Quad/Graphics, Inc.
Form 10-Q
November 06, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2013
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 001-34806
QUAD/GRAPHICS, INC.
(Exact name of registrant as specified in its charter)

Wisconsin	39-1152983
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
N61 W23044 Harry's Way, Sussex, Wisconsin 53089-3995	(414) 566-6000
(Address of principal executive offices) (Zip Code)	(Registrant's telephone number, including area code)

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 such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or 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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x
Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class	Outstanding as of October 31, 2013
Class A Common Stock	33,840,759
Class B Common Stock	14,198,464

Class C Common Stock	—

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For the Quarter Ended September 30, 2013

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PART I — FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements (Unaudited)

QUAD/GRAPHICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net sales				
Products	$1,055.3	$927.7	$3,005.9	$2,627.3
Services	150.7	112.0	440.4	336.2
Total net sales	1,206.0	1,039.7	3,446.3	2,963.5
Cost of sales				
Products	843.8	722.2	2,432.1	2,065.3
Services	106.4	75.9	321.7	246.5
Total cost of sales	950.2	798.1	2,753.8	2,311.8
Operating expenses				
Selling, general and administrative expenses	101.6	87.3	312.6	259.9
Depreciation and amortization	82.0	83.3	258.7	252.6
Restructuring, impairment and transaction-related charges	27.8	11.9	82.9	87.8
Total operating expenses	1,161.6	980.6	3,408.0	2,912.1
Operating income from continuing operations	$44.4	$59.1	$38.3	$51.4
Interest expense	20.9	21.7	64.1	63.8
Earnings (loss) from continuing operations before income taxes and equity in earnings (loss) of unconsolidated entities	23.5	37.4	(25.8)	(12.4)
Income tax expense (benefit)	10.4	(1.9)	1.3	(46.0)
Earnings (loss) from continuing operations before equity in earnings (loss) of unconsolidated entities	13.1	39.3	(27.1)	33.6
Equity in earnings (loss) of unconsolidated entities	(0.5)	0.4	(2.0)	0.7
Net earnings (loss) from continuing operations	$12.6	$39.7	$(29.1)	$34.3
Loss from discontinued operations, net of tax	—	—	—	(3.2)
Gain on disposal of discontinued operations, net of tax	—	—	—	35.3
Net earnings (loss)	$12.6	$39.7	$(29.1)	$66.4
Net loss attributable to noncontrolling interests	0.4	0.1	0.9	—
Net earnings (loss) attributable to Quad/Graphics common shareholders	$13.0	$39.8	$(28.2)	$66.4
Earnings (loss) per share attributable to Quad/Graphics common shareholders:				
Basic:				
Continuing operations	$0.27	$0.85	$(0.62)	$0.73

Discontinued operations	—	—	—	0.69
Earnings (loss) per share attributable to Quad/Graphics common shareholders	$0.27	$0.85	$(0.62)	$1.42
Diluted:				
Continuing operations	$0.26	$0.84	$(0.62)	$0.73
Discontinued operations	—	—	—	0.68
Earnings (loss) per share attributable to Quad/Graphics common shareholders	$0.26	$0.84	$(0.62)	$1.41
Weighted average number of common shares outstanding:				
Basic	47.0	46.8	46.9	46.8
Diluted	48.1	47.2	46.9	47.1

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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QUAD/GRAPHICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net earnings (loss)	$12.6	$39.7	$(29.1)	$66.4
Other comprehensive income (loss)				
Foreign currency translation adjustments	2.0	1.8	(17.4)	(0.4)
Postretirement benefit plan amendments, net of tax	—	9.7	—	14.2
Postretirement benefit plan curtailment, net of tax	—	(7.8)	—	(7.8)
Pension and other postretirement benefit liability amortization, net of tax	(0.8)	(0.7)	(2.5)	(1.3)
Total other comprehensive income (loss)	1.2	3.0	(19.9)	4.7
Total comprehensive income (loss)	13.8	42.7	(49.0)	71.1
Less: comprehensive loss attributable to noncontrolling interests	0.3	0.1	0.8	—
Comprehensive income (loss) attributable to Quad/Graphics common shareholders	$14.1	$42.8	$(48.2)	$71.1

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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QUAD/GRAPHICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions)
(UNAUDITED)

	September 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$20.3	$16.9
Receivables, less allowances for doubtful accounts of $67.8 at September 30, 2013 and $70.8 at December 31, 2012	700.2	585.1
Inventories	311.5	242.9
Prepaid expenses and other current assets	52.9	74.6
Deferred income taxes	67.2	55.7
Short-term restricted cash	6.1	14.8
Total current assets	1,158.2	990.0
Property, plant and equipment—net	1,946.5	1,926.4
Goodwill	765.3	768.6
Other intangible assets—net	202.3	229.9
Long-term restricted cash	49.9	45.7
Equity method investments in unconsolidated entities	61.6	72.0
Other long-term assets	64.8	66.3
Total assets	$4,248.6	$4,098.9
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	$370.1	$285.8
Amounts owing in satisfaction of bankruptcy claims	2.5	9.3
Accrued liabilities	349.8	334.0
Short-term debt and current portion of long-term debt	133.7	113.3
Current portion of capital lease obligations	7.5	10.4
Total current liabilities	863.6	752.8
Long-term debt	1,388.7	1,211.7
Unsecured notes to be issued	18.1	23.8
Capital lease obligations	8.1	15.3
Deferred income taxes	373.8	363.9
Other long-term liabilities	435.3	495.7
Total liabilities	3,087.6	2,863.2
Commitments and contingencies (Note 11)		
Quad/Graphics common stock and other equity (Note 20)		
Preferred stock	—	—
Common stock, Class A	1.0	1.0
Common stock, Class B	0.4	0.4
Common stock, Class C	—	—
Additional paid-in capital	977.2	985.6
Treasury stock, at cost	(250.4)	(279.3)
Retained earnings	513.6	588.1

Accumulated other comprehensive loss	(80.3)	(60.4)
Quad/Graphics common stock and other equity	1,161.5	1,235.4
Noncontrolling interests	(0.5)	0.3
Total common stock and other equity and noncontrolling interests	1,161.0	1,235.7
Total liabilities and shareholders' equity	$4,248.6	$4,098.9

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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QUAD/GRAPHICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(UNAUDITED)

	Nine Months Ended September 30,	
	2013	2012
OPERATING ACTIVITIES		
Net earnings (loss)	$(29.1)	$66.4
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation and amortization	258.7	252.6
Impairment charges	18.5	14.5
Amortization of debt issuance costs	3.1	3.4
Stock-based compensation charges	13.5	10.2
Curtailment gain on postretirement benefit plan	—	(12.8)
Gain on disposal of discontinued operations, net of tax	—	(35.3)
Loss on sales or disposal of property, plant and equipment	0.1	1.4
Deferred income taxes	(1.2)	(21.1)
Equity in (earnings) loss of unconsolidated entities	2.0	(0.7)
Dividends from unconsolidated entities	5.0	0.5
Changes in operating assets and liabilities—net of acquisitions	(51.2)	(46.9)
Net cash provided by operating activities	219.4	232.2
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(117.6)	(85.3)
Cost investment in unconsolidated entities	(2.5)	(18.1)
Proceeds from the sale of property, plant and equipment	6.4	13.5
Transfers from restricted cash	4.5	13.7
Deposit refunded related to business exchange transaction (Note 4)	—	50.0
Purchase price payments on business exchange transaction (Note 4)	—	(4.2)
Acquisition of Vertis—net of cash acquired (Note 3)	(235.4)	—
Acquisition of other businesses—net of cash acquired	(1.5)	(6.6)
Net cash used in investing activities	(346.1)	(37.0)
FINANCING ACTIVITIES		
Payments of long-term debt	(73.4)	(49.1)
Payments of capital lease obligations	(7.9)	(18.0)
Borrowings on revolving credit facilities	1,225.9	95.0
Payments on revolving credit facilities	(971.8)	(175.6)
Bankruptcy claim payments on unsecured notes to be issued	(4.5)	(13.3)
Proceeds from issuance of common stock	6.5	0.1
Tax benefit on stock option activity	0.5	—
Payment of cash dividends	(42.0)	(35.1)
Net cash provided by (used in) financing activities	133.3	(196.0)
Effect of exchange rates on cash and cash equivalents	(3.2)	(6.2)
Net increase (decrease) in cash and cash equivalents	3.4	(7.0)
Cash and cash equivalents at beginning of period	16.9	25.6
Cash and cash equivalents at end of period	$20.3	$18.6

