

RR Donnelley & Sons Co
Form 10-K/A
May 06, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from to

Commission file number 1-4694

R. R. DONNELLEY & SONS COMPANY

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(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

111 South Wacker Drive,

Chicago, Illinois
(Address of principal executive offices)

60606
(ZIP Code)

Registrant's telephone number (312) 326-8000

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

Title of each Class
Common Stock (Par Value \$1.25)

Name of each exchange on which registered
New York and Chicago Stock Exchanges

Indicated by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
			(Do not check if a smaller reporting company)

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

The aggregate market value of the shares of common stock (based on the closing price of these shares on the New York Stock Exchange Composite Transactions) on June 29, 2007, the last business day of the registrant's most recently completed second fiscal quarter, held by nonaffiliates was \$9,576,608,172.

As of February 20, 2008, 214,860,181 shares of common stock were outstanding.

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Documents Incorporated By Reference

Portions of the Registrant's proxy statement related to its annual meeting of stockholders scheduled to be held on May 28, 2008 are incorporated by reference into Part III of this Form 10-K.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (the "Form 10-K/A") amends the registrant's Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission on February 27, 2008 (the "Form 10-K"), solely to remove the references to the use of an independent third party appraiser to assist the Company as part of its annual impairment analysis as disclosed in the Form 10-K in Management's Discussion and Analysis and Note 4 to the Consolidated Financial Statements.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, new certifications of our principal executive officer and principal financial officer are being filed as exhibits to this Form 10-K/A. We are also filing an updated Consent of Independent Registered Public Accounting Firm as an exhibit to this Form 10-K/A. All other information included in the Form 10-K is also included in this Form 10-K/A and has not been amended. Except for the matter described above, this amendment does not change any previously reported financial results, modify or update disclosures in the Form 10-K, or reflect events occurring after the date of the filing of the Form 10-K.

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PART I

ITEM 1. BUSINESS

Company overview

R.R. Donnelley & Sons Company (RR Donnelley, the Company, we, us, and our) is the world's premier full-service provider of print and related services, including business process outsourcing. Founded more than 140 years ago, the Company provides products and solutions in commercial printing, direct mail, financial printing, print fulfillment, labels, forms, logistics, call centers, transactional print-and-mail, print management, online services, digital photography, color services, and content and database management to customers in the publishing, healthcare, advertising, retail, technology, financial services and many other industries. The largest companies in the world and others rely on RR Donnelley's scale, scope and insight through a comprehensive range of online tools, variable printing services and market-specific solutions.

Business acquisitions

On February 27, 2008, the Company signed a definitive agreement to acquire Pro Line Printing, Inc. (Pro Line), a multi-facility, privately held producer of newspaper inserts headquartered in Irving, Texas. The all cash deal is subject to customary closing conditions.

On December 27, 2007, the Company acquired Cardinal Brands, Inc. (Cardinal Brands), a designer, developer and manufacturer of document-related business, consumer and hobby products. Cardinal Brands has manufacturing operations in the United States, Mexico and the United Kingdom. Cardinal Brands' operations are included in the U.S. Print and Related Services segment.

On May 16, 2007, the Company acquired Von Hoffmann, a leading U.S.-based printer of books and other products that serves primarily the education, trade and business-to-business catalog sectors, from Visant Corporation. Von Hoffmann's operations are included in the U.S. Print and Related Services segment.

On January 24, 2007, the Company acquired Perry Judd's Holdings Incorporated (Perry Judd's), a printer of magazines and catalogs with long- and short-run capabilities for producing consumer and business-to-business catalogs as well as consumer, trade and association magazines. Perry Judd's operations are included in the U.S. Print and Related Services segment.

On January 9, 2007, the Company acquired Banta Corporation (Banta), a provider of comprehensive printing and digital imaging solutions to leading publishers and direct marketers, including digital content management and e-business services. Additionally, Banta provided a wide range of procurement management and other outsourcing capabilities to the world's largest technology companies. Banta's operations are included in the U.S. Print and Related Services segment with the exception of its Global Turnkey Solutions operations, which are included in the International segment.

