminate certain interest rate swaps, partially offset by lower restructuring and interest payments.

Outlook

While client demand for our products and services continues to strengthen, ongoing challenges remain.

During 2021, we have seen price increases from nearly all of our material suppliers in all categories. Notably, paper products have seen significant price increases primarily caused by supply shortages from key suppliers. The supply shortages have been caused in part by manufacturing capacity reductions, labor shortages and other supply chain disruptions.

We, and our suppliers, have also experienced labor shortages and increased wage pressure for manufacturing workers due to current market conditions. Further, supply chain disruptions and shipping delays caused by container shortages in key domestic and international ports, including China, remain.

To mitigate the effect of raw material shortages, inflationary pressures and other supply chain disruptions, we have offered our clients product alternatives, new formats, and in some cases secured new suppliers. We have also implemented price increases to pass inflationary costs along to our clients and are working closely with transportation suppliers and increasing inventory levels to help ensure product availability. Finally, we continue to aggressively pursue cost reductions across the Company to offset inflationary pressures.

We continue to leverage our client relationships in order to provide a larger share of their communications needs. In addition, we expect to continue cost control and productivity initiatives, including selected facility consolidations and asset rationalizations.

We initiated several restructuring actions during the past three years to further reduce our overall cost structure. These restructuring actions included the closures of manufacturing facilities as well as the reorganization and consolidation of certain operations. These and future cost reduction actions are expected to have a positive impact on operating earnings in 2021 and in future years. In addition, certain of these future cost reduction actions may result in additional restructuring charges. These restructuring actions will be funded by cash generated from operations and cash on hand or, if necessary, by utilizing our credit facilities.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2021 AS COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2020

The following table shows the results of operations for the three months ended September 30, 2021 and 2020:

	Three Months Ended September 30,		\$ Change	% Change
	2021	2020		
	(in millions, except percentages)			
Net sales	1,267.8	1,191.3	76.5	6.4%
Cost of sales	1,012.9	943.6	69.3	7.3%
Gross profit	254.9	247.7	7.2	2.9%
Selling, general and administrative expenses (exclusive of depreciation and amortization)	141.2	138.0	3.2	2.3%
Restructuring, impairment and other-net	4.0	54.2	(50.2)	(92.6%)
Depreciation and amortization	32.3	36.2	(3.9)	(10.8%)
Other operating expense	4.3	3.4	0.9	26.5%
Income from operations	<u>\$ 73.1</u>	<u>\$ 15.9</u>	<u>\$ 57.2</u>	nm

Consolidated

Continuing Operations

Net sales for the three months ended September 30, 2021 increased \$76.5 million, or 6.4%, to \$1,267.8 million versus the same period in 2020. Net sales increased by \$10.8 million due to favorable changes in foreign exchange rates. Net sales also increased due to higher volume reflecting strengthening demand for most of our products and services. Notably, higher demand for books and cards has contributed to the growth in our Commercial Print products. The increase also reflects continued recovery from the COVID-19 pandemic, partially offset by the impact of large one-time pandemic-related orders in 2020, and last year's Census project, which was fully completed in the third quarter of 2020.

Cost of sales for the three months ended September 30, 2021 increased \$69.3 million, or 7.3%, to \$1,012.9 million versus the same period in 2020. Total cost of sales increased primarily due to higher volume across many of our products and services and higher cost of raw materials, partially offset by the favorable impact of cost reduction activities. As a percentage of net sales, cost of sales remained relatively unchanged for the three months ended September 30, 2021 versus the same period in 2020.

Gross profit increased \$7.2 million to \$254.9 million for the three months ended September 30, 2021 versus the same period in 2020, primarily due to higher volume. Our gross margin percentage declined slightly primarily due to the higher cost of raw materials for the three months ended September 30, 2021 versus the same period in 2020.

Selling, general and administrative expenses increased \$3.2 million to \$141.2 million for the three months ended September 30, 2021 versus the same period in 2020 primarily as a result of higher volume, partially offset by cost control initiatives. As a percentage of net sales, selling, general and administrative expenses decreased from 11.6% to 11.1% for the three months ended September 30, 2021 versus the same period in 2020, reflecting the benefit of restructuring actions and other cost control initiatives.

For the three months ended September 30, 2021, net restructuring, impairment and other charges decreased \$50.2 million to \$4.0 million. The decrease was primarily driven by lower restructuring activity, including \$37.1 million related to the LSC MEPP liability recorded in the third quarter of 2020, and a \$6.5 million reduction in employee termination costs in the current quarter as compared to the same period in 2020. See Note 7, *Restructuring, Impairment and Other*, and Note 14, *Commitment and Contingencies*, within the Notes to the Condensed Consolidated Financial Statements for further discussion.