SUPPLEMENTAL CASH FLOW INFORMATION	
Acquisition of Vertis (Note 3):	
Fair value of assets acquired—net of cash	$327.3
Liabilities assumed	(66.0)
Deposit paid in 2012 related to Vertis acquisition	(25.9)
Acquisition of Vertis—net of cash acquired	$235.4

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

QUAD/GRAPHICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013
(In millions, except share and per share data and unless otherwise indicated)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements for Quad/Graphics, Inc. and its subsidiaries (the "Company" or "Quad/Graphics") have been prepared by the Company pursuant to the rules and regulations for interim financial information of the United States Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to such SEC rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated annual financial statements as of and for the year ended December 31, 2012, and notes thereto included in the Company's latest Annual Report on Form 10-K filed with the SEC on March 8, 2013.

The Company's business is seasonal, with the majority of historical net sales and operating income recognized in the second half of the fiscal year. Seasonality is driven by increased magazine advertising page counts and retail inserts and catalogs primarily due to back-to-school and holiday related advertising and promotions. Within any year, seasonality could adversely impact the Company's cash flow and results of operations on a quarterly basis.

The financial information contained herein reflects all adjustments, in the opinion of management, necessary for a fair presentation of the Company's results of operations for the three and nine months ended September 30, 2013 and 2012. All significant intercompany transactions have been eliminated in consolidation. These unaudited condensed consolidated 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.

On January 16, 2013, the Company completed the acquisition of substantially all of the assets of Vertis Holdings, Inc. ("Vertis") pursuant to the terms of the Asset Purchase Agreement (the "Asset Agreement") dated October 10, 2012. Vertis' results of operations, assets acquired and liabilities assumed per the terms of the Asset Agreement are included in the Company's results of operations, financial position and cash flows prospectively as of the January 16, 2013 acquisition date. The operations of Vertis are included in the United States Print and Related Services segment. See Note 3 for additional information about this acquisition.

On March 1, 2012, the sale of the Company's Canadian operations was completed. The results of operations of the Company's Canadian operations were reported as discontinued operations. During the nine months ended September 30, 2012, a gain on disposal of discontinued operations was also recorded. In accordance with the authoritative literature, the Company has elected to not separately disclose the cash flows related to the Canadian discontinued operations. See Note 4 for additional information about the Company's sale of the Canadian operations.

Note 2. Recent Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board ("FASB") issued new guidance on the accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or group of assets within a foreign entity or of an investment in a foreign entity. Under this new guidance, the release of cumulative translation adjustments into net income is required when an entity ceases to have a controlling financial interest resulting in the complete or substantially complete liquidation of a subsidiary or group of assets within a foreign entity. This guidance is effective prospectively for fiscal years beginning after December 15, 2013, with early adoption permitted. The Company has adopted this guidance and determined that it did not have a material impact on the Company's condensed consolidated financial position, results of operations or cash flows.

In February 2013, the FASB issued new guidance on the disclosure requirements for items reclassified out of accumulated other comprehensive income. Under this new guidance, an entity is required to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. The Company adopted this guidance effective January 1, 2013. The adoption of this guidance does not change the current

(In millions, except share and per share data and unless otherwise indicated)

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requirements for reporting net income or other comprehensive income, and did not have a material impact on the Company's condensed consolidated financial position, results of operations or cash flows. See Note 21 for the required disclosure.

Note 3. Acquisitions and Strategic Investments

2013 Acquisitions and Strategic Investments

On January 16, 2013, the Company completed the acquisition of substantially all of the assets of Vertis for $265.4 million, which included the payment of $95.4 million for current assets that were in excess of normalized working capital requirements, pursuant to the terms of the Asset Agreement. Vertis was a leading provider of retail advertising inserts, direct marketing and in-store marketing solutions. The acquisition of Vertis enhanced the Company's position as a leader in the production of retail advertising inserts, direct marketing and in-store marketing solutions that the Company can provide to its clients and enhanced its integrated offerings. The purchase of Vertis was accounted for using the acquisition method of accounting under GAAP. As an asset acquisition, the Company did not acquire certain assets and assume certain liabilities of Vertis and its subsidiaries in the transaction, including, among other liabilities, their underfunded pension and retirement obligations. The Company used cash on hand and borrowings under its revolving credit facility to finance the acquisition.

The Company made a $25.9 million deposit in October 2012, in accordance with the terms of the Asset Agreement. This deposit was applied to the purchase price upon the January 16, 2013 consummation of the acquisition. As of December 31, 2012, the deposit was classified in prepaid expenses and other current assets in the consolidated balance sheet.

The following unaudited pro forma combined financial information presents the Company's results as if the Company had acquired Vertis on January 1, 2012. The unaudited pro forma information has been prepared with the following considerations:

(1) The unaudited pro forma condensed consolidated financial information has been prepared using the acquisition method of accounting under existing GAAP. The Company is the acquirer for accounting purposes.

(2) The pro forma combined financial information does not reflect any operating cost synergy savings that the combined company may achieve as a result of the acquisition, the costs necessary to achieve these operating synergy savings or additional charges necessary as a result of the integration.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013 (actual)	2012 (pro forma)	2013 (pro forma)	2012 (pro forma)
Pro forma net sales	$1,206.0	$1,293.6	$3,484.4	$3,743.4
Pro forma net earnings (loss) from continuing operations attributable to common shareholders	13.0	38.2	(32.0)	30.5
Pro forma diluted earnings (loss) per share from continuing operations attributable to common shareholders	0.26	0.81	(0.70)	0.65

During the period under Quad/Graphics ownership, Vertis' financial results were included in the condensed consolidated statements of operations. Disclosure of the financial results of Vertis since the acquisition date is not practicable as it is not being operated as a standalone business, and has been combined with the Company's existing operations.

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QUAD/GRAPHICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013
(In millions, except share and per share data and unless otherwise indicated)

The Company recorded the allocation of the purchase price to tangible and identifiable assets acquired and liabilities assumed, including certain contingent liabilities, based on their fair values as of the January 16, 2013 acquisition date. The purchase price allocation is as follows:

	Purchase Price Allocation
Cash and cash equivalents	$4.1
Accounts receivable	133.4
Other current assets	40.5
Property, plant and equipment	127.8
Identifiable intangible assets	25.6
Current liabilities	(54.0)
Other long-term liabilities	(12.0)
Purchase price	$265.4

The allocation of the purchase price and unaudited pro forma condensed consolidated financial information is based on valuations performed to determine the fair value of the net assets as of the acquisition date. The Company completed the purchase price allocation as of September 30, 2013. The purchase price allocation was recorded in the United States Print and Related Services segment. The valuation of the net assets acquired of $265.4 million was classified as Level 3 in the valuation hierarchy (see Note 15 for the definition of Level 3 inputs). Identifiable customer relationship intangible assets are amortized on a straight-line basis over six years.

2012 Acquisitions and Strategic Investments

On March 28, 2012, the Company entered into a strategic partnership with India-based Manipal Technologies Limited ("ManipalTech") whereby Quad/Graphics paid $18.1 million for a minority equity ownership interest in ManipalTech. ManipalTech is one of India's largest providers of printing services and supports clients' marketing, branding and communication needs through print services and technology solutions. The Company's investment in ManipalTech is accounted for as a cost method investment and is recorded within other long-term assets in the condensed consolidated balance sheets.

