

Quad/Graphics, Inc.
 Form 10-Q
 May 07, 2014
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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 1934

For the quarterly period ended March 31, 2014

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

(State or other jurisdiction of incorporation or
 organization)

39-1152983

(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

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 May 1, 2014

Class A Common Stock

34,605,343

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 March 31, | |
|--|------------------------------|----------|
| | 2014 | 2013 |
| Net sales | | |
| Products | \$953.7 | \$982.5 |
| Services | 149.1 | 147.0 |
| Total net sales | 1,102.8 | 1,129.5 |
| Cost of sales | | |
| Products | 783.6 | 801.4 |
| Services | 109.0 | 108.4 |
| Total cost of sales | 892.6 | 909.8 |
| Operating expenses | | |
| Selling, general and administrative expenses | 103.5 | 105.9 |
| Depreciation and amortization | 83.8 | 88.8 |
| Restructuring, impairment and transaction-related charges | 11.9 | 25.9 |
| Total operating expenses | 1,091.8 | 1,130.4 |
| Operating income (loss) | \$11.0 | \$(0.9) |
| Interest expense | 20.9 | 21.9 |
| Loss before income taxes and equity in earnings (loss) of unconsolidated entities | (9.9) | (22.8) |
| Income tax benefit | (1.2) | (8.5) |
| Loss before equity in earnings (loss) of unconsolidated entities | (8.7) | (14.3) |
| Equity in earnings (loss) of unconsolidated entities | (0.4) | 0.2 |
| Net loss | \$(9.1) | \$(14.1) |
| Net loss attributable to noncontrolling interests | 0.3 | 0.1 |
| Net loss attributable to Quad/Graphics common shareholders | \$(8.8) | \$(14.0) |
| Loss per share attributable to Quad/Graphics common shareholders: | | |
| Basic and diluted | \$(0.19) | \$(0.31) |
| Dividends declared per share | \$0.30 | \$0.30 |
| Weighted average number of common shares outstanding: | | |
| Basic and diluted | 47.4 | 46.8 |
| 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 March 31, | |
|--|------------------------------|-----------|
| | 2014 | 2013 |
| Net loss | \$(9.1 |) \$(14.1 |
| Other comprehensive loss | | |
| Translation adjustments | (0.8 |) (2.3 |
| Pension and other postretirement benefit plan adjustments | (1.5 |) (1.4 |
| Other comprehensive loss, before tax | (2.3 |) (3.7 |
| Income tax benefit related to items of other comprehensive loss | 0.6 | 0.6 |
| Other comprehensive loss, net of tax | (1.7 |) (3.1 |
| Total comprehensive loss | (10.8 |) (17.2 |
| Less: comprehensive loss attributable to noncontrolling interests | 0.3 | 0.1 |
| Comprehensive loss attributable to Quad/Graphics common shareholders | \$(10.5 |) \$(17.1 |
| See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited). | | |

