

Quad/Graphics, Inc.  
Form 10-Q  
November 02, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended September 30, 2016

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  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  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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(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 Act). Yes  No

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 28, 2016

Class A Common Stock 36,851,752

Class B Common Stock 14,198,464

Class C Common Stock —



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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		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net sales				
Products	\$904.2	\$978.1	\$2,688.9	\$2,818.8
Services	152.2	157.4	442.3	464.7
Total net sales	1,056.4	1,135.5	3,131.2	3,283.5
Cost of sales				
Products	719.1	797.3	2,144.2	2,306.1
Services	105.8	112.6	305.2	336.9
Total cost of sales	824.9	909.9	2,449.4	2,643.0
Operating expenses				
Selling, general and administrative expenses	109.9	106.1	341.9	326.2
Depreciation and amortization	61.7	81.0	217.4	245.7
Restructuring, impairment and transaction-related charges	26.1	35.6	62.4	80.0
Goodwill impairment	—	775.0	—	798.3
Total operating expenses	1,022.6	1,907.6	3,071.1	4,093.2
Operating income (loss)	\$33.8	\$(772.1)	\$60.1	\$(809.7)
Interest expense	19.6	22.3	58.9	66.4
Gain on debt extinguishment	—	—	(14.1)	—
Earnings (loss) before income taxes and equity in loss of unconsolidated entities	14.2	(794.4)	15.3	(876.1)
Income tax expense (benefit)	2.9	(244.9)	5.6	(249.7)
Earnings (loss) before equity in loss of unconsolidated entities	11.3	(549.5)	9.7	(626.4)
Equity in loss of unconsolidated entities	—	2.7	2.3	6.1
Net earnings (loss)	\$11.3	\$(552.2)	\$7.4	\$(632.5)
Earnings (loss) per share				
Basic	\$0.24	\$(11.50)	\$0.16	\$(13.20)
Diluted	\$0.22	\$(11.50)	\$0.15	\$(13.20)
Dividends declared per share	\$0.30	\$0.30	\$0.90	\$0.90
Weighted average number of common shares outstanding				
Basic	47.8	48.0	47.6	47.9
Diluted	50.6	48.0	49.3	47.9

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



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## QUAD/GRAPHICS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in millions)

(UNAUDITED)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Net earnings (loss)	\$11.3	\$(552.2)	\$7.4	\$(632.5)
Other comprehensive loss				
Translation adjustments	(2.5 )	(6.7 )	4.6	(29.8 )
Pension benefit plan adjustments	(23.4 )	—	(23.4 )	—
Other comprehensive loss, before tax	(25.9 )	(6.7 )	(18.8 )	(29.8 )
Income tax benefit related to items of other comprehensive loss	9.0	—	9.0	—
Other comprehensive loss, net of tax	(16.9 )	(6.7 )	(9.8 )	(29.8 )
Comprehensive loss	\$(5.6 )	\$(558.9)	\$(2.4)	\$(662.3)

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, 2016	December 31, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11.5	\$ 10.8
Receivables, less allowances for doubtful accounts of \$54.1 million at September 30, 2016, and \$50.1 million at December 31, 2015	566.9	648.7
Inventories	318.0	280.1
Prepaid expenses and other current assets	49.9	38.2
Restricted cash	14.6	13.5
Total current assets	960.9	991.3
Property, plant and equipment—net	1,531.1	1,675.8
Other intangible assets—net	65.1	110.5
Equity method investments in unconsolidated entities	2.8	4.4
Other long-term assets	74.5	65.5
Total assets	\$ 2,634.4	\$ 2,847.5
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable	\$ 341.8	\$ 358.8
Amounts owing in satisfaction of bankruptcy claims	2.3	1.4
Accrued liabilities	357.8	347.5
Short-term debt and current portion of long-term debt	92.3	94.6
Current portion of capital lease obligations	5.6	5.1
Total current liabilities	799.8	807.4
Long-term debt	1,064.7	1,239.9
Unsecured notes to be issued	6.8	7.1
Capital lease obligations	10.2	9.7
Deferred income taxes	46.7	59.0
Other long-term liabilities	306.7	300.5
Total liabilities	2,234.9	2,423.6
Commitments and contingencies (Note 8)		
Shareholders' equity		
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	912.3	956.7
Treasury stock, at cost	(124.6)	(193.6)
Accumulated deficit	(227.3)	(188.1)
Accumulated other comprehensive loss	(162.3)	(152.5)
Total shareholders' equity	399.5	423.9
Total liabilities and shareholders' equity	\$ 2,634.4	\$ 2,847.5

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, 2016 2015
<b>OPERATING ACTIVITIES</b>	
Net earnings (loss)	\$7.4 \$(632.5)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:	
Depreciation and amortization	217.4245.7
Impairment charges	17.7