Note 4. Discontinued Operations

On March 1, 2012, the Company completed the sale of its Canadian operations to Transcontinental Inc. ("Transcontinental"). The Company sold its Canadian operations in exchange for acquiring 100% of Transcontinental's Mexican operations. In addition, Transcontinental assumed pension and post-retirement obligations pertaining to approximately 1,500 Canadian employees, located among the seven facilities sold to Transcontinental.

In connection with the acquisition of Transcontinental's Mexican operations, the definitive agreement required the Company to deposit 50.0 million Canadian dollars with Transcontinental until the Canadian operations sale was completed. The Company elected to hedge the foreign currency exchange rate exposure related to the 50.0 million Canadian dollar deposit by entering into short-term foreign currency forward exchange contracts. The Company hedged this foreign currency exposure until the March 1, 2012 sale of the Canadian net assets and refund of the 50.0 million Canadian dollar deposit occurred. During the nine months ended September 30, 2012, $1.6 million of realized mark-to-market losses on the derivative contracts were offset by $1.6 million of transaction gains on translation of the foreign currency denominated deposit within selling, general and administrative expenses. The fair value determination of the foreign currency forward exchange contracts was categorized as Level 2 in the fair value hierarchy (see Note 15 for the definition of Level 2 inputs).

(In millions, except share and per share data and unless otherwise indicated)

The gain on disposal of discontinued operations, net of tax, recognized during the nine months ended September 30, 2012, was determined as follows:

	Gain on Disposal of Discontinued Operations, net of tax
Fair value of the acquired Transcontinental Mexican operations	$63.6
Cash paid to Transcontinental	(5.4)
Net proceeds	$58.2
Net assets of discontinued operations	(26.3)
Cumulative translation adjustment of discontinued operations	3.4
Gain on disposal of discontinued operations, net of tax[(1)]	$35.3

(1) For tax purposes the disposal of discontinued operations resulted in a long-term capital loss, for which a deferred tax asset was recorded. An offsetting valuation allowance against the deferred tax asset was recorded to reflect the expected value at which the asset will be recovered.

As the sale of the Canadian operations was completed on March 1, 2012, there were no results of operations of the Canadian operations during the three and nine months ended September 30, 2013. The following table summarizes the results of operations of the Canadian operations, which were included in the loss from discontinued operations, net of tax, in the condensed consolidated statements of operations for the nine months ended September 30, 2012:

	Nine Months Ended September 30, 2012
Total net sales	$32.2
Loss from discontinued operations before income taxes	(3.2)
Income tax expense	—
Loss from discontinued operations, net of tax	$(3.2)

Prior to the March 1, 2012 closing, the Company continued to execute restructuring events related to plant closures, workforce reductions and other restructuring initiatives, as well as transaction costs related to the sale of the Canadian operations. Due to these initiatives, the Company recognized $1.7 million in restructuring, impairment and transaction-related costs for the nine months ended September 30, 2012, within discontinued operations in the condensed consolidated statements of operations.

QUAD/GRAPHICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013
(In millions, except share and per share data and unless otherwise indicated)

Note 5. Restructuring, Impairment and Transaction-Related Charges

The Company recorded restructuring, impairment and transaction-related charges for the three and nine months ended September 30, 2013 and 2012, as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Employee termination charges	$4.9	$1.4	$12.6	$22.0
Impairment charges	8.8	0.4	18.5	14.5
Transaction-related charges	0.3	0.5	3.5	2.8
Integration costs	6.2	13.5	21.3	36.6
Other restructuring charges	7.6	(3.9)	27.0	11.9
Total	$27.8	$11.9	$82.9	$87.8

The costs related to these activities have been recorded on the condensed consolidated statements of operations as restructuring, impairment and transaction-related charges. See Note 22 for restructuring, impairment and transaction-related charges by segment.

Restructuring Charges

The Company began a restructuring program in 2010 related to eliminating excess manufacturing capacity and properly aligning its cost structure as part of the integration of the July 2, 2010 acquisition of World Color Press Inc. ("World Color Press"). The Company has since expanded its restructuring program to include the cost reduction programs associated with the September 8, 2011 Transcontinental Mexico acquisition, the January 16, 2013 Vertis acquisition as well as other cost reduction programs.

During the nine months ended September 30, 2013, the Company announced the closures of the Bristol, Pennsylvania, Dubuque, Iowa, Pittsburg, California, and Vancouver, British Columbia, Canada plants. Since 2010, the Company has announced a total of 19 plant closures and has reduced headcount by approximately 6,700. As a result of these restructuring programs, the Company recorded the following charges for the three and nine months ended September 30, 2013 and 2012:

- Employee termination charges of $4.9 million and $12.6 million during the three and nine months ended September 30, 2013, respectively, and $1.4 million and $22.0 million during the three and nine months ended September 30, 2012, respectively. The Company reduced its workforce through facility consolidations and involuntary separation programs.

- Integration costs of $6.2 million and $21.3 million during the three and nine months ended September 30, 2013, respectively, and $13.5 million and $36.6 million during the three and nine months ended September 30, 2012, respectively. Integration costs were primarily related to preparing existing facilities to meet new production requirements resulting from work transferring from closed plants, as well as other costs related to the integration of the acquired companies.

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Other restructuring charges of $7.6 million and $27.0 million during the three and nine months ended September 30, 2013, respectively, consisted of: (1) $2.2 million and $12.1 million, respectively, of vacant facility carrying costs, (2) $0.9 million and $5.7 million, respectively, of equipment and infrastructure removal costs from closed plants and (3) $4.5 million and $9.2 million, respectively, of lease exit charges. Other restructuring charges of $(3.9) million and $11.9 million during the three and nine months ended September 30, 2012, respectively, included: (1) $6.7 million and $15.8 million, respectively, of vacant facility carrying costs, (2) $1.5 million and $6.7 million, respectively, of equipment and infrastructure removal costs from closed plants and (3) $0.7 million and $4.6 million, respectively, of lease exit charges. Other restructuring charges are presented net of gains of $12.8 million and $15.2 million during the three and nine months ended September 30, 2012, respectively, consisting of a $12.8 million curtailment gain resulting from an amendment to the postretirement medical benefit plan during the three months ended September 30, 2012, and a $2.4 million gain on the collection of a note receivable related to a settlement of a disputed pre-acquisition World Color Press note receivable during the three months ended March 31, 2012.

(In millions, except share and per share data and unless otherwise indicated)

The restructuring charges recorded are based on plans that have been committed to by management and are, in part, based upon management's best estimates of future events. Changes to the estimates may require future restructuring charges and adjustments to the restructuring liabilities. The Company expects to incur additional restructuring charges related to these and other initiatives.

Impairment Charges

The Company recognized impairment charges of $8.8 million and $18.5 million during the three and nine months ended September 30, 2013, respectively, consisting of: (1) $6.4 million and $11.0 million, respectively, of machinery and equipment impairment charges related to facility consolidations including Dubuque, Iowa, Jonesboro, Arkansas, Pittsburg, California and Vancouver, British Columbia, as well as other capacity reduction restructuring initiatives and (2) $2.4 million and $7.5 million, respectively, of land and building impairment charges primarily related to the Corinth, Mississippi and Mexico City, Mexico plant closures.

The Company recognized impairment charges of $0.4 million and $14.5 million during the three and nine months ended September 30, 2012, respectively, consisting of: (1) $0.4 million and $7.1 million, respectively, of machinery and equipment impairment charges related to facility consolidations and other capacity reduction restructuring initiatives and (2) $7.4 million of land and building impairment charges primarily related to the Pila, Poland and Stillwater, Oklahoma plant closures during the nine months ended September 30, 2012.

The fair values of the impaired assets were determined by the Company to be Level 3 under the fair value hierarchy (see Note 15 for the definition of Level 3 inputs) and were estimated based on broker quotes and internal expertise related to current marketplace conditions. These assets were adjusted to their estimated fair values at the time of impairment.