On April 27, 2006, the Company acquired OfficeTiger Holdings, Inc. (OfficeTiger), a leading provider of integrated business process outsourcing services through its operations in North America, Europe, India, the Philippines and Sri Lanka. OfficeTiger's transaction processing services were closely related and complementary to the Company's pre-existing business process outsourcing resources. OfficeTiger's operations are included in the International segment.

On June 20, 2005, the Company acquired The Astron Group (Astron), a leader in providing business process outsourcing services, including transactional print, statement printing, direct mail and print management services primarily in the United Kingdom. During the fourth quarter of 2005, the Company acquired Critical Mail Continuity Services, Limited (CMCS), a United Kingdom based provider of disaster recovery, business continuity, digital printing, and print-and-mail services. The Company ended its use of the Astron trade name in the fourth quarter of 2006 and the business was renamed RR Donnelley Global Document Solutions (Global Document Solutions). Global Document Solutions, including CMCS, is reported in the International segment.

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Also during 2005, the Company completed several additional acquisitions to expand and enhance its capabilities in key industry sectors and geographies. Asia Printers Group Ltd. (*Asia Printers*) is a book printer for North American, European and Asian markets under the South China Printing brand and is a financial printer in Hong Kong under the Roman Financial Press brand. Poligrafia S.A. (*Poligrafia*) is a printer of magazines, catalogs, retail inserts and books in Poland. The Company also acquired Spencer Press, Inc. (*Spencer*), a Wells, Maine based printer serving the catalog, retail and direct mail markets, and the Charlestown, Indiana print operations of Adplex-Rhodes (*Charlestown*), a producer of tabloid-sized retail inserts. The operations of Spencer and Charlestown are included in the U.S. Print and Related Services segment. *Asia Printers* and *Poligrafia* s operations are included in the International segment.

Discontinued operations

In December 2005, the Company sold its Peak Technologies business (*Peak*). For all years presented, this business has been classified as a discontinued operation in the consolidated financial statements and all prior periods have been reclassified to conform to this presentation.

Segment descriptions

The Company operates primarily in the commercial print portion of the printing industry, with related product and service offerings designed to offer customers complete solutions for communicating their messages to target audiences.

During the second quarter of 2007, the Company unified its printing and related services offering under the single RR Donnelley brand. During the third quarter of 2007, management changed the Company s reportable segments to reflect changes in the management reporting structure of the organization and the manner in which the chief operating decision maker regularly assesses information for decision-making purposes, including the allocation of resources. The revised reporting structure includes two segments: U.S. Print and Related Services and International. All prior periods have been reclassified to conform to this current reporting structure. The Company s segments and their product and service offerings are summarized below:

U.S. Print and Related Services

The U.S. Print and Related Services segment includes the Company s U.S. printing operations, managed as one integrated platform, along with related logistics, premedia and print-management services. This segment s products and related service offerings include magazines, catalogs, retail inserts, books, directories, commercial printing, financial printing, variable printing, forms, labels, office products, premedia, digital solutions and logistics services. Variable printing products include direct mailings and statement printing. Digital solution services include online services, digital photography, color services, content management, and database management.

The U.S. Print and Related Services segment accounted for approximately 74% of the Company s consolidated net sales in 2007.

International

The International segment includes the Company s non-U.S. printing operations in Asia, Europe, Latin America and Canada. Additionally, this segment includes the Company s business process outsourcing and Global Turnkey Solutions operations. Business process outsourcing provides transactional print and outsourcing services, statement printing, print management and direct mail services through its operations in Europe, Asia and North America. Global Turnkey Solutions provides outsourcing capabilities including product configuration, customized kitting and order fulfillment for technology, medical device, and retail companies around the world through its operations in Europe and North America.

The International segment accounted for approximately 26% of the Company s consolidated net sales in 2007.

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Corporate

Corporate consists of unallocated general and administrative activities and associated expenses including, in part, executive, legal, finance, information technology, human resources and certain facility costs. In addition, certain costs and earnings of employee benefit plans, primarily components of net pension and post-retirement benefits expense other than service cost, are included in Corporate and not allocated to operating segments.