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

| | March 31, 2014 | December 31, 2013 |
|--|-------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 13.1 | \$ 13.1 |
| Receivables, less allowances for doubtful accounts of \$60.5 million at March 31, 2014 and \$58.9 million at December 31, 2013 | 628.9 | 698.9 |
| Inventories | 270.2 | 272.5 |
| Prepaid expenses and other current assets | 42.8 | 37.2 |
| Deferred income taxes | 52.9 | 48.1 |
| Short-term restricted cash | 7.3 | 4.5 |
| Total current assets | 1,015.2 | 1,074.3 |
| Property, plant and equipment—net | 1,914.5 | 1,925.5 |
| Goodwill | 772.9 | 773.1 |
| Other intangible assets—net | 211.3 | 221.8 |
| Long-term restricted cash | 48.6 | 51.5 |
| Equity method investments in unconsolidated entities | 55.7 | 57.1 |
| Other long-term assets | 66.7 | 62.4 |
| Total assets | \$4,084.9 | \$4,165.7 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Accounts payable | \$352.9 | \$401.0 |
| Amounts owing in satisfaction of bankruptcy claims | 2.1 | 2.5 |
| Accrued liabilities | 312.7 | 350.7 |
| Short-term debt and current portion of long-term debt | 132.9 | 127.6 |
| Current portion of capital lease obligations | 5.9 | 7.0 |
| Total current liabilities | 806.5 | 888.8 |
| Long-term debt | 1,299.2 | 1,265.7 |
| Unsecured notes to be issued | 17.9 | 18.0 |
| Capital lease obligations | 11.9 | 6.5 |
| Deferred income taxes | 395.9 | 395.2 |
| Other long-term liabilities | 287.8 | 303.9 |
| Total liabilities | 2,819.2 | 2,878.1 |
| Commitments and contingencies (Note 8) | | |
| Quad/Graphics common stock and other equity (Note 17) | | |
| 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 | 960.1 | 983.1 |
| Treasury stock, at cost | (223.5 |) (248.8 |
| Retained earnings | 535.0 | 558.8 |

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| | | | |
|--|-----------|-----------|---|
| Accumulated other comprehensive loss | (7.3 |) (5.6 |) |
| Quad/Graphics common stock and other equity | 1,265.7 | 1,288.9 | |
| Noncontrolling interests | — | (1.3 |) |
| Total common stock and other equity and noncontrolling interests | 1,265.7 | 1,287.6 | |
| Total liabilities and shareholders' equity | \$4,084.9 | \$4,165.7 | |

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)

| | Three Months Ended March 31, | |
|---|------------------------------|-----------|
| | 2014 | 2013 |
| OPERATING ACTIVITIES | | |
| Net Loss | \$(9.1 |) \$(14.1 |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 83.8 | 88.8 |
| Impairment charges | 1.1 | 3.7 |
| Amortization of debt issuance costs | 1.1 | 1.0 |
| Stock-based compensation charges | 4.2 | 5.2 |
| Gain on sales or disposal of property, plant and equipment | — | (0.1 |
| Deferred income taxes | (3.7 |) (8.0 |
| Equity in (earnings) loss of unconsolidated entities | 0.4 | (0.2 |
| Dividends from unconsolidated entities | — | 5.0 |
| Changes in operating assets and liabilities—net of acquisitions | (44.8 |) 40.1 |
| Net cash provided by operating activities | 33.0 | 121.4 |
| INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (45.8 |) (28.3 |
| Cost investment in unconsolidated entities | (4.1 |) (0.3 |
| Proceeds from the sale of property, plant and equipment | 0.2 | 5.4 |
| Transfers from restricted cash | 0.1 | 4.2 |
| Acquisition of Vertis—net of cash acquired (Note 2) | — | (237.4 |
| Acquisition of other businesses—net of cash acquired | (8.9 |) (1.5 |
| Net cash used in investing activities | (58.5 |) (257.9 |
| FINANCING ACTIVITIES | | |
| Payments of long-term debt | (16.3 |) (10.2 |
| Payments of capital lease obligations | (1.8 |) (2.6 |
| Borrowings on revolving credit facilities | 419.6 | 487.2 |
| Payments on revolving credit facilities | (362.8 |) (314.4 |
| Bankruptcy claim payments on unsecured notes to be issued | (0.1 |) (4.2 |
| Sale of stock for options exercised | 0.8 | 0.5 |
| Shares withheld from employees for the tax obligation on equity grants | (1.0 |) — |
| Payment of cash dividends | (14.7 |) (14.0 |
| Net cash provided by financing activities | 23.7 | 142.3 |
| Effect of exchange rates on cash and cash equivalents | 1.8 | 1.5 |
| Net increase in cash and cash equivalents | — | 7.3 |
| Cash and cash equivalents at beginning of period | 13.1 | 16.9 |
| Cash and cash equivalents at end of period | \$13.1 | \$24.2 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Acquisition of Vertis (Note 2): | | |
| Fair value of assets acquired—net of cash | | \$329.3 |
| Liabilities assumed | | (66.0 |
| Deposit paid in 2012 related to Vertis acquisition | | (25.9 |