Transaction-Related Charges

The Company incurs transaction-related charges primarily consisting of professional service fees for business acquisition and divestiture activities, including the transaction with Transcontinental and the acquisition of Vertis. The Company recognized transaction-related charges of $0.3 million and $3.5 million during the three and nine months ended September 30, 2013, respectively, which primarily includes fees for the acquisition of Vertis. The Company recognized transaction-related charges of $0.5 million and $2.8 million during the three and nine months ended September 30, 2012, respectively, which primarily includes fees for the transaction with Transcontinental. The transaction-related charges were expensed as incurred in accordance with the applicable accounting guidance on business combinations.

Reserves for Restructuring, Impairment and Transaction-Related Charges

Activity impacting the Company's reserves for restructuring, impairment and transaction-related charges for the nine months ended September 30, 2013, was as follows:

	Employee	Impairment	Transaction-Related	Integration	Other	Total

	Termination Charges	Charges	Charges	Costs	Restructuring Charges	
Balance at December 31, 2012	$6.1	$—	$ 0.9	$3.5	$22.8	$33.3
Expense	12.6	18.5	3.5	21.3	27.0	82.9
Cash payments	(14.6)	—	(4.2)	(20.7)	(28.4)	(67.9)
Non-cash adjustments	—	(18.5)	—	—	(0.7)	(19.2)
Balance at September 30, 2013	$4.1	$—	$ 0.2	$4.1	$20.7	$29.1

These reserves are classified as current liabilities in the condensed consolidated balance sheets as the Company expects to complete these restructuring program actions within the next twelve months.

(In millions, except share and per share data and unless otherwise indicated)

Note 6. Goodwill and Other Intangible Assets

Goodwill is tested annually for impairment as of October 31, or more frequently if events or changes in circumstances indicate that it is more likely than not that the fair value of a reporting unit is below its carrying value. No indications of impairment were identified during the nine months ended September 30, 2013. Goodwill at September 30, 2013 and December 31, 2012, did not include any accumulated impairment losses. No goodwill impairment was recorded during the nine months ended September 30, 2013 or 2012.

Activity impacting the Company's goodwill for the nine months ended September 30, 2013, was as follows:

	United States Print and Related Services	International	Total
Balance at December 31, 2012	$738.2	$30.4	$768.6
Sale of business (See Note 10)	—	(0.5)	(0.5)
Translation adjustment	—	(2.8)	(2.8)
Balance at September 30, 2013	$738.2	$27.1	$765.3

During the nine months ended September 30, 2013, there was a $25.6 million increase in the customer relationships intangible asset related to the Vertis acquisition (see Note 3). The components of other intangible assets at September 30, 2013 and December 31, 2012, were as follows:

	September 30, 2013				December 31, 2012			
	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization and Foreign Exchange	Net Book Value	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization and Foreign Exchange	Net Book Value
Finite-lived intangible assets:								
Trademarks, patents, licenses and agreements	5	$10.7	$ (9.6)	$1.1	5	$10.5	$ (9.4)	$1.1
Customer relationships	6	409.2	(210.4)	198.8	6	383.6	(158.7)	224.9
Capitalized software	5	4.1	(3.3)	0.8	5	4.1	(2.6)	1.5
Acquired technology	5	8.0	(6.4)	1.6	5	8.0	(5.6)	2.4
Total finite-lived intangible assets		$432.0	$ (229.7)	$202.3		$406.2	$ (176.3)	$229.9

(In millions, except share and per share data and unless otherwise indicated)

Amortization expense for other intangible assets was $17.5 million and $52.6 million for the three and nine months ended September 30, 2013, respectively, and $16.5 million and $49.7 million for the three and nine months ended September 30, 2012, respectively. The following table outlines the estimated future amortization expense related to intangible assets as of September 30, 2013:

	Amortization Expense
Remainder of 2013	$17.5
2014	69.5
2015	68.8
2016	37.1
2017	4.8
2018 and thereafter	4.6
Total	$202.3

Note 7. Inventories

The components of the Company's inventories at September 30, 2013 and December 31, 2012, were as follows:

	September 30, 2013	December 31, 2012
Raw materials and manufacturing supplies	$187.4	$154.2
Work in process	61.7	45.1
Finished goods	62.4	43.6
Total	$311.5	$242.9

Note 8. Property, Plant and Equipment

The components of the Company's property, plant and equipment at September 30, 2013 and December 31, 2012, were as follows:

	September 30, 2013	December 31, 2012
Land	$146.1	$136.1
Buildings	925.7	904.6
Machinery and equipment	3,508.6	3,415.0
Other	216.6	208.7
Construction in progress	59.5	28.2
	4,856.5	4,692.6
Less: accumulated depreciation	(2,910.0)	(2,766.2)
Total	$1,946.5	$1,926.4

Other consists of computer equipment, vehicles, furniture and fixtures, leasehold improvements and communication related equipment. During the nine months ended September 30, 2013, there was a $127.8 million increase in property, plant and equipment related to the Vertis acquisition (see Note 3).

The Company recorded impairment charges of $8.8 million and $18.5 million for the three and nine months ended September 30, 2013, respectively, and $0.4 million and $14.5 million for the three and nine months ended September 30, 2012, respectively, to reduce the carrying amounts of certain buildings and production equipment no longer utilized to fair value (see Note 5).

(In millions, except share and per share data and unless otherwise indicated)

The Company recognized depreciation expense of $64.5 million and $206.1 million for the three and nine months ended September 30, 2013, respectively, and $66.8 million and $202.9 million for the three and nine months ended September 30, 2012, respectively.

Assets Held for Sale

Certain closed facilities are considered held for sale. The net book value of the assets held for sale was $6.9 million and $4.2 million as of September 30, 2013 and December 31, 2012, respectively. These assets were valued at their fair value, less the estimated costs to sell. The fair values were determined by the Company to be Level 3 under the fair value hierarchy (see Note 15 for the definition of Level 3 inputs) and were estimated based on broker quotes and internal expertise related to current marketplace conditions. Assets held for sale are included in prepaid expenses and other current assets in the condensed consolidated balance sheets.

Note 9. Restricted Cash

The components of the Company's restricted cash at September 30, 2013 and December 31, 2012, were as follows:

	September 30, 2013	December 31, 2012
Defeasance of unsecured notes to be issued (see Note 12)	$56.0	$60.5
Less: short-term restricted cash	(6.1)	(14.8)
Long-term restricted cash	$49.9	$45.7

Note 10. Equity Method Investments in Unconsolidated Entities

The Company has a 49% ownership interest in Plural Editora e Gráfica ("Plural"), a commercial printer based in São Paulo, Brazil, and a 50% ownership interest in Quad/Graphics Chile S.A. ("Chile"), a commercial printer based in Santiago, Chile. The Company's ownership interest in Plural and Chile is accounted for using the equity method of accounting for all periods presented. The Company's equity earnings of Plural's and Chile's operations are recorded in equity in earnings (loss) of unconsolidated entities in the Company's condensed consolidated statements of operations, and is included within the International segment.

On January 1, 2013, the Company sold 100% of its ownership interest in two wholly-owned Brazilian entities (Quad/Graphics Nordeste Industria Gráfica LTDA. and Quad/Graphics São Paulo Industria Gráfica S.A.) to Plural for a purchase price of $4.9 million (recorded in receivables in the Company's condensed consolidated balance sheets). Quad/Graphics retained ownership of the land and building which are leased to Plural. The Company recorded a $1.7 million gain on the sale during the nine months ended September 30, 2013, which is recorded within selling, general and administrative expenses in the Company's condensed consolidated statements of operations. As a result of the sale to Plural, the Company no longer controls these entities (the Company now owns 49% of these entities through its ownership interest in Plural), and thus the assets and liabilities of the entities sold have been deconsolidated in accordance with GAAP. Since the sale to Plural, the Company's ownership interest in the results of operations of these entities are included in equity in earnings (loss) of unconsolidated entities in the condensed consolidated statements of operations.