Financial and other information related to these segments is included in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and in Note 19, *Segment Information*, to the consolidated financial statements. Additional information related to the Company's international operations is included in Note 20, *Geographic Area and Product Information*, to the consolidated financial statements.

Competition and strategy

The print and related services environment is highly competitive and in general tends to have excess capacity. Despite some recent consolidation, the printing industry remains large and highly fragmented, with large diversified printing companies better positioned to be successful. The industry is projecting only modest growth over the next several years. Across the Company's range of products and services, competition is based primarily on price, in addition to quality and the ability to service the special needs of customers. In part driven by consolidation among customers, competition is becoming more focused on the total cost of printed products, including materials and distribution. The Company expects competition in most sectors served by the Company to remain intense in coming years. In this environment, the Company expects to maintain or enhance earnings through productivity initiatives and by optimizing capacity utilization.

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

The Company seeks to leverage its position and size to drive profitable growth. The Company continues to enhance its products and services through the successful integration of acquisitions that create additional scale advantages and offer both increased breadth and depth of products and services. To attain its productivity goals, the Company has implemented a number of strategic initiatives to reduce its overall cost structure and improve the efficiency of its operations. These initiatives include the restructuring and integration of operations, leveraging the Company's global infrastructure, streamlining administrative and support activities, integrating common systems and the disposing of non-core operations. Future initiatives could include the reorganization of operations and the consolidation of facilities. Implementing such initiatives may result in future restructuring or impairment charges, which may be substantial. Management also reviews its operations on a regular basis to balance appropriate risks and opportunities to maximize efficiencies and to support the Company's long-term strategic growth goals.

Seasonality

Advertising and consumer spending trends affect demand in several of the end-markets served by the Company. Historically, demand for printing of magazines, catalogs, retail inserts and books is higher in the second half of the year driven by increased advertising pages within magazines, and holiday catalog, retail inserts

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and book volumes. Compared to 2006, the Company had a slightly higher impact from seasonal increases in sales volume in 2007, primarily due to its recent acquisitions. The Company expects a slightly lower impact from seasonal increases in sales volume in 2008, due to targeted improvements in capacity utilization during non-peak periods.

Raw materials

The primary raw materials the Company uses in its print businesses are paper and ink. The Company negotiates with leading suppliers to maximize its purchasing efficiencies, uses a wide variety of grades and formats and does not rely on any one supplier. In addition, a substantial amount of paper used by the Company is supplied directly by customers. The cost and supply of certain paper grades used in the manufacturing process may continue to affect the Company's consolidated financial results. During 2007, the Company was able to satisfy its paper requirements without interruption, despite tightening supplies for certain paper grades. While prices for certain paper grades used by the Company increased during 2007, the overall paper price environment was mixed. Customers directly absorb the impact of increasing prices on customer-supplied paper. With respect to paper purchased by the Company, the Company has historically been able to raise its prices to cover a substantial portion of paper cost increases. Contractual arrangements and industry practice should support the Company's continued ability to pass on paper price increases to a large extent, but there is no assurance that market conditions will continue to enable the Company to successfully do so. In addition, management believes that the paper supply is tightening, and there may be shortfalls in supplies necessary to meet the demands of the entire marketplace. Higher paper prices and tight paper supplies may have an impact on customers' demand for printed products.

The Company continues to monitor the impact of changes in the price of crude oil and other energy costs. The Company believes it will continue to be able to pass on a substantial portion of increases in fuel prices directly to its logistics customers in order to offset the impact of these increases. However, in some cases, the Company cannot pass on the impact of higher energy prices on its manufacturing costs, and increases in energy prices have resulted in higher costs for certain of the Company's operations. The Company cannot predict the impact that possible future energy price increases may have upon either future operating costs or customer demand and the related impact either will have on the Company's consolidated annual results of operations, financial position or cash flows.