Acquisition of Vertis—net of cash acquired

\$237.4

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

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QUAD/GRAPHICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2014

(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. The results of operations and accounts of businesses acquired are included in the condensed consolidated financial statements from the dates of acquisition (see Note 2, "Acquisitions and Strategic Investments"). 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, 2013, and notes thereto included in the Company's latest Annual Report on Form 10-K filed with the SEC on February 27, 2014.

The Company is subject to seasonality in its quarterly results as net sales and operating income, when excluding restructuring, impairment and transaction-related charges, are higher in the third and fourth quarters of the calendar year as compared to the first and second quarters. Seasonality is driven by increased magazine advertising page counts, retail inserts, catalogs and books primarily due to back-to-school and holiday related advertising and promotions. The Company expects this seasonality impact to continue in future years.

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 months ended March 31, 2014 and 2013. All 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.

Note 2. Acquisitions and Strategic Investments

2014 Acquisitions and Strategic Investments

On February 5, 2014, the Company completed the acquisition of UniGraphic, Inc. ("UniGraphic"), a commercial and specialty printing company based in the Boston metro area. UniGraphic offers commercial and specialty printing, in-store marketing, digital and fulfillment solutions for a wide variety of industries including arts and entertainment, education, financial, food, healthcare, mass media, pharmaceutical and retail. The net purchase price of \$12.4 million for UniGraphic includes \$8.9 million of net cash paid on February 5, 2014, and an estimated \$3.5 million of future cash payments related to the acquisition. Identifiable customer relationship intangible assets of \$8.3 million have been recorded through the preliminary purchase price allocation, and will be amortized over six years. The preliminary purchase price allocation is based on valuations performed to determine the fair value of the net assets as of the acquisition date. The final purchase price, as well as the purchase price allocation, is subject to the final determination of acquired working capital and completion of the final valuation of the net assets acquired. UniGraphic's operations are included in the United States Print and Related Services segment.

During March 2014, the Company purchased additional shares in Anselmo L. Morvillo S.A. ("Morvillo") in Argentina for \$6.5 million, increasing the Company's ownership percentage in Morvillo to 97%. The Company has historically held an 85% ownership interest of Morvillo. The Company consolidated the results of Morvillo into the Company's condensed consolidated financial statements and presented the 15% portion of Morvillo's results not owned by the Company as noncontrolling interest. As a result of the additional investment, the noncontrolling interest in Morvillo has been reduced to an insignificant amount as of March 31, 2014, and, as a result, no noncontrolling interest will be reflected from April 1, 2014 forward.

On April 7, 2014, the Company and Brown Printing Company ("Brown Printing") announced a definitive agreement whereby Quad/Graphics will acquire Brown Printing for \$100 million. Completion of the acquisition is subject to customary conditions and regulatory approvals. See Note 21, "Subsequent Events," for further details.

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QUAD/GRAPHICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2014

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

2013 Acquisitions and Strategic Investments

On December 18, 2013, the Company completed the acquisition of Wisconsin-based Proteus Packaging (“Proteus”) as well as its sister company Transpak Corporation (“Transpak”), for \$49.1 million. As of March 31, 2014, \$6.0 million of the purchase price representing the Company's current estimate for a deferred payment remains to be made. The \$6.0 million deferred payment will be paid upon the finalization of the valuation of the net assets and is recorded in accrued liabilities on the condensed consolidated balance sheet.

Proteus is a designer and manufacturer of high-end paperboard packaging, offering packaging solutions for a wide variety of industries, including automotive, biotechnology, food, personal care, pharmaceuticals, software and electronics. Transpak is a full-service industrial packaging company, offering crating, packaging, warehousing, distribution and logistics services to destinations worldwide.