The combined condensed statements of operations for Plural and Chile for the three and nine months ended September 30, 2013 and 2012, are presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net sales	$48.7	$44.5	$157.7	$140.7
Operating income (loss)	(0.7)	1.9	(1.4)	3.8
Net earnings (loss)	(1.0)	0.6	(3.5)	0.7

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Note 11. Commitments and Contingencies

Litigation

In the normal course of business, the Company is named as a defendant in various lawsuits in which claims are asserted against the Company. In the opinion of management, the liabilities, if any, which may ultimately result from such lawsuits are not expected to have a material impact on the condensed consolidated financial statements of the Company.

Environmental Reserves

The Company is subject to various laws, regulations and government policies relating to health and safety, to the generation, storage, transportation, and disposal of hazardous substances, and to environmental protection in general. The Company provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. Such reserves are adjusted as new information develops or circumstances change. The environmental reserves are not discounted. The Company believes it is in compliance with such laws, regulations and government policies in all material respects. Furthermore, the Company does not anticipate that maintaining compliance with such environmental statutes will have a material impact upon the Company's competitive or consolidated financial position.

Note 12. World Color Press Insolvency Proceedings

The Company continues to manage the bankruptcy claim settlement process for the Quebecor World Inc. ("QWI") bankruptcy proceedings in the United States and Canada (QWI changed its name to "World Color Press Inc." upon emerging from bankruptcy on July 21, 2009). To the extent claims are allowed, the holders of such claims are entitled to receive recovery, with the nature of such recovery dependent upon the type and classification of such claims. In this regard, with respect to certain types of claims, the holders thereof are entitled to receive cash and/or unsecured notes, while the holders of certain other types of claims are entitled to receive a combination of Quad/Graphics common stock and cash, in accordance with the terms of the World Color Press acquisition agreement.

With respect to claims asserted by the holders thereof as being entitled to a priority cash recovery, the Company has estimated that approximately $2.5 million and $9.3 million of such recorded claims have yet to be paid as of September 30, 2013 and December 31, 2012, respectively, and this obligation is classified as amounts owing in satisfaction of bankruptcy claims in the condensed consolidated balance sheets.

With respect to unsecured claims held by creditors of the operating subsidiary debtors of Quebecor World (USA) Inc. (the "Class 3 Claims"), each allowed Class 3 Claim will be entitled to receive an unsecured note in an amount not to exceed 50% of such creditor's allowed Class 3 Claim, provided, however, that the aggregate principal amount of all such unsecured notes cannot exceed $75.0 million. In the event that the total of all allowed Class 3 Claims exceeds $150.0 million, each creditor holding an allowed Class 3 Claim will receive its pro rata share of $75.0 million of the unsecured notes issued, together with accrued interest and a 5% prepayment redemption premium thereon (the total of which is $89.2 million). In connection with the World Color Press acquisition, the Company was required to deposit the maximum potential payout to the Class 3 Claim creditors of $89.2 million with a trustee, and that amount will remain with the trustee until either (1) it is paid to a creditor for an allowed Class 3 Claim or (2) upon all Class 3

Claims being resolved any excess amount will revert to the Company. In the nine months ended September 30, 2013, $4.5 million was paid to Class 3 Claim creditors. At September 30, 2013, $56.0 million remains and is classified as restricted cash in the condensed consolidated balance sheets (see Note 9). Based on the Company's analysis of the outstanding claims, the Company has a liability of $18.1 million at September 30, 2013, classified as unsecured notes to be issued in the condensed consolidated balance sheets.

(In millions, except share and per share data and unless otherwise indicated)

	Restricted Cash	Unsecured Notes to be Issued
Balance at December 31, 2012	$60.5	$23.8
Class 3 Claim payments during 2013	(4.5)	(4.5)
Non-cash adjustments	—	(1.2)
Balance at September 30, 2013	$56.0	$18.1

While the liabilities recorded for any bankruptcy matters are based on management's current assessment of the amount likely to be paid, it is not possible to identify the final amount of priority cash claims or the amount of Class 3 Claims that will ultimately be allowed by the U.S. Bankruptcy Court. Therefore, amounts owing in satisfaction of bankruptcy claims on the condensed consolidated balance sheets could be materially higher than the amounts estimated, which would require additional cash payments to be made for the amount exceeding the Company's estimate. Amounts payable related to the unsecured notes could reach the maximum aggregate principal amount of $75.0 million, which would not require an additional cash payment as the maximum potential exposure has already been funded in trust, but would require additional liability and expense to be recorded as the Company's estimate of total Class 3 Claim liability is $51.3 million ($33.2 million paid plus the $18.1 million remaining estimated liability as of September 30, 2013). In light of the substantial number and amount of claims filed, the claims resolution process will take considerable time to complete.

Note 13. Debt

Long-term debt consisted of the following as of September 30, 2013, and December 31, 2012:

	September 30, 2013	December 31, 2012
Master note and security agreement	$505.6	$553.9
Term loan A—$450.0 million	427.5	444.4
Term loan B—$200.0 million	195.3	196.7
Revolving credit facility—$850.0 million	307.7	50.0
International term loan—$77.0 million	59.0	63.3
International revolving credit facility—$16.0 million	3.8	6.8
Equipment term loans	16.8	—
Other	6.7	9.9
Total debt	$1,522.4	$1,325.0
Less: short-term debt and current portion of long-term debt	(133.7)	(113.3)
Long-term debt	$1,388.7	$1,211.7

During 2013, the Company refinanced certain equipment leases with $16.8 million in equipment term loans secured by the formerly leased equipment. The equipment term loans bear interest at a fixed rate of 4.75%, require quarterly payments and have five year terms expiring during 2018. The purchase of these assets and the $16.8 million of equipment term loans are non-cash investing and financing activities.

Based upon the interest rates available to the Company for borrowings with similar terms and maturities, the fair value of the Company's total debt was approximately $1.5 billion at September 30, 2013. The fair value determination of the

Company's total debt was categorized as Level 2 in the fair value hierarchy (see Note 15 for the definition of Level 2 inputs).

As of September 30, 2013, the Company's various lending arrangements included certain financial covenants (all financial terms, numbers and ratios are as defined in the Company's debt agreements). Among these covenants, the Company was required to maintain the following as of September 30, 2013 (for each covenant, the most restrictive measurement has been included below):

- On a rolling twelve-month basis, the total leverage ratio, defined as total consolidated debt to consolidated EBITDA (as defined in the debt agreement), shall not exceed 3.50 to 1.00 (for the twelve months ended September 30, 2013, the Company's leverage ratio was 2.65 to 1.00).
- On a rolling twelve-month basis, the minimum interest coverage ratio, defined as consolidated EBITDA to consolidated cash interest expense, shall not be less than 3.50 to 1.00 (for the twelve months ended September 30, 2013, the Company's interest coverage ratio was 7.33 to 1.00).
- On a rolling twelve-month basis, the fixed charge coverage ratio, defined as consolidated EBITDA and rent expense to interest and rent expense, shall not be less than 1.50 to 1.00 (for the twelve months ended September 30, 2013, the Company's fixed charge coverage ratio was 3.95 to 1.00).
- Consolidated net worth of at least $780.8 million (as of September 30, 2013, the Company's consolidated net worth under the most restrictive covenant per the various debt agreements was $1.10 billion).

In addition to those covenants, the $1.5 billion debt financing agreement also includes certain limitations on acquisitions, indebtedness, liens, dividends and repurchases of capital stock. If the Company's total leverage ratio is greater than 3.00 to 1.00 (total leverage ratio as defined in the debt financing agreement), the Company is prohibited from making greater than $120.0 million of annual dividend payments, capital stock repurchases and certain other payments. If the total leverage ratio is less than 3.00 to 1.00, there are no such restrictions.

Note 14. Income Taxes

The Company records income tax expense on an interim basis. The estimated annual effective income tax rate is adjusted quarterly and items discrete to a specific quarter are reflected in tax expense for that interim period. The effective income tax rate for the interim period can differ from the statutory tax rate, as it reflects changes in valuation allowances due to expected current year earnings or loss and other discrete items, such as changes in the liability for unrecognized tax benefits related to establishment and settlement of income tax exposures.