Distribution

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

Postal costs are a significant component of many customers' cost structures and postal rate changes can influence the number of direct mail pieces that the Company's customers are willing to mail. In December 2006, the United States Congress passed the Postal Accountability and Enhancement Act (the Act). The Act provides a mechanism for controlling pricing that will replace a lengthy rate-setting process with more predictable, manageable price adjustments, held at or below the rate of inflation with a cap tied to the consumer price index. This new pricing mechanism has been established by the Postal Regulatory Commission and the next rate increase will be filed under this provision. A postal rate increase went into effect on May 14, 2007 that was prior to the effective date of the Act. Additionally, a postal rate increase will become effective in the second quarter of 2008, based on the new pricing process developed under the Act. As a leading provider of print logistics and the largest mailer of standard mail in the United States, the Company works closely with the U.S. Postal Service and its customers on programs to minimize costs and ensure the viability of postal distribution. While the Company does not absorb the impact of higher postal rates, demand for products distributed through the U.S. or foreign postal services may be impacted by changes in the postal rates.

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Customers

For each of the years ended December 31, 2007, 2006 and 2005, no customer accounted for 10% or more of the Company's consolidated net sales.

Research and Development

The Company has a research facility in Grand Island, New York that supports the development and implementation of new technologies to meet customer needs and improve operating efficiencies. The Company's cost for research and development activities is not material to the Company's consolidated annual results of operations, financial position or cash flows.

Environmental Compliance

The Company's overriding objective in the environmental area is to maintain compliance with laws and regulations. While it is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly remediation and other compliance efforts that the Company may undertake in the future, in the opinion of management, compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, will not have a material adverse effect on the Company's consolidated annual results of operations, financial position or cash flows.

Employees

As of December 31, 2007, the Company had approximately 65,000 employees.

Available Information

We maintain an Internet website at www.rdonnelley.com where our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are available without charge, as soon as reasonably practicable following the time they are filed with or furnished to the Securities and Exchange Commission (SEC). The Principles of Corporate Governance of the Company's Board of Directors, the charters of the Audit, Human Resources and Corporate Responsibility & Governance Committees of the Board of Directors and the Company's Principles of Ethical Business Conduct are also available on the Investor Relations portion of www.rdonnelley.com, and will be provided, free of charge, to any shareholder who requests a copy. References to the Company's website address do not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document.

In June 2007, the Company submitted to the New York Stock Exchange a certificate of the Chief Executive Officer of the Company certifying that he is not aware of any violation by the Company of New York Stock Exchange corporate governance listing standards. The Company also filed as exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 certificates of the Chief Executive Officer and Chief Financial Officer as required under Section 302 of the Sarbanes-Oxley Act.

Special Note Regarding Forward-Looking Statements

We have made forward-looking statements in this Annual Report on Form 10-K that are subject to risks and uncertainties. These statements are based on the beliefs and assumptions of the Company. Generally, forward-looking statements include information concerning possible or assumed future actions, events, or results of operations of the Company.

These statements may include, or be preceded or followed by, the words may, will, should, might, could, potential, possible, believe, anticipate, intend, plan, estimate, hope or similar expressions. The Company claims the protection of the Safe Harbor for Forward-Looking Statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements.

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Forward-looking statements are not guarantees of performance. The following important factors, in addition to those discussed elsewhere in this Annual Report on Form 10-K, could affect the future results of the Company and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements:

successful execution and integration of acquisitions and the performance of the Company's operations following the acquisitions of Astron, Asia Printers, Poligrafia, Spencer Press, Charlestown, CMCS, OfficeTiger, Banta, Perry Judd's, Von Hoffmann, Cardinal Brands and Pro Line successful negotiation of future acquisitions and the ability of the Company to integrate operations successfully and achieve enhanced earnings or effect cost savings;

the ability to implement comprehensive plans for the integration of sales forces, cost containment, asset rationalization, system integration and other key strategies;

the ability to divest non-core businesses;

future growth rates in the Company's core businesses;

competitive pressures in all markets in which the Company operates;

factors that affect customer demand, including changes in postal rates and regulations, changes in the capital markets that affect demand for financial printing, changes in advertising markets, the rate of migration from paper-based forms to digital formats, customers' budgetary constraints, and customers' changes in short-range and long-range plans;

the ability to gain customer acceptance of the Company's new products and technologies;

the ability to secure and defend intellectual property rights and, when appropriate, license required technology;

customer expectations;

performance issues with key suppliers;

changes in the availability or costs of key materials (such as ink, paper and fuel);

the ability to generate cash flow or obtain financing to fund growth;

the effect of inflation, changes in currency exchange rates and changes in interest rates;