This acquisition was accounted for using the acquisition method of accounting. The Company recorded the preliminary allocation of the purchase price to the acquired tangible and identifiable intangible assets and liabilities assumed based on their fair values as of the acquisition date. Goodwill resulting from this acquisition, which is deductible for tax purposes, has been recorded within the United States Print and Related Services segment based on the amount by which the purchase price exceeds the fair value of the net assets acquired. The preliminary purchase price allocation is as follows:

| | Preliminary Purchase Price Allocation | |
|--|--|---|
| Accounts receivable | \$4.4 | |
| Other current assets | 5.9 | |
| Property, plant and equipment | 13.3 | |
| Identifiable intangible assets | 24.0 | |
| Accounts payable and accrued liabilities | (3.7 |) |
| Other long-term liabilities | (2.8 |) |
| Goodwill | 8.0 | |
| Preliminary purchase price | \$49.1 | |

The preliminary purchase price allocation is based on valuations performed to determine the fair value of the net assets as of the acquisition date. The final purchase price, as well as the purchase price allocation, is subject to the final determination of acquired working capital and completion of the final valuation of the net assets acquired. The valuation of the net assets acquired of \$49.1 million was classified as Level 3 in the valuation hierarchy (see Note 12, "Financial Instruments and Fair Value Measurements," for the definition of Level 3 inputs). Identifiable customer relationship intangible assets are amortized over their estimated useful lives of six years. The results of operations of the acquired businesses have been included since the acquisition date in the accompanying condensed consolidated financial statements. Proteus' and Transpak's operations are included in the United States Print and Related Services segment.

On November 7, 2013, the Company completed the \$13.5 million acquisition of Novia CareClinics, LLC ("Novia"), an Indianapolis, Indiana healthcare solutions company. Novia develops and manages onsite and shared primary care

clinics for small to medium sized companies and the public sector, such as school districts and city and county governments. Of the \$13.5 million purchase price, \$13.0 million has been recorded for identifiable customer relationship intangible assets through the preliminary purchase price allocation. Identifiable customer relationship intangible assets are amortized over their estimated useful lives of six years. The preliminary purchase price allocation is based on valuations performed to determine the fair value of the net assets as of the acquisition date. The final purchase price, as well as the purchase price allocation, is subject to the final determination of acquired working capital and completion of the final valuation of the net assets acquired. The valuation of the net assets acquired of \$13.5 million was classified as Level 3 in the valuation hierarchy (see Note 12, "Financial Instruments and Fair Value

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QUAD/GRAPHICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2014

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

Measurements," for the definition of Level 3 inputs). Novia's operations are included in the United States Print and Related Services segment.

On January 16, 2013, the Company completed the acquisition of substantially all of the assets of Vertis Holdings, Inc. ("Vertis") for \$265.4 million, pursuant to the terms of the Asset Agreement. Vertis was a leading provider of retail 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 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 postretirement obligations. The Company used cash on hand and borrowings under its revolving credit facility to finance the acquisition.

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

(2) The unaudited pro forma condensed 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 March 31, | |
|--|------------------------------|-------------|
| | 2014 | 2013 |
| | (actual) | (pro forma) |
| Pro forma net sales | \$1,102.8 | \$1,167.6 |
| Pro forma net loss attributable to common shareholders | (8.8 |) (17.8 |
| Pro forma diluted loss per share attributable to common shareholders | (0.19 |) (0.39 |

During the period under Quad/Graphics ownership, Vertis' financial results were included in the condensed consolidated statements of operations. Vertis operations are included in the United States Print and Related Services segment. 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 MONTHS ENDED MARCH 31, 2014

(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 final 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 combined financial information is based on valuations performed to determine the fair value of the net assets as of the acquisition date. The valuation of the net assets acquired of \$265.4 million was classified as Level 3 in the valuation hierarchy (see Note 12, "Financial Instruments and Fair Value Measurements," for the definition of Level 3 inputs). Identifiable customer relationship intangible assets are amortized over their estimated useful lives of six years.