During the nine months ended September 30, 2013, the Company recorded income tax expense of $1.3 million in the condensed consolidated statements of operations despite having a pre-tax loss primarily due to the impact of losses in foreign jurisdictions where the Company does not receive a tax benefit and tax expense recorded for other discrete items. During the nine months ended September 30, 2012, the Company recorded an income tax benefit of $46.0 million in the condensed consolidated statements of operations, which included a $41.5 million benefit from decreasing the liability recorded for unrecognized tax benefits related to the settlement of Internal Revenue Service audits and the expiration of the applicable statutes of limitations.

The Company's liability for unrecognized tax benefits was $45.2 million at September 30, 2013, a decrease of $1.3 million since December 31, 2012. The Company anticipates a decrease to its liability for unrecognized tax benefits of $12.6 million within the next 12 months due primarily to the expiration of the applicable statutes of limitations.

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Note 15. Financial Instruments and Fair Value Measurements

Certain assets and liabilities are required to be recorded at fair value on a recurring basis, while other assets and liabilities are recorded at fair value on a nonrecurring basis, generally as a result of acquisitions or impairment charges. Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. GAAP also classifies the inputs used to measure fair value into the following hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability. There are no Level 3 recurring measurements of assets or liabilities as of September 30, 2013.

The Company records the fair value of its forward contracts and pension plan assets on a recurring basis. The fair value of cash and cash equivalents, receivables, inventories, restricted cash, accounts payable, accrued liabilities and amounts owing in satisfaction of bankruptcy claims approximate their carrying values as of September 30, 2013 and December 31, 2012. See Note 13 for further discussion on the fair value of the Company's debt.

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company is required to record certain assets and liabilities at fair value on a nonrecurring basis, generally as a result of acquisitions or the remeasurement of assets resulting in impairment charges. See Note 3 for further discussion on acquisitions and Note 5 for further discussion on impairment charges recorded as a result of the remeasurement of certain long-lived assets.

The Company has operations in countries that have transactions outside their functional currencies and periodically enters into foreign exchange contracts. These contracts are used to hedge the net exposures of changes in foreign currency exchange rates and are designated as either cash flow hedges or fair value hedges. Gains or losses on net foreign currency hedges are intended to offset losses or gains on the underlying net exposures in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates.

The Company periodically enters into natural gas forward purchase contracts to hedge against increases in commodity costs. During the three and nine months ended September 30, 2013 and 2012, the Company's commodity contracts qualified for the exception related to normal purchases and sales as the Company takes delivery in the normal course of business.

The Company settled the short-term foreign currency forward exchange contract to hedge exchange rate exposure on the 50.0 million Canadian dollars deposit related to the Transcontinental Mexico acquisition on March 1, 2012 (see Note 4). There were no open foreign currency exchange contracts as of September 30, 2013. For the three and nine months ended September 30, 2013 and 2012, there was no impact of hedge ineffectiveness on the condensed consolidated statements of operations.

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Note 16. Other Long-Term Liabilities

Other long-term liabilities consisted of the following as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Single employer pension and postretirement obligations	$252.4	$288.3
Multiemployer pension plans—withdrawal liability	51.7	74.3
Tax-related liabilities	25.2	22.0
Employee-related liabilities	54.2	53.5
Other	51.8	57.6
Total	$435.3	$495.7

Note 17. Pension and Other Postretirement Benefits

The Company sponsors various funded and unfunded pension plans for a portion of its full-time employees in the United States. Benefits are generally based upon years of service and compensation. These plans are funded in conformity with the applicable government regulations. The Company funds at least the minimum amount required for all qualified plans using actuarial cost methods and assumptions acceptable under government regulations. In addition to pension benefits, the Company provides certain healthcare and life insurance benefits for some retired employees.

The components of the net pension (income) expense and net postretirement benefits income for the three and nine months ended September 30, 2013 and 2012, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Pension (income) expense				
Service cost	$—	$0.1	$—	$0.2
Interest cost	7.1	7.8	21.1	23.4
Expected return on plan assets	(7.5)	(6.8)	(22.5)	(20.4)
Net periodic pension benefit (income) expense	(0.4)	1.1	(1.4)	3.2
Amortization of net loss and other	0.1	—	0.2	—
Settlement loss	—	—	—	0.1
Net pension (income) expense	$(0.3)	$1.1	$(1.2)	$3.3
Postretirement benefits income				
Service cost	$—	$0.1	$—	$0.3
Interest cost	—	0.2	0.1	0.7
Amortization of deferred gains, net	(1.4)	(1.0)	(4.3)	(2.0)
Curtailment gain	—	(12.8)	—	(12.8)
Net postretirement benefits income	$(1.4)	$(13.5)	$(4.2)	$(13.8)

In April 2012, the Company announced the elimination of life insurance coverage for all current and future retirees in all locations and the elimination of reimbursements of medical costs for certain retirees. Due to the plan amendments, the plan obligations were reduced by $7.4 million. There was no impact to the postretirement benefits income in the nine months ended September 30, 2012.

(In millions, except share and per share data and unless otherwise indicated)

In September 2012, the Company announced the elimination of postretirement medical benefit coverage for all future retirees who will retire after December 31, 2012. Due to the plan amendment, the plan obligations were reduced by $15.9 million and a curtailment gain of $12.8 million was recognized. The curtailment gain was recorded in restructuring, impairment and transaction-related charges in the condensed consolidated statement of operations for the three and nine months ended September 30, 2012.

During the nine months ended September 30, 2013, the Company made the following contributions and benefit payments to its defined benefit pension and postretirement plans:

	Nine Months Ended September 30, 2013
Contributions on qualified pension plans	$31.1
Benefit payments on non-qualified pension plans	0.7
Benefit payments on postretirement plans	0.1
Total benefit plan payments	$31.9

Multiemployer Pension Plans

The Company has withdrawn from all significant multiemployer pension plans ("MEPPs") and, during 2011, replaced these union sponsored “promise to pay in the future” defined benefit plans with a Company sponsored “pay as you go” defined contribution plan. The two MEPPs, the Graphic Communications International Union – Employer Retirement Fund (“GCIU”) and the Graphic Communications Conference of the International Brotherhood of Teamsters National Pension Fund (“GCC”), are significantly underfunded, and will require the Company to pay a withdrawal liability to fund its pro rata share of the underfunding as of the plan year the full withdrawal was completed. As a result of the decision to withdraw, the Company accrued a $98.6 million estimated withdrawal liability based on information provided by each plan's trustee, as part of the purchase price allocation for World Color Press.

The Company has received notices of withdrawal and demand for payment letters for both the GCIU and GCC plans, which, in total are in excess of the $98.6 million in reserves established by the Company for the withdrawals. The Company is in the process of determining the final withdrawal payment with both MEPPs' administrators, and the withdrawal liability reserved by the Company is within the range of the Company's estimated potential outcomes. During this process the Company has been making monthly payments as requested by the MEPPs and as required by the Employee Retirement Income Security Act, although such payments do not waive the Company's rights to object to the withdrawal liabilities submitted by the GCIU and GCC plan administrators.

As of September 30, 2013, the Company has reserved $76.6 million as its estimate of the total MEPPs withdrawal liability, of which $51.7 million is recorded in other long-term liabilities, $19.4 million is recorded in accrued liabilities and $5.5 million is recorded as a World Color Press bankruptcy liability in unsecured notes to be issued in the condensed consolidated balance sheets. This estimate may increase or decrease depending on the final agreement with the MEPPs' administrators.