Depreciation and amortization decreased \$3.9 million to \$32.3 million for the three months ended September 30, 2021 compared to the same period in 2020. Depreciation and amortization included \$4.7 million of amortization of other intangible assets related to client relationships and trade names for each of the three months ended September 30, 2021 and 2020.

Other operating expense for the three months ended September 30, 2021 was \$4.3 million compared to \$3.4 million in the same period in 2020. The increase was primarily the result of higher expenses related to the SEC and DOJ investigations in Brazil.

Income from operations for the three months ended September 30, 2021 was \$73.1 million, an increase of \$57.2 million compared to the prior year period, primarily due to lower restructuring expenses and increased sales in 2021 versus the prior year period.

	Three Months Ended September 30,		\$ Change	% Change
	2021	2020		
	(in millions, except percentages)			
Interest expense-net	\$ 29.4	\$ 34.3	\$ (4.9)	(14.3%)
Investment and other income-net	(5.4)	(3.6)	(1.8)	50.0%
Loss on debt extinguishment	—	0.2	(0.2)	(100.0%)

Net interest expense decreased by \$4.9 million to \$29.4 million for the three months ended September 30, 2021 versus the same period in 2020, primarily reflecting the effects of prior repurchases and repayment of higher interest rate debt and lower average borrowings on the ABL Credit Facility.

Investment and other income-net for the three months ended September 30, 2021 and 2020 was \$5.4 million and \$3.6 million respectively, primarily comprised of net OPEB and pension income.

	Three Months Ended September 30,		\$ Change	% Change
	2021	2020		
	(in millions, except percentages)			
Income (loss) from continuing operations before income taxes	\$ 49.1	\$ (15.0)	\$ 64.1	nm
Income tax expense (benefit)	21.0	(5.9)	26.9	nm

The income tax expense and benefit for the three months ended September 30, 2021 and 2020 were primarily driven by the mix of earnings, the tax impact of our interest expense, and changes in tax laws.

Net income attributable to RRD common stockholders was \$28.3 million for the three months ended September 30, 2021 compared to a loss of \$8.9 million for the three months ended September 30, 2020.

Information by Segment

Business Services

	Three Months Ended September 30,	
	2021	2020
	(in millions, except percentages)	
Net sales	\$ 1,003.6	\$ 936.8
Income from operations	84.8	69.1
Operating margin	8.4%	7.4%
Restructuring, impairment and other-net	0.2	7.0

Net sales for the Business Services segment for the three months ended September 30, 2021 were \$1,003.6 million, an increase of \$66.8 million, or 7.1%, compared to the same period in 2020. Net sales increased \$10.8 million due to favorable changes in exchange rates. Net sales also increased due to higher volume reflecting strengthening demand for many of our products and services. Notably, higher demand for books and cards sales contributed to the growth in our Commercial Print products. The increase also reflects continued recovery from the COVID-19 pandemic. The increase was partially offset by the impact of large, one-time pandemic-related orders primarily within our Supply chain management offering in 2020. The following table summarizes net sales by products and services in the Business Services segment:

Products and Services	Three Months Ended September 30,		\$ Change	% Change
	2021	2020		
	(in millions, except percentages)			
Commercial print	\$ 421.7	\$ 347.7	\$ 74.0	21.3%
Packaging	196.8	193.6	3.2	1.7%
Labels	133.2	124.7	8.5	6.8%
Statements	103.0	104.3	(1.3)	(1.2%)
Supply chain management	61.8	77.4	(15.6)	(20.2%)
Forms	47.1	48.2	(1.1)	(2.3%)
Business process outsourcing	40.0	40.9	(0.9)	(2.2%)
Total Business Services	\$ 1,003.6	\$ 936.8	\$ 66.8	7.1%

Business Services segment income from operations increased \$15.7 million to \$84.8 million for the three months ended September 30, 2021, primarily due to higher volume, cost control initiatives and lower restructuring, impairment and other expenses, partially offset by the impact of unfavorable foreign exchange rates on expenses of \$7.8 million.

Marketing Solutions

	Three Months Ended September 30,	
	2021	2020
	(in millions, except percentages)	
Net sales	\$ 264.2	\$ 254.5
Income from operations	17.1	10.3
Operating margin	6.5%	4.0%
Restructuring and other-net	1.1	4.7

Net sales for the Marketing Solutions segment for the three months ended September 30, 2021 were \$264.2 million, an increase of \$9.7 million, or 3.8%, compared to the same period in 2020. Net sales increased primarily due to higher volume reflecting continued recovery from the COVID-19 pandemic, partially offset by the effects of the 2020 Census contract, which was fully completed in the third quarter of 2020.