Note 3. Restructuring, Impairment and Transaction-Related Charges

The Company recorded restructuring, impairment and transaction-related charges for the three months ended March 31, 2014 and 2013, as follows:

| | Three Months Ended March 31, | |
|------------------------------|------------------------------|--------|
| | 2014 | 2013 |
| Employee termination charges | \$6.0 | \$3.4 |
| Impairment charges | 1.1 | 3.7 |
| Transaction-related charges | 0.6 | 3.0 |
| Integration costs | 2.7 | 5.4 |
| Other restructuring charges | 1.5 | 10.4 |
| Total | \$11.9 | \$25.9 |

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 19, "Segment Information," 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. Since 2010, the Company has announced a total of 21 plant closures and has

reduced headcount by approximately 7,500 employees.

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QUAD/GRAPHICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2014

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

During the three months ended March 31, 2014, the Company announced the closures of the Marengo, Iowa and Pomona, California plants. As a result of these and other restructuring programs, the Company recorded the following charges for the three months ended March 31, 2014 and 2013:

Employee termination charges of \$6.0 million and \$3.4 million during the three months ended March 31, 2014 and 2013, respectively. The Company reduced its workforce through facility consolidations and involuntary separation programs.

Integration costs of \$2.7 million and \$5.4 million during the three months ended March 31, 2014 and 2013, 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.

Other restructuring charges of \$1.5 million were recorded by the Company during the three months ended March 31, 2014, which consisted of: (1) \$0.9 million of vacant facility carrying costs, (2) \$0.1 million of equipment and infrastructure removal costs from closed plants and (3) \$0.5 million of lease exit charges. Other restructuring charges of \$10.4 million were recorded by the Company during the three months ended March 31, 2013, which consisted of: (1) \$4.2 million of vacant facility carrying costs, (2) \$2.2 million of equipment and infrastructure removal costs from closed plants and (3) \$4.0 million of lease exit charges.

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 \$1.1 million of impairment charges during the three months ended March 31, 2014 related to machinery and equipment no longer being utilized in production as a result of facility consolidations, as well as other capacity reduction restructuring initiatives.

The Company recognized \$3.7 million of impairment charges during the three months ended March 31, 2013, related to machinery and equipment no longer being utilized in production as a result of facility consolidations, including Dubuque, Iowa and Vancouver, British Columbia, as well as other capacity reduction restructuring initiatives.

The fair values of the impaired assets were determined by the Company to be Level 3 under the fair value hierarchy (see Note 12, "Financial Instruments and Fair Value Measurements," 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 related to business acquisition and divestiture activities. The Company recognized transaction-related charges of \$0.6 million during the three months ended March 31, 2014, which primarily included fees for the pending acquisition of Brown Printing and the completed UniGraphic acquisition. See Note 21, "Subsequent Events," for further discussion of the pending Brown Printing acquisition. The Company recognized transaction-related charges of \$3.0 million during the three months ended March 31, 2013, which primarily included fees for the acquisition of Vertis. The transaction-related charges were expensed as incurred in accordance with the applicable accounting guidance on business combinations.

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QUAD/GRAPHICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2014

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

Reserves for Restructuring, Impairment and Transaction-Related Charges

Activity impacting the Company's reserves for restructuring, impairment and transaction-related charges for the three months ended March 31, 2014, was as follows:

| | Employee Termination Charges | Impairment Charges | Transaction-Related Charges | Integration Costs | Other Restructuring Charges | Total |
|------------------------------|------------------------------------|-----------------------|--------------------------------|----------------------|-----------------------------------|---------|
| Balance at December 31, 2013 | \$4.8 | \$— | \$ 0.2 | \$3.7 | \$19.3 | \$28.0 |
| Expense | 6.0 | 1.1 | 0.6 | 2.7 | 1.5 | 11.9 |
| Cash payments | (5.2) | — | (0.3) | (3.0) | (4.3) | (12.8) |
| Non-cash adjustments | (0.3) | (1.1) | — | (1.5) | 0.8 | (2.1) |
| Balance at March 31, 2014 | \$5.3 | \$— | \$ 0.5 | \$1.9 | \$17.3 | \$25.0 |