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the effect of changes in laws and regulations, including changes in accounting standards, trade, tax, environmental compliance, health and welfare benefits, price controls and other regulatory matters and the cost of complying with these laws and regulations;

contingencies related to actual or alleged environmental contamination;

the retention of existing, and continued attraction of additional, customers and key employees;

the effect of a material breach of security of any of the Company's systems;

the effect of labor disruptions or labor shortages;

the effect of economic and political conditions on a regional, national or international basis;

the possibility of future terrorist activities or the possibility of a future escalation of hostilities in the Middle East or elsewhere;

the possibility of a regional or global health pandemic outbreak;

adverse outcomes of pending and threatened litigation; and

other risks and uncertainties detailed from time to time in the Company's filings with the SEC.

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Because forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Undue reliance should not be placed on such statements, which speak only as of the date of this document or the date of any document that may be incorporated by reference into this document.

Consequently, readers of this Annual Report on Form 10-K should consider these forward-looking statements only as our current plans, estimates and beliefs. We do not undertake to and specifically decline any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. We undertake no obligation to update or revise any forward-looking statements in this Annual Report on Form 10-K to reflect any new events or any change in conditions or circumstances.

ITEM 1A. RISK FACTORS

The Company's consolidated results of operations, financial position and cash flows can be adversely affected by various risks. These risks include, but are not limited to, the principal factors listed below and the other matters set forth in this Annual Report on Form 10-K. You should carefully consider all of these risks.

Risks Relating to the Businesses of the Company

Fluctuations in the costs of paper, ink, energy and other raw materials may adversely impact the Company.

Purchases of paper, ink, other raw materials, and energy represent a large portion of the Company's costs. Increases in the costs of these inputs may increase the Company's costs, and the Company may not be able to pass these costs on to customers through higher prices. Increases in the costs of materials may adversely impact our customers' demand for printing and related services.

The Company may be adversely affected by a decline in the availability of raw materials.

The Company is dependent on the availability of paper, ink, and other raw materials to support its operations. Unforeseen developments in these markets could result in a decrease in the supply of paper, ink or other raw materials and could cause a decline in the Company's revenues.

The financial condition of our customers may deteriorate.

Many of our customers participate in highly competitive markets, and their financial condition may deteriorate as a result. A decline in the financial condition of our customers could hinder the Company's ability to collect amounts owed by customers. In addition, such a decline could result in lower demand for the Company's products and services.

The Company may not be able to improve its operating efficiency rapidly enough to meet market conditions.

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

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

Achieving the anticipated benefits of acquisitions, including the 2007 acquisitions of Banta, Perry Judd's, Von Hoffmann and Cardinal Brands and the planned 2008 acquisition of Pro Line, will depend in part upon the Company's ability to integrate these businesses in an efficient and effective manner. The integration of companies that have previously operated independently

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may result in significant challenges, and the Company may be unable to accomplish the integration smoothly or successfully. In particular, the coordination of geographically dispersed organizations with differences in corporate cultures and management philosophies may increase the difficulties of integration. The integration of acquired businesses may also require the dedication of significant management resources, which may temporarily distract management's attention from the day-to-day operations of the Company. The process of integrating operations may also cause an interruption of, or loss of momentum in, the activities of one or more of the Company's businesses and the loss of key personnel from the Company or the acquired businesses. Employee uncertainty and lack of focus during the integration process may also disrupt the businesses of the Company or the acquired businesses. The Company's strategy is, in part, predicated on our ability to realize cost savings and to increase revenues through the acquisition of businesses that add to the breadth and depth of the Company's products and services. Achieving these cost savings and revenue increases is dependent upon a number of factors, many of which are beyond our control. In particular, the Company may not be able to realize the benefits of anticipated integration of sales forces, asset rationalization, systems integration, and more comprehensive product and service offerings.