The following table summarizes net sales by products and services in the Marketing Solutions segment:

Products and Services	Three Months Ended September 30,		\$ Change	% Change
	2021	2020		
	(in millions, except percentages)			
Direct marketing	\$ 135.1	\$ 125.9	\$ 9.2	7.3%
Digital print and fulfillment	107.9	104.4	3.5	3.4%
Digital and creative solutions	21.2	24.2	(3.0)	(12.4%)
Total Marketing Solutions	\$ 264.2	\$ 254.5	\$ 9.7	3.8%

Marketing Solutions segment income from operations for the three months ended September 30, 2021 was \$17.1 million, an increase of \$6.8 million compared to \$10.3 million for the same period in 2020, primarily due to higher volume reflective of continued recovery from the COVID-19 pandemic and cost control initiatives, partially offset by the Census contract which was fully completed in the third quarter of 2020.

Corporate

Corporate operating expenses during the three months ended September 30, 2021 were \$28.8 million, a decrease of \$34.7 million compared to the same period in 2020. The decrease includes \$37.1 million related to the LSC MEPP obligation recorded in the third quarter of 2020, partially offset by higher compensation expenses.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AS COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2020

The following table shows the results of operations for the nine months ended September 30, 2021 and 2020:

	Nine Months Ended September 30,		\$ Change	% Change
	2021	2020		
	(in millions, except percentages)			
Net sales	3,586.5	3,417.7	168.8	4.9%
Cost of sales	2,890.0	2,729.4	160.6	5.9%
Gross profit	696.5	688.3	8.2	1.2%
Selling, general and administrative expenses (exclusive of depreciation and amortization)	438.3	436.7	1.6	0.4%
Restructuring, impairment and other-net	19.5	93.8	(74.3)	(79.2%)
Depreciation and amortization	99.0	112.3	(13.3)	(11.8%)
Other operating expense	13.3	15.5	(2.2)	(14.2%)
Income from operations	<u>\$ 126.4</u>	<u>\$ 30.0</u>	<u>\$ 96.4</u>	nm

Consolidated

Continuing Operations

Net sales for the nine months ended September 30, 2021 increased \$168.8 million, or 4.9%, to \$3,586.5 million versus the same period in 2020. Net sales increased \$47.0 million due to favorable changes in foreign exchange rates and were unfavorably impacted by \$6.5 million due to the Chile business closure in 2020. In addition to these factors, net sales increased due to higher volume reflecting strengthening demand for many of our products and services. Notably, higher demand for e-commerce sales have contributed to the growth in our Packaging and Labels products and higher demand for books and cards have contributed to the growth of our Commercial Print products. The increase also reflects continued recovery from the COVID-19 pandemic, partially offset by the Census project, which was fully completed in the third quarter of 2020.

Cost of sales for the nine months ended September 30, 2021 increased \$160.6 million, or 5.9%, to \$2,890.0 million versus the same period in 2020, primarily due to higher volume and higher cost of raw materials.

Gross profit increased \$8.2 million to \$696.5 million for the nine months ended September 30, 2021 versus the same period in 2020, primarily due to higher volume. Gross margin percentage decreased from 20.1% to 19.4% for the nine months ended September 30, 2021 versus the same period in 2020, primarily reflecting the impact of unfavorable foreign exchange rates on expenses and rising costs of raw materials.

Selling, general and administrative expenses increased \$1.6 million to \$438.3 million for the nine months ended September 30, 2021 versus the same period in 2020, primarily as a result of higher volume, higher incentive compensation expense and the impact of unfavorable exchange rates on expenses, partially offset by cost control initiatives. As a percentage of net sales, selling, general and administrative expenses was 12.2% for the nine months ended September 30, 2021 versus 12.8% in the same period in 2020.

For the nine months ended September 30, 2021, net restructuring, impairment and other expense decreased by \$74.3 million to \$19.5 million versus the same period in 2020. The decrease was primarily driven by lower restructuring activity, gains on sale of several facilities, and modest gains related to the settlement of certain LSC MEPP liabilities. See Note 7, *Restructuring, Impairment, and Other*, and Note 14, *Commitment and Contingencies* within the Notes to the Condensed Consolidated Financial Statements for further discussion.

Depreciation and amortization decreased \$13.3 million to \$99.0 million for the nine months ended September 30, 2021 compared to the same period in 2020. Depreciation and amortization included \$14.2 million and \$14.5 million of amortization of other intangible assets related to client relationships and trade names for the nine months ended September 30, 2021 and 2020, respectively.

Other operating expense for the nine months ended September 30, 2021 was \$13.3 million compared to \$15.5 million for the same period in 2020. Other operating expenses in both periods primarily included expenses related to the ongoing SEC and DOJ investigations and the prior year included a \$2.9 million loss on a business disposition which did not occur in the current period.

