



RR Donnelley Reports Second-Quarter 2010 Results

Aug 04, 2010

Highlights:

- Second-quarter 2010 GAAP earnings per diluted share more than tripled to \$0.42 from \$0.12 in the second quarter of 2009
- Second-quarter 2010 non-GAAP earnings per diluted share increased 27% to \$0.47 from \$0.37 in the second quarter of 2009
- Second-quarter 2010 net sales increased 2.2% to \$2.4 billion compared to the second quarter of 2009
- Second-quarter 2010 GAAP income from operations increased to \$175.3 million, or 7.3% of net sales, from \$135.0 million, or 5.7% of net sales, in the second quarter of 2009
- Second-quarter 2010 non-GAAP income from operations increased to \$189.3 million, or 7.9% of net sales, from \$184.6 million, or 7.8% of net sales, in the second quarter of 2009

CHICAGO, Aug 04, 2010 (BUSINESS WIRE) -- **R.R. Donnelley & Sons Company (NASDAQ: RRD)** today reported second-quarter net earnings attributable to common shareholders of \$88.8 million, or \$0.42 per diluted share, on net sales of \$2.4 billion compared to net earnings attributable to common shareholders of \$25.2 million, or \$0.12 per diluted share, on net sales of \$2.4 billion in the second quarter of 2009. The second-quarter net earnings attributable to common shareholders included pre-tax charges for restructuring (\$9.2 million) and impairment (\$1.5 million) totaling \$10.7 million in 2010 compared to charges for restructuring (\$40.1 million) and impairment (\$8.1 million) totaling \$48.2 million in 2009. Substantially all of the restructuring charges in both periods were related to the reorganization of certain operations and the exiting of certain business activities. The second-quarter effective tax rate decreased to 26.5% from 64.6% in the second quarter of 2009, primarily due to the impact of higher restructuring expense in 2009 on which the tax benefit was lower than the U.S. statutory rate, and the release of a valuation allowance on deferred tax assets in the second quarter of 2010.

The Company believes that certain non-GAAP measures, when presented in conjunction with comparable GAAP (Generally Accepted Accounting Principles) measures, are useful because that information is an appropriate measure for evaluating the Company's operating performance. Internally, the Company uses this non-GAAP information as an indicator of business performance, and evaluates management's effectiveness with specific reference to these indicators. These measures should be considered in addition to, not a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP.

Non-GAAP net earnings attributable to common shareholders totaled \$99.5 million, or \$0.47 per diluted share, in the second quarter of 2010 compared to \$76.3 million, or \$0.37 per diluted share, in the second quarter of 2009. Second-quarter non-GAAP net earnings attributable to common shareholders exclude restructuring and impairment charges and acquisition expenses for both years. For non-GAAP comparison purposes, the effective tax rate decreased to 26.2% in the second quarter of 2010 from 37.5% in the second quarter of 2009, primarily as a result of the release of a valuation allowance on deferred tax assets. A reconciliation of GAAP net earnings attributable to common shareholders to non-GAAP net earnings attributable to common shareholders is presented in the attached tables.

"Our customers continue to realize the benefits that our breadth of product and service offerings brings to them. This is reflected in our strong second-quarter results, as well as in the many long-term customer contracts we have been awarded already this year," said Thomas J. Quinlan III, RR Donnelley's President and Chief Executive

Officer.

Quinlan added, "We begin the back half of the year with the same tempered enthusiasm that we had coming out of the first quarter. Our unique platform positions us well to continue to see positive year-over-year revenue growth for the balance of the year."

Business Review

The Company reports its results in two reportable segments: 1) U.S. Print and Related Services and 2) International. The Company reports as Corporate its unallocated expenses associated with general and administrative activities.

Summary

Net sales in the quarter were \$2.4 billion, up 2.2% from the second quarter of 2009, due to increased volume, partially offset by continued price pressure and a reduction in paper sales. Gross margin decreased to 24.5% in the second quarter of 2010 from 25.4% in the second quarter of 2009 due to continued price pressure and higher pension and other benefits-related expenses as well as higher incentive compensation expense, partially offset by increased volume and a higher recovery on print-related by-products. SG&A expense as a percentage of net sales in the second quarter of 2010 decreased to 11.1% from 11.6% in the second quarter of 2009 primarily due to a lower provision for bad debt expense and continued productivity efforts, partially offset by higher incentive compensation expense. Operating earnings were negatively impacted by charges for restructuring and impairment of \$10.7 million in the second quarter of 2010 and \$48.2 million in the second quarter of 2009 and acquisition expenses of \$3.3 million in the second quarter of 2010 and \$1.4 million in the second quarter of 2009, resulting in operating income of \$175.3 million in 2010 and \$135.0 million in 2009.

Excluding charges for restructuring and impairment and acquisition expenses, our non-GAAP operating margin in the second quarter of 2010 increased to 7.9% from 7.8% in the second quarter of 2009, as the benefits of increased volume, higher by-products recoveries and our productivity initiatives were mostly offset by continued price pressure and higher incentive compensation expense.