Note 18. Earnings (Loss) Per Share Attributable to Quad/Graphics Common Shareholders

Basic earnings (loss) per share attributable to Quad/Graphics common shareholders is computed as net earnings (loss) attributable to Quad/Graphics common shareholders less the allocation of participating securities, divided by the basic weighted average common shares outstanding of 47.0 million and 46.9 million shares for the three and nine months ended September 30, 2013, respectively, and 46.8 million shares for both the three and nine months ended September 30, 2012. The calculation of a diluted earnings per share amount includes the effect of any dilutive equity incentive instruments. The Company uses the treasury stock method to calculate the effect of outstanding dilutive equity incentive instruments, which requires the Company to compute total proceeds as the sum of (1) the amount the employee must pay upon exercise of the award, (2) the amount of unearned stock-based compensation costs attributed to future services and (3) the amount of tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of the award. Equity incentive instruments for which the total employee proceeds from exercise exceed the average fair value of the same equity incentive instrument over the period have an anti-dilutive effect on earnings per share during periods with net earnings from continuing operations, and accordingly, the Company excludes them from the calculation. Due to the net loss from continuing operations attributable to Quad/Graphics common shareholders incurred during the nine months ended September 30, 2013, the assumed exercise of all equity incentive instruments was anti-dilutive and, therefore, not included in the diluted loss per share attributable to Quad/Graphics common shareholders calculation for that period. Anti-dilutive equity incentive instruments of 0.8 million and 2.8 million of class A common shares were excluded from the computation of diluted net earnings (loss) per share for the three and nine months ended September 30, 2013. Anti-dilutive equity incentive instruments of 2.8 million and 3.2 million of class A common shares were excluded from the computation of diluted net earnings per share for the three and nine months ended September 30, 2012. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are required to be treated as participating securities and included in the computation of earnings (loss) per share pursuant to the two-class method. The Company's participating securities are composed of unvested stock options granted on November 18, 2011.

Reconciliations of the numerator and the denominator of the basic and diluted per share computations for the Company's common stock, including the impact of discontinued operations, for the three and nine months ended September 30, 2013 and 2012, are summarized as follows:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Numerator:				
Net earnings (loss) from continuing operations	$12.6	$39.7	$(29.1)	$34.3
Adjustments to net earnings (loss) from continuing operations				
Net loss attributable to noncontrolling interests	0.4	0.1	0.9	—
Allocation to participating securities	(0.3)	—	(0.9)	—
Net earnings (loss) from continuing operations	$12.7	$39.8	$(29.1)	$34.3
Loss from discontinued operations, net of tax	$—	$—	$—	$(3.2)
Adjustment to loss from discontinued operations, net of tax				
Gain on disposal of discontinued operations, net of tax	—	—	—	35.3
Earnings from discontinued operations, net of tax	$—	$—	$—	$32.1
Net earnings (loss) attributable to Quad/Graphics common shareholders	$13.0	$39.8	$(28.2)	$66.4
Adjustments to net earnings (loss) attributable to Quad/Graphics common shareholders				
Allocation to participating securities	(0.3)	—	(0.9)	—
Net earnings (loss) attributable to Quad/Graphics common shareholders	$12.7	$39.8	$(29.1)	$66.4
Denominator:				
Basic weighted average number of common shares outstanding for all classes of common shares	47.0	46.8	46.9	46.8
Plus: effect of dilutive equity incentive instruments	1.1	0.4	—	0.3
Diluted weighted average number of common shares outstanding for all classes of common shares	48.1	47.2	46.9	47.1
Earnings (loss) per share attributable to Quad/Graphics common shareholders:				
Basic:				
Continuing operations	$0.27	$0.85	$(0.62)	$0.73
Discontinued operations	—	—	—	0.69
Earnings (loss) per share attributable to Quad/Graphics common shareholders	$0.27	$0.85	$(0.62)	$1.42

Diluted:				
Continuing operations	$0.26	$0.84	$(0.62)	$0.73
Discontinued operations	—	—	—	0.68
Earnings (loss) per share attributable to Quad/Graphics common shareholders	$0.26	$0.84	$(0.62)	$1.41
Cash dividends paid per common share for all classes of common shares	$0.30	$0.25	$0.90	$0.75

Note 19. Equity Incentive Programs

The shareholders of the Company approved the Quad/Graphics, Inc. 2010 Omnibus Incentive Plan ("Omnibus Plan") for two complimentary purposes: (1) to attract and retain outstanding individuals to serve as directors, officers and employees and (2) to increase shareholder value. The Omnibus plan provides for an aggregate 5,871,652 shares of class A stock reserved for issuance under the Omnibus Plan, subject to adjustments as described in the Omnibus Plan. Awards under the Omnibus Plan may consist of incentive awards, stock options, stock appreciation rights, performance shares, performance share units, shares of class A stock, restricted stock, restricted stock units, deferred stock units or other stock-based awards as determined by the Company's board of directors. Each stock option granted has an exercise price of no less than 100% of the fair market value of the class A stock on the date of grant. As of September 30, 2013, there are 316,144 shares available for issuance under the Omnibus Plan.

The Company recognizes compensation expense, based on estimated grant date fair values, for all share-based awards issued to employees and non-employee directors, including stock options, performance shares, performance share units, restricted stock, restricted stock units and deferred stock units. The Company recognizes these compensation costs for only those awards expected to vest, on a straight-line basis over the requisite service period of the award, which is generally the vesting term of three to four years for performance share and performance share unit awards, restricted stock and restricted stock unit awards, and stock options. The Company estimated the number of awards expected to vest based, in part, on historical forfeiture rates and also based on management's expectations of employee turnover within the specific employee groups receiving each type of award. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods, if actual forfeitures differ from those estimates.

Equity Incentive Compensation Expense

The total compensation expense recognized related to all equity incentive programs was $4.2 million and $13.5 million for the three and nine months ended September 30, 2013, respectively, and $3.3 million and $10.2 million for the three and nine months ended September 30, 2012, respectively, and was recorded in selling, general and administrative expenses in the condensed consolidated statements of operations. Total future compensation expense for all equity incentives related to the equity incentive program granted as of September 30, 2013, is approximately $26.2 million. Estimated future compensation expense is $4.4 million for 2013, $16.4 million for 2014, and $5.4 million for 2015.

Stock Options

Options vest over four years, with no vesting in the first year and one-third vesting upon the second, third and fourth anniversary dates. As defined in the individual grant agreements, acceleration of vesting may occur under a change in control, death, disability or normal retirement of the grantee. Options expire no later than the tenth anniversary of the grant date, twenty-four months after termination for death, thirty-six months after termination for normal retirement or disability and 90 days after termination of employment for any other reason. Options are not credited with dividend declarations, except for the November 18, 2011 grants (the "409A Options"). The 409A Options are the new options granted to holders of the options previously issued under the Company's 1990 Stock Option Plan and 1999 Nonqualified Stock Option Plan that the Company terminated on November 18, 2011. These terminated options had included a dividend credit. Stock options are only to be granted to employees.

(In millions, except share and per share data and unless otherwise indicated)

There were no stock options granted under the Omnibus Plan during the three and nine months ended September 30, 2013. There were no stock options granted during the three months ended September 30, 2012, and 448,154 stock options were granted with a weighted average fair value of $2.25 during the nine months ended September 30, 2012. The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The fair market value of the stock options is determined using the following weighted average assumptions:

	2012	
Expected volatility	36.7	%
Risk-free interest rate	1.3	%
Expected life (years)	7.0	
Dividend yield	7.1	%

The Company determined expected volatility based on the volatility of comparable company stock. The average risk-free interest rate is based on the United States treasury security rate in effect as of the grant date over the term of the expected life. The expected life is based on the term and vesting period of each grant adjusted for historical experience in vesting.

Compensation expense recognized related to stock options was $2.3 million and $7.1 million for the three and nine months ended September 30, 2013, respectively, and $2.5 million and $7.5 million for the three and nine months ended September 30, 2012, respectively. Total future compensation expense for all stock options granted as of September 30, 2013 is estimated to be $12.4 million. Estimated future compensation expense is $2.4 million for 2013, $9.8 million for 2014, and $0.2 million for 2015.