The Company may be unable to hire and retain talented employees, including management.

The Company's success depends, in part, on our general ability to attract, develop, motivate and retain highly skilled employees. The loss of a significant number of the Company's employees or the inability to attract, hire, develop, train and retain additional skilled personnel could have a serious negative effect on the Company. Various locations may encounter competition with other manufacturers for skilled labor. Many of these competitors may be able to offer significantly greater compensation and benefits or more attractive lifestyle choices than the Company offers. In addition, many members of the Company's management have significant industry experience that is valuable to the Company's competitors. The Company enters into non-solicitation and, as appropriate, non-competition agreements with its executive officers, prohibiting them contractually from soliciting the Company's customers and employees and from leaving and joining a competitor within a specified period. If one or more members of our senior management team leave and we cannot replace them with a suitable candidate quickly, we could experience difficulty in managing our business properly, which could harm our business prospects and consolidated results of operations.

Costs to provide health care and other benefits to the Company's employees and retirees may increase.

The Company provides health care and other benefits to both employees and retirees. In recent years, costs for health care have increased more rapidly than general inflation in the U.S. economy. If this trend in health care costs continues, the Company's cost to provide such benefits could increase, adversely impacting the Company's profitability.

There are risks associated with operations outside the United States.

The Company has significant operations outside the United States. Revenues from the Company's operations outside the United States accounted for approximately 23% of the Company's consolidated net sales for the year ended December 31, 2007. As a result, the Company is subject to the risks inherent in conducting business outside the United States, including the impact of economic and political instability.

The Company is exposed to significant risks related to potential adverse changes in currency exchange rates.

The Company is exposed to market risks resulting from changes in the currency exchange rates of the currencies in the countries in which it does business. Although operating in local currencies may limit the impact of currency rate fluctuations on the operating results of our non-U.S. subsidiaries, fluctuations in such rates may affect the translation of these results into the Company's financial statements. To the extent revenues and expenses are not in the applicable local currency, the Company may enter into foreign currency forward contracts to hedge the currency risk. We cannot be sure, however, that the Company's efforts at hedging will be successful. There is always a possibility that attempts to hedge currency risks will lead to even greater losses than predicted.

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A decline in expected profitability of the Company or individual reporting units of the Company could result in the impairment of assets, including goodwill, other long-lived assets and deferred tax assets.

The Company holds material amounts of goodwill, other long-lived assets and deferred tax assets on its balance sheet. A decline in expected profitability, particularly a further decline in our business process outsourcing operations, could call into question the recoverability of our related goodwill, other long-lived assets, or deferred tax assets and require us to write down or write off these assets or, in the case of deferred tax assets, recognize a valuation allowance through a charge to income. Such an occurrence could have a material adverse effect on our consolidated results of operations and financial position.

Risks Related to Our Industry

The highly competitive market for the Company's products and industry consolidation may create adverse pricing pressures.

The markets for the majority of the Company's product categories are highly fragmented and the Company has a large number of competitors. We believe that excess capacity in the Company's markets has caused downward pricing pressure and increased competition and that this trend may continue. In addition, consolidation in the markets in which the Company competes may increase competitive pricing pressures.

The substitution of electronic delivery for printed materials may adversely affect our businesses.

Electronic delivery of documents and data, including the online distribution and hosting of media content, offer alternatives to traditional delivery of printed documents. Consumer acceptance of electronic delivery is uncertain, as is the extent to which consumers are replacing traditional reading of print materials with online, hosted media content, and we have no ability to predict the rates of acceptance of these alternatives. To the extent that our customers accept these alternatives, many of our products may be adversely affected.

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

The Company is subject to numerous rules and regulations, including, but not limited to, environmental and health and welfare benefit regulations. These rules and regulations may be changed by local, state or federal governments in countries in which the Company operates. Changes in these regulations may result in a significant increase in the Company's costs to comply. Compliance with changes in rules and regulations could require increases to the Company's workforce, increased cost for compensation and benefits, or investments in new or upgraded equipment.