Segments

Net sales for the U.S. Print and Related Services segment in the quarter increased 1.6% from the second quarter of 2009 to \$1.8 billion primarily attributable to volume increases in logistics, educational books, direct mail and commercial print, partially offset by price declines across most products and services, as well as lower paper sales. The segment's operating income, which was negatively impacted by charges for restructuring and impairment of \$3.5 million in the second quarter of 2010 and \$26.0 million in the second quarter of 2009, increased to \$179.5 million in the second quarter of 2010 from \$138.5 million in the second quarter of 2009. Excluding the restructuring and impairment charges, the segment's non-GAAP operating margin increased to 10.1% in the second quarter of 2010 from 9.2% in the second quarter of 2009, as the benefits of increased volume, productivity initiatives and higher by-products recoveries more than offset the impact of price erosion and higher incentive compensation expense.

Net sales for the International segment in the quarter increased 4.3% from the second quarter of 2009 to \$599.3 million due to increased volume in Asia, Europe and Global Turnkey Solutions, partially offset by price declines across most platforms. Foreign exchange rate movements had little impact on the year-over-year revenue comparison. The segment's operating income, which was negatively impacted by charges for restructuring and impairment of \$6.5 million in the second quarter of 2010 and \$20.9 million in the second quarter of 2009, improved to \$42.7 million in the second quarter of 2010 from \$22.9 million in the second quarter of 2009. Excluding the restructuring and impairment charges, the segment's non-GAAP operating margin increased to 8.2% in the second quarter of 2010 from 7.6% in the second quarter of 2009 due to increased volume and favorable product mix, partially offset by the impact of price erosion and higher incentive compensation expense.

Unallocated Corporate operating expenses increased to \$46.9 million in the second quarter of 2010 as compared

to \$26.4 million in the second quarter of 2009. Excluding acquisition expenses of \$3.3 million and restructuring and impairment charges of \$0.7 million in the second quarter of 2010 and acquisition expenses of \$1.4 million and restructuring charges of \$1.3 million in the second quarter of 2009, unallocated Corporate operating expenses increased by \$19.2 million to \$42.9 million in the second quarter of 2010. Higher pension and other benefits-related expenses, LIFO inventory provisions and incentive compensation expense, partially offset by lower bad debt expense, were the primary factors contributing to the increase.

Conference Call

RR Donnelley will host a conference call and simultaneous webcast to discuss its second-quarter results today, Wednesday, August 4, at 10:00 a.m. Eastern Time (9:00 a.m. Central Time). The live webcast will be accessible on RR Donnelley's web site: www.rrdonnelley.com. Individuals wishing to participate can join the conference call by dialing 706.634.1139. A webcast replay will be archived on the Company's web site for 30 days after the call. In addition, a telephonic replay of the call will be available for seven days at 706.645.9291, passcode 86637047.

About RR Donnelley

RR Donnelley (NASDAQ: RRD) is a global provider of integrated communications. Founded more than 145 years ago, the Company works collaboratively with more than 60,000 customers worldwide to develop custom communications solutions that reduce costs, enhance ROI and ensure compliance. Drawing on a range of proprietary and commercially available digital and conventional technologies deployed across four continents, the Company employs a suite of leading Internet-based capabilities and other resources to provide premedia, printing, logistics and business process outsourcing products and services to leading clients in virtually every private and public sector.

For more information, and for RR Donnelley's Corporate Social Responsibility Report, visit the company's web site at <http://www.rrdonnelley.com>.

Use of Forward-Looking Statements

This news release contains "forward-looking statements" as defined in the U.S. Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on these forward-looking statements and any such forward-looking statements are qualified in their entirety by reference to the following cautionary statements. All forward-looking statements speak only as of the date of this news release and are based on current expectations and involve a number of assumptions, risks and uncertainties that could cause the actual results to differ materially from such forward-looking statements. The company does not undertake to and specifically declines any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect future events or circumstances after the date of such statement or to reflect the occurrence of anticipated or unanticipated events. The factors that could cause material differences in the expected results of RR Donnelley include, without limitation, the following: the successful execution and integration of acquisitions and the performance of the company's businesses following acquisitions; the ability to implement comprehensive plans for the integration of the sales force, cost containment, asset rationalization and other key strategies; competitive pressures in all markets in which the company operates; the volatility and disruption of the capital and credit markets, and adverse changes in the global economy; our ability to access unsecured debt in the capital markets and the reliability of the participants to our contractual lending and insurance agreements; factors that affect customer demand, including changes in postal rates and postal regulations, changes in the capital markets, changes in advertising markets, the rate of migration from paper-based forms to digital format, customers' budgetary constraints and customers' changes in short-range and long-range plans; customers financial strength; shortages or changes in availability, or increases in costs of, key materials (such as ink, paper and fuel); and other risks and uncertainties described in RR Donnelley's periodic filings with the Securities and Exchange Commission (SEC). Readers are strongly encouraged to read the full cautionary statements contained in RR Donnelley's filings with the SEC.

R. R. Donnelley & Sons Company
Condensed Consolidated Balance Sheets
As of June 30, 2010 and December 31, 2009
(UNAUDITED)
(In millions, except per share data)

	June 30, 2010	December 31, 2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 615.8	\$ 499.2
Restricted cash equivalents	45.9	-
Receivables, less allowance for doubtful accounts	1,686.1	1,675.9
Income taxes receivable	36.4	63.2
Inventories	535.0	561.8
Prepaid expenses and other current assets	166.6	160.8
Total Current Assets	3,085.8	2,960.9
Property, plant and equipment - net	2,110.8	2,271.4
Goodwill	2,309.7	2,333.3
Other intangible assets - net	684.8	747.4
Other noncurrent assets	414.7	434.6
Total Assets	\$ 8,605.8	\$ 8,747.6

Liabilities

Current Liabilities