Income from operations for the nine months ended September 30, 2021 was \$126.4 million, an increase of \$96.4 million compared to the nine months ended September 30, 2020.

	Nine Months Ended September 30,		\$ Change	% Change
	2021	2020		
	(in millions, except percentages)			
Interest expense-net	\$ 98.4	\$ 102.7	\$ (4.3)	(4.2%)
Investment and other income-net	(15.1)	(10.8)	4.3	39.8%
Loss on debt extinguishment	6.2	0.4	5.8	nm

Net interest expense decreased \$4.3 million to \$98.4 million for the nine months ended September 30, 2021 versus the same period in 2020. Net interest expense included \$9.2 million related to the termination of certain interest rate swaps in the second quarter of 2021. Excluding the effects of the swap termination, our interest expense decreased approximately \$13 million, primarily due to prior repurchases and repayment of higher interest rate debt and lower average borrowings and interest rates on the ABL Credit Facility.

Investment and other income, net for the nine months ended September 30, 2021 and 2020 was \$15.1 million and \$10.8 million, respectively, and principally comprised of net pension and OPEB income.

Loss on debt extinguishment was \$6.2 million for the nine months ended September 30, 2021, versus \$0.4 million for the same period in 2020, due to costs related to the partial repayment of the Term Loan in the second quarter of 2021.

	Nine Months Ended September 30,		\$ Change	% Change
	2021	2020		
	(in millions, except percentages)			
Income (loss) from continuing operations before income taxes	\$ 36.9	\$ (62.3)	\$ 99.2	nm
Income tax expense (benefit)	19.7	(3.0)	(22.7)	nm

The income tax expense and benefit for the nine months ended September 30, 2021 and 2020 were primarily driven by the mix of earnings, the tax impact of our interest expense and changes in tax laws.

Discontinued Operations

Net income from discontinued operations was \$0.6 million for the nine months ended September 30, 2021 compared to a loss of \$19.5 million in the same period in 2020. The net income from discontinued operations for the nine months ended September 30, 2021 reflects the settlement of certain contingencies associated with the business divestitures and final net working capital adjustments. The net loss from discontinued operations in 2020 was primarily driven by a \$20.6 million non-cash charge related to impairment of goodwill and \$9.1 million pre-tax loss on the sale of our Courier Logistics business.

Net income attributable to RRD common stockholders was \$17.6 million compared to a loss of \$79.1 million for the nine months ended September 30, 2021 and 2020, respectively.

Information by Segment

Business Services

	Nine Months Ended September 30,	
	2021	2020
	(in millions, except percentages)	
Net sales	\$ 2,835.3	\$ 2,625.4
Income from operations	193.2	123.9
Operating margin	6.8%	4.7%
Restructuring, impairment and other-net	6.9	22.3
Other operating expense	—	0.2

Net sales for the Business Services segment for the nine months ended September 30, 2021 were \$2,835.3 million, an increase of \$209.9 million, or 8.0%, compared to the nine months ended September 30, 2020. Net sales increased \$47.0 million due to favorable changes in foreign exchange rates and were unfavorably impacted by \$6.5 million due to the Chile business closure in 2020. Net sales also increased due to higher volume reflecting strengthening demand for many of our products and services. Notably, higher demand for e-commerce sales have contributed to the growth in our Packaging and Labels products and higher demand for books and cards have contributed to the growth of our Commercial Print products. The increase also reflects continued recovery from the COVID-19 pandemic, partially offset by one-time pandemic related orders in 2020, primarily within our Supply chain management offerings. The following table summarizes net sales by products and services in the Business Services segment:

Products and Services	Nine Months Ended September 30,		\$ Change	% Change
	2021	2020		
	(in millions, except percentages)			
Commercial print	\$ 1,098.5	\$ 986.6	\$ 111.9	11.3%
Packaging	550.9	459.1	91.8	20.0%
Labels	393.2	359.9	33.3	9.3%
Statements	320.8	333.1	(12.3)	(3.7%)
Supply chain management	201.8	212.0	(10.2)	(4.8%)
Forms	144.7	149.2	(4.5)	(3.0%)
Business process outsourcing	125.4	125.5	(0.1)	(0.1%)
Total Business Services	<u>\$ 2,835.3</u>	<u>\$ 2,625.4</u>	<u>\$ 209.9</u>	8.0%

Business Services segment income from operations increased \$69.3 million to \$193.2 million for the nine months ended September 30, 2021, primarily due to increased volume, increased prices, cost reductions and lower restructuring, impairment and other expenses, partially offset by the impact of unfavorable foreign exchange rates on expenses of \$27.8 million.