The following table is a summary of the stock option activity for the nine months ended September 30, 2013:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (millions)
Outstanding at December 31, 2012	4,407,125	$ 20.34	6.8	$15.2
Granted	—	—		
Exercised	(412,550)	15.53		
Cancelled/forfeited/expired	(142,229)	26.34		
Outstanding at September 30, 2013	3,852,346	$ 20.80	6.1	$41.0
Vested and expected to vest at September 30, 2013	3,850,726	$ 20.81	6.1	$40.9
Exercisable at September 30, 2013	2,200,347	$ 20.59	5.7	$22.9

The intrinsic value of options exercisable and options outstanding at September 30, 2013 and December 31, 2012, is based on the fair value of the stock price.

The following table is a summary of the stock option exercises and vesting activity for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total intrinsic value of stock options exercised	$4.7	$—	$5.6	$—
Cash received from stock option exercises	4.8	0.1	6.5	0.1
Total grant date fair value of stock options vested	—	—	1.8	—

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Performance Share and Performance Share Units

Performance share ("PS") and performance share unit ("PSU") awards consist of shares or the rights to shares of the Company's class A stock which are awarded to employees of the Company. These shares are payable upon the determination that the Company achieved certain established performance targets and can range from 0% to 200% of the targeted payout based on the actual results. Shares awarded in 2013 have a performance period of three years ending December 31, 2015. As set forth in the individual grant agreements, acceleration of vesting may occur under a change in control, or death, disability or normal retirement of the grantee. Grantees receiving PS or PSU grants receive full credit for dividends during the vesting period. All such dividends will be paid to the grantee within 45 days of full vesting. Upon vesting, PSUs will be settled either through cash payment equal to the fair market value of the PSUs on the vesting date or through issuance of Company class A stock. There are no voting rights with these instruments until vesting occurs and a share of stock is issued.

The following table is a summary of PS and PSU award activity for the nine months ended September 30, 2013:

	Performance Shares			Performance Share Units		
	Shares	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (years)	Units	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (years)
Nonvested at December 31, 2012	—	$—	—	—	$—	—
Granted	389,930	20.39		16,208	20.50	
Vested	—	—		—	—	
Forfeited	(24,836)	20.39		—	—	
Nonvested at September 30, 2013	365,094	$20.39	2.3	16,208	$20.50	2.3

There were no PS or PSU awards granted during the three months ended September 30, 2013. During the nine months ended September 30, 2013, PS awards of 389,930 shares and PSU awards of 16,208 units were granted at a weighted-average grant date fair value of $20.39 and $20.50, respectively. On the grant dates, the target number of shares ("target shares") was granted. During the performance period, the target shares will be earned or forfeited, and additional shares, up to the maximum number of shares, may be granted at the end of the performance period. The potential payouts for nonvested awards at September 30, 2013 range from zero to 762,604 PS or PSU awards should certain performance targets be achieved. There were no PS or PSU awards granted during the three and nine months ended September 30, 2012. All of the PS shares and the PSUs will vest at the end of the performance period, provided the holder of the share is continuously employed by the Company until the vesting date.

Compensation expense for awards granted are recognized based on the targeted payout of 100.0%, net of estimated forfeitures. Compensation expense recognized related to PS and PSUs was $0.6 million and $1.8 million for the three and nine months ended September 30, 2013, respectively. There was no compensation expense recognized related to PS and PSUs for the three and nine months ended September 30, 2012. Total future compensation expense for all PS and PSUs granted as of September 30, 2013 is estimated to be $5.6 million. Estimated future compensation expense is $0.6 million for 2013, $2.5 million for 2014, and $2.5 million for 2015.

Restricted Stock, Restricted Stock Units and Deferred Stock Units

Restricted stock ("RS") and restricted stock unit ("RSU") awards consist of shares or the rights to shares of the Company's class A stock which are awarded to employees of the Company. The awards are restricted such that they are subject to substantial risk of forfeiture and to restrictions on their sale or other transfer by the employee. RSU awards are typically granted to eligible employees outside of the United States. As defined in the individual grant agreements, acceleration of vesting may occur under a change in control, or death, disability or normal retirement of the grantee. Grantees receiving RS grants are able to exercise full voting rights and receive full credit for dividends during the vesting period. All such dividends will be paid to the RS grantee within 45 days of full vesting. Grantees receiving RSUs granted prior to July 1, 2012 are not entitled to vote and do not earn dividend equivalents. Grantees receiving RSUs on or after July 1, 2012 are not entitled to vote but do earn dividends equivalents. Upon vesting, RSUs will be settled either through cash payment equal to the fair market value of the RSUs on the vesting date or through issuance of Company class A stock.

(In millions, except share and per share data and unless otherwise indicated)

The following table is a summary of RS and RSU award activity for the nine months ended September 30, 2013:

	Restricted Stock			Restricted Stock Units		
	Shares	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (years)	Units	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (years)
Nonvested at December 31, 2012	415,906	$21.24	1.7	22,438	$21.17	1.7
Granted	408,146	20.39		32,671	20.72	
Vested	—	—		—	—	
Forfeited	(62,076)	20.95		—	—	
Nonvested at September 30, 2013	761,976	$20.85	1.6	55,109	$20.90	1.8

There were no RS or RSU awards granted during the three months ended September 30, 2013 and 2012. During the nine months ended September 30, 2013, RS awards of 408,146 shares and RSU awards of 32,671 units were granted at a grant date fair value of $20.39 and $20.72, respectively. During the nine months ended September 30, 2012, RS awards of 310,651 shares and RSU awards of 15,760 units were granted at a grant date fair value of $14.34. All of the RS shares and the RSUs will vest on the third anniversary of the grant date, provided the holder of the share is continuously employed by the Company until the vesting date. Compensation expense recognized related to RS and RSUs was $1.3 million and $3.9 million for the three and nine months ended September 30, 2013, respectively, and $0.8 million and $2.3 million for the three and nine months ended September 30, 2012, respectively. Total future compensation expense for all RS and RSUs granted as of September 30, 2013 is estimated to be $8.2 million. Estimated future compensation expense is $1.4 million for 2013, $4.1 million for 2014, and $2.7 million for 2015.

Deferred stock units ("DSU") are awards of rights to shares of the Company's class A stock and are awarded to non-employee directors of the Company. The Company granted 33,115 and 31,525 DSUs during the nine months ended September 30, 2013 and 2012, respectively, at a grant date fair value of $20.39 and $14.34, respectively. The deferred stock units are fully vested on the grant date. Each DSU entitles the grantee to receive one share of class A stock upon the earlier of the separation date of the grantee or the second anniversary of the grant date, but could be subject to acceleration for a change in control or death or disability as defined in the individual DSU grant agreement. Grantees of DSUs may not exercise voting rights, but are credited with dividend equivalents and those dividend equivalents will be converted into additional DSUs based on the closing price of the class A stock. During the three and nine months ended September 30, 2013, dividend equivalents of 754 and 2,640 units, respectively, were granted. During the three and nine months ended September 30, 2012, dividend equivalents of 580 and 2,145 units, respectively, were granted. There were 78,207 and 50,705 deferred stock units outstanding as of September 30, 2013 and December 31, 2012, respectively. There was no compensation expense recorded for these awards for the three months ended September 30, 2013 and 2012. The compensation expense recorded for these awards was $0.7 million and $0.4 million for the nine months ended September 30, 2013 and 2012, respectively. As these awards were fully vested on the grant date, all compensation expense was recognized at the date of grant.

Other information

Authorized unissued shares or treasury shares may be used for issuance under the Company's equity incentive programs. The Company intends to use treasury shares of its class A stock to meet the stock requirements of its awards in the future.

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Note 20. Shareholders' Equity

The Company has three classes of common stock as follows (share data in millions):

		Issued Common Stock		
	Authorized Shares	Outstanding	Treasury	Total Issued Shares
Class A stock ($0.025 par value)	80.0			
September 30, 2013		33.8	6.2	40.0
December 31, 2012		33.0	7.0	40.0
Class B stock ($0.025 par value)	80.0			
September 30, 2013		14.2	0.8	15.0
December 31, 2012		14.2	0.8	15.0