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

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

Changes in the rules and regulations to which our customers are subject may impact demand for the Company's products and services.

Many of the Company's customers are subject to rules and regulations requiring certain printed or electronic communications, governing the form of such communications, and protecting the privacy of consumers. Changes in these regulations may impact our customers' business practices and could reduce demand for printed products and related services. Changes in such regulations could eliminate the need for certain types of printed communications altogether or such changes may impact the quantity or format of printed communications.

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Changes in postal rates and regulations may adversely impact demand for the Company's products and services.

Postal costs are a significant component of many of our customers' cost structures and postal rate changes can influence the number of pieces and types of mailings that the Company's customers mail. Any resulting decline in print volumes mailed could have an adverse effect on the Company's business.

Changes in the advertising, retail, and capital markets may impact the demand for printing and related services.

Many of the end markets in which our customers compete are experiencing changes due to technological progress and changes in consumer preferences. The Company cannot predict the impact that these changes will have on demand for the Company's products and services. Such changes may decrease demand, increase pricing pressures, require investment in updated equipment and technology, or cause other adverse impacts to the Company's business. In addition, the Company must monitor changes in our customers' markets and develop new solutions to meet customers' needs. The development of such solutions may be costly, and there is no assurance that these solutions will be accepted by customers.

ITEM 1B. UNRESOLVED STAFF COMMENTS

The Company has no unresolved written comments from the SEC staff regarding its periodic or current reports under the Exchange Act.

ITEM 2. PROPERTIES

The Company's corporate office is located in leased office space in Chicago, Illinois. In addition, as of December 31, 2007, the Company leases or owns 402 U.S. facilities, some of which have multiple buildings and warehouses, and these U.S. facilities encompass approximately 41.5 million square feet. The Company leases or owns 226 international facilities encompassing approximately 9.0 million square feet in Canada, Latin America, South America, Europe, and Asia. Of our U.S. and international facilities, approximately 32.0 million square feet of space is owned, while the remaining 18.5 million square feet of space is leased.

ITEM 3. LEGAL PROCEEDINGS

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

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From time to time, our customers and others file voluntary petitions for reorganization under United States bankruptcy laws. In such cases, certain pre-petition payments received by us could be considered preference items and subject to return to the bankruptcy administrator. Management believes that the final resolution of these preference items will not have a material adverse effect on the Company's consolidated annual results of operations, financial position or cash flows.

In addition, the Company is a party to certain litigation arising in the ordinary course of business that, in the opinion of management, will not have a material adverse effect on the Company's consolidated annual results of operations, financial position or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the three months ended December 31, 2007.

Table of Contents**EXECUTIVE OFFICERS OF R.R. DONNELLEY & SONS COMPANY**

Name, Age and Positions with the Company	Officer Since	Business Experience During Past Five Years
Thomas J. Quinlan, III 45, President and Chief Executive Officer	2004	Served as RR Donnelley's President and Chief Executive Officer since April 2007. Prior to this, served as RR Donnelley's Group President, Global Services since October 2006 and Chief Financial Officer since April 2006. Prior to this, served as Executive Vice President, Operations since February 2004. Prior to this, served in various capacities at Moore Wallace Incorporated* that included: Executive Vice President Business Integration since May 2003; Executive Vice President Office of the Chief Executive from January 2003 until May 2003; and Executive Vice President and Treasurer from December 2000 until December 2002.
Suzanne S. Bettman 43, Executive Vice President, General Counsel, Corporate Secretary & Chief Compliance Officer	2004	Served as RR Donnelley's Executive Vice President, General Counsel, Secretary and Chief Compliance Officer since January 2007. Served previously as Senior Vice President, General Counsel since March 2004. Prior to this, served as Group Managing Director, General Counsel of Huron Consulting Group LLC (a financial and operational consulting firm) from September 2002 to February 2004.
Andrew B. Coxhead 39, Senior Vice President, Controller and Chief Accounting Officer	2007	Served as Senior Vice President, Controller since October 2007. Prior to this, served as Vice President, Assistant Controller since September 2006. Prior to this, from 1995 until 2006, served in a series of assignments in financial planning, accounting, manufacturing management, operational finance and mergers and acquisitions.
Dan L. Knotts 43, Executive Vice President, Group President	2007	Served as RR Donnelley's Executive Vice President and Group President since April 2007. Prior to this, served as Chief Operating Officer, Global Print Solutions since January 2007. Prior to this, from 1986 until 2007, served in various capacities with RR Donnelley, including Group Executive Vice President, Operations, Publishing and Retail Services and President, Catalog/Retail/Magazine Solutions, RR Donnelley Print Solutions.
Miles W. McHugh 43, Executive Vice President and Chief Financial Officer	2006	Served as RR Donnelley's Executive Vice President and Chief Financial Officer since October 2007. Prior to this, served as Senior Vice President, Controller since June 2006. Prior to this, served as the Chief Financial Officer of RR Donnelley Logistics since 2004 and as Assistant Controller of RR Donnelley since October 2003. Served previously as Controller for DPL, Inc., parent company of the Dayton Power and Light Company.
John R. Paloian 49, Chief Operating Officer	2004	Served as RR Donnelley's Chief Operating Officer since April 2007. Served previously as Group President, Global Print Solutions since March 2004.