The Company's restructuring, impairment and transaction-related reserves at March 31, 2014 included a short-term and a long-term component. The short-term portion included \$13.2 million in accrued liabilities and \$1.4 million in accounts payable in the condensed consolidated balance sheets as the Company expects these reserves to be paid within the next twelve months. The long-term portion of \$10.4 million is included in other long-term liabilities (see Note 13, "Other Long-Term Liabilities") in the condensed consolidated balance sheets, of which \$8.0 million is classified in restructuring reserve and \$2.4 million is classified in multiemployer pension plans ("MEPPs") withdrawal liability (see Note 14, "Employee Retirement Plans," for further details on the Company's MEPPs).

Note 4. 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 three months ended March 31, 2014. Goodwill at March 31, 2014 and December 31, 2013, did not include any accumulated impairment losses. No goodwill impairment was recorded during the three months ended March 31, 2014 or 2013.

Activity impacting the Company's goodwill for the three months ended March 31, 2014, was as follows:

| | United States Print and Related Services | International | Total |
|------------------------------|--|---------------|---------|
| Balance at December 31, 2013 | \$746.2 | \$26.9 | \$773.1 |
| Translation adjustment | — | (0.2) | (0.2) |
| Balance at March 31, 2014 | \$746.2 | \$26.7 | \$772.9 |

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The components of other intangible assets at March 31, 2014 and December 31, 2013, were as follows:

| | March 31, 2014 | | | December 31, 2013 | | | | |
|--|---|-----------------------------|-----------------------------|-------------------|---|-----------------------------|-----------------------------|-------------------|
| | Weighted Average Amortization Period (years) | Gross Carrying Amount | Accumulated Amortization | Net Book Value | Weighted Average Amortization Period (years) | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| Finite-lived intangible assets: | | | | | | | | |
| Trademarks, patents, licenses and agreements | 5 | \$6.6 | \$(5.2) | \$1.4 | 5 | \$6.5 | \$(5.2) | \$1.3 |
| Customer relationships | 6 | 452.9 | (244.7) | 208.2 | 6 | 444.9 | (226.4) | 218.5 |
| Capitalized software | 5 | 4.3 | (3.8) | 0.5 | 5 | 4.3 | (3.6) | 0.7 |
| Acquired technology | 5 | 7.3 | (6.1) | 1.2 | 5 | 7.3 | (6.0) | 1.3 |
| Total finite-lived intangible assets | | \$471.1 | \$(259.8) | \$211.3 | | \$463.0 | \$(241.2) | \$221.8 |

Amortization expense for other intangible assets was \$18.9 million and \$17.3 million for the three months ended March 31, 2014 and 2013, respectively. The following table outlines the estimated future amortization expense related to intangible assets as of March 31, 2014:

| | Amortization Expense |
|---------------------|----------------------|
| Remainder of 2014 | \$57.9 |
| 2015 | 76.4 |
| 2016 | 44.8 |
| 2017 | 12.4 |
| 2018 | 11.9 |
| 2019 and thereafter | 7.9 |
| Total | \$211.3 |

Note 5. Inventories

The components of the Company's inventories at March 31, 2014 and December 31, 2013, were as follows:

| | March 31, 2014 | December 31, 2013 |
|--|-------------------|----------------------|
| Raw materials and manufacturing supplies | \$173.2 | \$174.9 |
| Work in process | 55.2 | 46.6 |
| Finished goods | 41.8 | 51.0 |
| Total | \$270.2 | \$272.5 |

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Note 6. Property, Plant and Equipment