Marketing Solutions

	Nine Months Ended September 30,	
	2021	2020
	(in millions, except percentages)	
Net sales	\$ 751.2	\$ 792.3
Income from operations	39.9	33.4
Operating margin	5.3%	4.2%
Restructuring and other-net	5.8	7.5

Net sales for the Marketing Solutions segment for the nine months ended September 30, 2021 were \$751.2 million, a decrease of \$41.1 million compared to the nine months ended September 30, 2020. Net sales decreased due to lower volume in direct marketing attributable to the 2020 Census contract, which was fully completed in the third quarter of 2020, partially offset by higher order volume reflecting continued recovery from the COVID-19 pandemic. The following table summarizes net sales by products and services in the Marketing Solutions segment:

Products and Services	Nine Months Ended September 30,		\$ Change	% Change
	2021	2020		
	(in millions, except percentages)			
Direct marketing	\$ 379.6	\$ 416.8	\$ (37.2)	(8.9%)
Digital print and fulfillment	307.1	302.6	4.5	1.5%
Digital and creative solutions	64.5	72.9	(8.4)	(11.5%)
Total Marketing Solutions	<u>\$ 751.2</u>	<u>\$ 792.3</u>	<u>\$ (41.1)</u>	<u>(5.2%)</u>

Marketing Solutions segment income from operations increased \$6.5 million to \$39.9 million for the nine months ended September 30, 2021 primarily due to the favorable impact of cost control initiatives and lower restructuring expenses, partially offset by the impact of lower volume.

Corporate

Corporate operating expenses during the nine months ended September 30, 2021 were \$106.7 million, compared to \$127.3 million for the nine months ended September 30, 2020, a decrease of \$20.6 million. The decrease was primarily driven by lower restructuring expenses, partially offset by increased incentive compensation expense, largely attributable to an increase in our stock price.

LIQUIDITY AND CAPITAL RESOURCES

We believe that we have sufficient liquidity to support our ongoing operations and to invest in future growth to create value for our stockholders. Our operating cash flows, existing cash balances and available capacity under our asset-based senior secured revolving credit facility (the “ABL Credit Facility”) are our primary sources of liquidity and are expected to be used for, among other things, capital expenditures, completion of restructuring programs and payment of interest and principal on our long-term debt obligations.

The following describes our cash flows for the nine months ended September 30, 2021 and 2020.

	Nine Months Ended September 30,		\$ Change
	2021	2020	
	(in millions)		
Net cash (used in) provided by operating activities	\$ (29.0)	\$ 25.2	\$ (54.2)
Net cash used in investing activities	(33.2)	(3.5)	(29.7)
Net cash (used in) provided by financing activities	(5.6)	194.8	(200.4)
Effect of exchange rates on cash, cash equivalents and restricted cash	1.2	2.1	(0.9)
Net (decrease) increase in cash, cash equivalents and restricted cash	<u>\$ (66.6)</u>	<u>\$ 218.6</u>	<u>\$ (285.2)</u>

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 \$29.0 million compared to cash provided by operating activities of \$25.2 million in 2020. The increase in operating cash used in 2021 was driven by \$23.9 million of LSC bankruptcy related payments primarily associated with lump sum settlements of two MEPP plans, working capital investments, higher tax and incentive compensation payments, and a \$9.2 million payment to terminate certain interest rates swaps, partially offset by lower restructuring and interest payments. In addition, the prior year amount benefitted from payroll taxes being deferred as part of the CARES Act. Included in net cash used in operating activities were the following operating cash outflows:

	Nine Months Ended September 30,		\$ Change
	2021	2020	
	(in millions)		
Income tax payments, net of tax refunds	\$ 31.9	\$ 24.9	\$ 7.0
Interest payments	71.3	86.4	(15.1)
Performance-based compensation payments	58.2	41.3	16.9
Restructuring payments	24.0	53.5	(29.5)
Payments on interest rate swap terminations	9.2	—	9.2
Pension and other postretirement benefits plan contributions	3.6	6.3	(2.7)
LSC bankruptcy related payments including MEPP	23.9	2.6	21.3

Significant cash (outflows) inflows included in investing and financing activities for each period were as follows:

	Nine Months Ended September 30,		\$ Change
	2021	2020	
	(in millions)		
Capital expenditures	\$ (48.6)	\$ (54.4)	\$ 5.8
Proceeds from issuances of long-term debt	451.1	—	451.1
Proceeds from sale of property, plant and equipment	16.6	29.7	(13.1)
(Payments) proceeds from disposition of businesses	(1.4)	16.8	(18.2)
Payments of current maturities and long-term debt	(444.6)	(168.8)	(275.8)
Net borrowings under credit facilities	—	368.0	(368.0)
Dividends paid	—	(2.1)	2.1

Proceeds from disposition of businesses in 2020 principally reflect the sale of the Courier Logistics business.