* Includes service with its predecessor, Moore Corporation Limited

Table of Contents**PART II****ITEM 5. MARKET FOR R.R. DONNELLEY & SONS COMPANY S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF SECURITIES**

RR Donnelley s common stock is listed and traded on the New York Stock Exchange and the Chicago Stock Exchange.

As of February 15, 2008, there were approximately 9,568 stockholders of record of our common stock. Quarterly prices of the Company s common stock, as reported on the New York Stock Exchange-Composite Transactions, and dividends paid per share during the years ended December 31, 2007 and 2006, are contained in the chart below:

	Common Stock Prices					
	Dividends Paid		2007		2006	
	2007	2006	High	Low	High	Low
First Quarter	\$ 0.26	\$ 0.26	\$ 38.71	\$ 34.58	\$ 34.82	\$ 31.05
Second Quarter	0.26	0.26	44.34	36.52	34.15	29.43
Third Quarter	0.26	0.26	45.25	32.59	34.85	28.50
Fourth Quarter	0.26	0.26	40.98	35.01	36.00	32.71

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c)	(d)
			Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
October 1, 2007 - October 31, 2007	1,000,917	\$ 37.42	1,000,000	6,411,900
November 1, 2007 - November 30, 2007	119,494	35.57	119,000	6,292,900
December 1, 2007 - December 31, 2007	52	37.93		6,292,900
Total	1,120,463	\$ 37.22	1,119,000	6,292,900

- (1) Includes shares withheld for tax liabilities upon vesting of equity awards and shares purchased pursuant to a 10b5-1 plan or pursuant to Rule 10b-18 in the amount set forth in column (c) hereto.
- (2) On February 22, 2006, the Company s Board of Directors authorized a share repurchase program of up to 10 million shares of the Company s common stock through a variety of methods, including open market purchases, block transactions, accelerated share repurchase agreements or private transactions. Following such authorization and prior to July 25, 2007, the Company repurchased 4 million shares. On July 25, 2007, the Board of Directors increased the share repurchase program by 4 million shares, taking the total number of shares authorized for repurchase back to 10 million shares. Subsequent to July 25, 2007 and through December 31, 2007, the Company repurchased approximately 3.7 million shares. As of December 31, 2007, the Company is authorized under the terms of its share repurchase program to repurchase approximately 6.3 million shares. Such purchases may be made from time to time and discontinued at any time. On February 22, 2008, the Board increased the share repurchase program by approximately 3.7 million shares, bringing the total number of shares authorized for repurchase back to 10 million shares.

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PEER PERFORMANCE TABLE

The graph below compares five-year returns of the Company's common stock with those of the S&P 500 Index and a selected peer group of companies. The figures assume all dividends have been reinvested, and assume an initial investment of \$100 on December 31, 2002. The returns of each company in the peer group have been weighted to reflect their market capitalizations.

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

Comparison of Cumulative Five Year Total Return

* Fiscal Year