Proceeds from issuances of long-term debt during the nine months ended September 30, 2021 reflects the issuance of \$450 million of 6.125% senior secured notes due 2026 during the second quarter. Payments of current maturities and long-term debt in the nine months ended September 30, 2021 primarily reflects the repayment of \$387.6 million of principal on the Term Loan and the repayment of \$55.6 million of the debentures that matured on April 15, 2021. Payments of current maturities and long-term debt in the nine months ended September 30, 2020 represent repurchases of outstanding debt with maturities from 2020 to 2024 along with the repayment of the remaining balance of the notes that matured on June 15, 2020. We had no outstanding borrowings under our ABL Credit Facility at the end of the third quarter of 2021. During 2020, we increased our borrowings under the ABL Credit Facility to retain financial flexibility in light of the emerging COVID-19 pandemic.

Cash and cash equivalents of \$223.5 million as of September 30, 2021 included \$16.1 million in the U.S. and \$207.4 million at international locations. Included in Cash and cash equivalents at September 30, 2021 were \$4.8 million of short-term investments, which primarily consisted of short-term deposits and money market funds. These investments are held at institutions with sound credit ratings and are expected to be highly liquid. We maintain cash pooling structures that enable participating international locations to draw on our international cash resources to meet local liquidity needs. Foreign cash balances may be loaned from certain cash pools to U.S. operating entities on a temporary basis in order to reduce our short-term borrowing costs or for other purposes. As a result of the Tax Cut and Jobs Act of 2017, we have opportunities to repatriate foreign cash, primarily generated from current year earnings, in a tax efficient manner.

The current availability under the ABL Credit Facility as of September 30, 2021 is shown in the table below:

	<u>September 30, 2021</u>	
	(in millions)	
Availability		
Borrowing base	\$	579.0
Usage		
Borrowings under the ABL Credit Facility	\$	—
Outstanding letters of credit	\$	63.3
Current availability at September 30, 2021	\$	515.7
Cash and cash equivalents		223.5
Total available liquidity (a)	\$	<u>739.2</u>

(a) Total available liquidity does not include credit facilities of non-U.S. subsidiaries, which are uncommitted facilities.

The failure of a financial institution supporting the ABL Credit Facility would reduce the size of our committed facility unless a replacement institution was added. At September 30, 2021, the ABL Credit Facility was supported by eight U.S. financial institutions.

On April 16, 2021, we amended the ABL Credit Facility to, among other things, extend the maturity date from September 29, 2022 to April 16, 2026 and reduce the aggregate commitments from \$800 million to \$650 million.

Dispositions

During the fourth quarter of 2017, we entered into an agreement to sell a printing facility in Shenzhen, China and transfer the related land use rights. As of September 30, 2021, we have received deposits in accordance with the terms of the agreement of approximately \$123.3 million. These deposits are recorded in Other noncurrent liabilities on the Condensed Consolidated Balance Sheets. In accordance with the agreement, additional scheduled deposits are required to be paid to us with the final payment due in 2022. Gross proceeds from the sale are expected to be approximately \$250.0 million, subject to changes in the exchange rate. If the buyer fails to comply with terms of the agreement or terminates for any reason, we are entitled to retain 30% of the purchase price as liquidated damages.

In the third quarter of 2021, the buyer missed their scheduled deposit payment. As a result, we are taking necessary actions to preserve our rights under the agreement which may include terminating the agreement. As of September 30, 2021, the carrying cost of the building and land use rights is recorded in Other noncurrent assets and is not material.

Dividends

On April 6, 2020, the Board of Directors of the Company made a decision to suspend all dividends payments as part of the Company's response to the COVID-19 pandemic.

MANAGEMENT OF MARKET RISK

We are exposed to interest rate risk on our variable debt and price risk on our fixed-rate debt. Including the effect of the floating-to-fixed interest rate swap (see Note 16, *Derivatives*, to the Condensed Consolidated Financial Statements), approximately 96.7% of our outstanding debt was comprised of fixed-rate debt as of September 30, 2021.

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 September 30, 2021 and December 31, 2020 by \$25.7 million and \$23.7 million, respectively.

We are exposed to the impact of foreign currency fluctuations based on our global operations. Foreign currency fluctuations affect the U.S. dollar value of revenues earned and expenses incurred in foreign currencies. We are also exposed to currency risk to the extent we own assets or incur liabilities, or enter into other transactions that are not in the functional currency of the subsidiary in which we operate. We employ different practices to manage these risks, including where appropriate the use of derivative instruments, such as foreign currency forwards. As of September 30, 2021 and December 31, 2020, the aggregate notional amount of outstanding foreign currency contracts was approximately \$271.0 million and \$220.7 million, respectively (see Note 16, *Derivatives*, to the Condensed Consolidated Financial Statements). The net unrealized gain from these foreign currency contracts was \$1.6 million at September 30, 2021 and \$3.6 million at December 31, 2020. We do not use derivative financial instruments for trading or speculative purposes.

OTHER INFORMATION

Litigation and Contingent Liabilities

For a discussion of certain litigation, see Note 14, *Commitments and Contingencies*, to the Condensed Consolidated Financial Statements.

New Accounting Pronouncements and Pending Accounting Standards

Recently issued accounting standards and their estimated effect on our condensed consolidated financial statements are described in Note 17, *New Accounting Pronouncements*, to the Condensed Consolidated Financial Statements.

CAUTIONARY STATEMENT

This Quarterly Report on Form 10-Q and any documents incorporated by reference contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on our beliefs and assumptions. Generally, forward-looking statements include information 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,” “plan,” “estimate,” “hope” or similar expressions and their negative variations. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements.

Forward-looking statements are not guarantees of performance. The factors identified below are believed to be significant factors, but not necessarily all of the significant factors, that could cause actual results to differ materially from those expressed in any forward-looking statement. Unpredictable or unknown factors could also have material effects on us.

The following important factors, in addition to those discussed elsewhere in this Quarterly Report on Form 10-Q and under the “Risk Factors” section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements:

- adverse changes in global economic conditions and the resulting effect on the businesses of our clients, including changes related to COVID-19;
- demand for our products and services, including fluctuating orders specifically related to COVID-19;
- adverse changes in global economic conditions and the resulting effect on the businesses of our clients;
- changes in customer preferences or a failure to otherwise manage relationships with our significant clients;
- loss of brand reputation and decreases in quality of client support and service offerings;
- political and regulatory risks and uncertainty in the countries in which we operate or sell our products and services;
- taxation related risks in multiple jurisdictions;
- adverse credit market conditions and other issues that may affect our ability to obtain future financing on favorable terms;
- limitations on our borrowing capacity in our credit facilities;
- increases in interest rates;
- our ability to make payments on, reduce or extinguish any of our material indebtedness;
- supply chain issues, including changes in the availability or costs of key materials (such as ink and paper) or increases in shipping costs; additionally, shipping quotas imposed by major carriers such as Fedex and UPS may impact our cost of shipping and our ability to timely fulfil orders;
- our ability to improve operating efficiency rapidly enough to meet market conditions;
- impairment of assets as a result of a decline in our individual reporting units’ expected profitability;
- our ability and/or our vendors’ ability to implement and maintain information technology and security measures sufficient to protect against breaches and data leakage or the failure to properly use and protect customer, Company and employee information and data, particularly in light of the increased prevalence of remote working arrangements during COVID-19;
- a failure in or breach of data held in the computer systems we and our vendors maintain;

- increased pricing pressure as a result of the competitive environment in which we operate;
- our ability to execute on our portfolio optimization strategies, including potential sales of non-core assets;
- increasing health care and benefits costs for employees and retirees;
- changes in our pension and OPEB obligations;
- adverse trends or events in our operations outside of the United States;
- the effect of inflation, changes in currency exchange rates and changes in interest rates;
- catastrophic events which may damage our facilities or otherwise disrupt the business;
- the effect of changes in laws and regulations, including changes in accounting standards, trade, tax, environmental compliance, health and welfare benefits, price controls and other regulatory matters and the cost, which could be substantial, of complying with these laws and regulations;
- changes in the regulations applicable to our clients, which may adversely impact demand for our products and services;
- factors that affect client demand, including changes in postal rates, postal regulations and service levels, changes in the capital markets, changes in advertising markets, clients' budgetary constraints and changes in clients' short-range and long-range plans;
- failures or errors in our products and services;
- changes in technology, including electronic substitution and migration of paper based documents to digital data formats, and our ability to adapt to these changes;
- inability to hire and retain a skilled and diverse workforce;
- potential contingent obligations related to leases, multiemployer pension plan liabilities, environmental liabilities, and other liabilities associated with the bankruptcy of LSC;
- the spinoffs resulting in significant tax liability; and
- other risks and uncertainties detailed from time to time in our filings with the SEC.

Because forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. There may be other risks and uncertainties that we are unable to identify at this time or that we do not currently expect to have a material impact on the business. Undue reliance should not be placed on such statements, which speak only as of the date of this document or the date of any document that may be incorporated by reference into this document.

Consequently, readers of this Quarterly Report on Form 10-Q should consider these forward-looking statements only as our current plans, estimates and beliefs. We undertake no obligation to update or revise any forward-looking statements in this Quarterly Report on Form 10-Q to reflect any new events or any change in conditions or circumstances.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Item 2 of Part I under "Management of Market Risk." There have been no significant changes to our market risk since December 31, 2020. For a discussion of exposure to market risk, refer to Part II, Item 7A – Quantitative and Qualitative Disclosures about Market Risk, set forth in our 2020 Form 10-K.

Item 4. Controls and Procedures**(a) Disclosure controls and procedures.**

As required by Rule 13a-15(b) and Rule 15d-15(e) of the Securities Exchange Act of 1934, the Company's management, including the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of September 30, 2021, an evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that disclosure controls and procedures as of September 30, 2021 were effective in ensuring information required to be disclosed in our SEC reports was recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that occurred during the quarter ended September 30, 2021 that had materially affected, or were reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that many of our employees continue to work remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the impact of the COVID-19 pandemic on our internal controls to ensure they remain effective.

PART II— OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of certain litigation, see Note 14, *Commitments and Contingencies*, to the Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

There is no material change in the information reported under "Part 1 -Item 1A Risk Factors" contained in our annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no issuer purchases of equity securities during the three months ended September 30, 2021.

Item 6. Exhibits

- 4.1 [Third Amendment to Rights Agreement, dated as of August 27, 2021, between R. R. Donnelley & Sons Company and Computershare Trust Company, N.A., as rights agent \(incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed August 27, 2021\).](#)
- 4.2 [Rights Agreement, dated as of August 28, 2019, between R. R. Donnelley & Sons Company and Computershare Trust Company, N.A., as rights agent \(incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K/A filed August 29, 2019\)](#)
- 4.3 [First Amendment to Rights Agreement, dated as of August 17, 2020, between R. R. Donnelley & Sons Company and Computershare Trust Company, N.A., as rights agent \(incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed August 18, 2020\)](#)
- 4.4 [Second Amendment to Rights Agreement, dated as of May 17, 2021, between R. R. Donnelley & Sons Company and Computershare Trust Company, N.A., as rights agent \(incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed May 18, 2021\).](#)
- 31.1* [Certification by Daniel L. Knotts, President and Chief Executive Officer, required by Rule 13a-14\(a\) and Rule 15d-14\(a\) of the Securities Exchange Act of 1934](#)
- 31.2* [Certification by Terry D. Peterson, Executive Vice President and Chief Financial Officer, required by Rule 13a-14\(a\) and Rule 15d-14\(a\) of the Securities Exchange Act of 1934](#)
- 32.1** [Certification by Daniel L. Knotts, President and Chief Executive Officer, required by Rule 13a-14\(b\) or Rule 15d-14\(b\) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code](#)
- 32.2** [Certification by Terry D. Peterson, Executive Vice President and Chief Financial Officer, required by Rule 13a-14\(b\) or Rule 15d-14\(b\) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code](#)
- 101.INS Inline XBRL Instance Document
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

* Filed herewith

** Furnished herewith

**Certification Pursuant to Rule 13a-14(a) and Rule 15d-14(a)
of the Securities Exchange Act of 1934**

I, Daniel L. Knotts, certify that:

1. I have reviewed this Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-Q of R.R. Donnelley & Sons Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2021

/s/ DANIEL L. KNOTTS

Daniel L. Knotts
President and Chief Executive Officer

**Certification Pursuant to Rule 13a-14(a) and Rule 15d-14(a)
of the Securities Exchange Act of 1934**

I, Terry D. Peterson, certify that:

1. I have reviewed this Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-Q of R.R. Donnelley & Sons Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2021

/s/ TERRY D. PETERSON

Terry D. Peterson
Executive Vice President and Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
CERTIFICATION PURSUANT TO RULE 13a-14(b) OR RULE 15d-14(b)
AND SECTION 1350 OF CHAPTER 63 OF TITLE 18
OF THE UNITED STATES CODE (18 U.S.C. 1350),
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of R. R. Donnelley & Sons Company (the "Company") on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel L. Knotts, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 3, 2021

/s/ DANIEL L. KNOTTS

Daniel L. Knotts
President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER
CERTIFICATION PURSUANT TO RULE 13a-14(b) OR RULE 15d-14(b)
AND SECTION 1350 OF CHAPTER 63 OF TITLE 18
OF THE UNITED STATES CODE (18 U.S.C. 1350),
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of R. R. Donnelley & Sons Company (the "Company") on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Terry D. Peterson, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 3, 2021

/s/ TERRY D. PETERSON

Terry D. Peterson
Executive Vice President and Chief Financial Officer