The components of the Company's property, plant and equipment at March 31, 2014 and December 31, 2013, were as follows:

| | March 31, 2014 | December 31, 2013 |
|--------------------------------|-------------------|----------------------|
| Land | \$145.6 | \$145.8 |
| Buildings | 939.9 | 937.8 |
| Machinery and equipment | 3,524.7 | 3,509.9 |
| Other | 218.4 | 213.1 |
| Construction in progress | 57.3 | 32.6 |
| | 4,885.9 | 4,839.2 |
| Less: accumulated depreciation | (2,971.4 |) (2,913.7 |
| Total | \$1,914.5 | \$1,925.5 |

Other consists of computer equipment, vehicles, furniture and fixtures, leasehold improvements and communication related equipment.

The Company recorded impairment charges of \$1.1 million and \$3.7 million for the three months ended March 31, 2014 and 2013, respectively, to reduce the carrying amounts of certain machinery and equipment no longer being utilized in production to fair value (see Note 3, "Restructuring, Impairment and Transaction-Related Charges" for further discussion on impairment charges).

The Company recognized depreciation expense of \$64.9 million and \$71.5 million for the three months ended March 31, 2014 and 2013, respectively.

Assets Held for Sale

Certain closed facilities are considered held for sale. The net book value of the assets held for sale was \$5.5 million and \$5.6 million as of March 31, 2014 and December 31, 2013, 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 12, "Financial Instruments and Fair Value Measurements," 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.

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Note 7. Equity Method Investments in Unconsolidated Entities

The Company has a 49% ownership interest in Plural Industria Gráfica Ltda., formerly Plural Editora e Gráfica Ltda. ("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 the line item entitled equity in earnings (loss) of unconsolidated entities in the Company's condensed consolidated statements of operations, and is included within the International segment.

The combined condensed statements of operations for Plural and Chile for the three months ended March 31, 2014 and 2013, are presented below:

| | Three Months Ended March 31, | |
|---------------------|------------------------------|--------|
| | 2014 | 2013 |
| Net sales | \$51.6 | \$56.8 |
| Operating income | 0.1 | 1.8 |
| Net earnings (loss) | (0.8 |) 0.7 |

Note 8. 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 condensed consolidated financial position.

Note 9. 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 Inc. ("World Color Press") 2010 acquisition agreement.

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With respect to claims asserted by the holders thereof as being entitled to a priority cash recovery, the Company has estimated that approximately \$2.1 million and \$2.5 million of such recorded claims have yet to be paid as of March 31, 2014, and December 31, 2013, 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 three months ended March 31, 2014, \$0.1 million was paid to Class 3 Claim creditors. At March 31, 2014, \$55.9 million of the maximum potential payout to the Class 3 Claim creditors remains and is classified as restricted cash in the condensed consolidated balance sheets. Based on the Company's analysis of the outstanding claims, the Company has a liability of \$17.9 million at March 31, 2014, classified as unsecured notes to be issued in the condensed consolidated balance sheets. Activity impacting the Company's restricted cash and unsecured notes to be issued for the three months ended March 31, 2014, was as follows:

| | Restricted Cash | Unsecured Notes to be Issued |
|------------------------------------|-----------------|------------------------------------|
| Balance at December 31, 2013 | \$56.0 | \$18.0 |
| Class 3 Claim payments during 2014 | (0.1) | (0.1) |
| Balance at March 31, 2014 | \$55.9 | \$17.9 |

The components of the Company's restricted cash at March 31, 2014 and December 31, 2013, were as follows:

| | March 31, 2014 | December 31, 2013 |
|----------------------------|-------------------|----------------------|
| Short-term restricted cash | \$7.3 | \$4.5 |
| Long-term restricted cash | 48.6 | 51.5 |
| Total restricted cash | \$55.9 | \$56.0 |

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 \$51.2 million (\$33.3 million paid plus the \$17.9 million remaining estimated liability as of March 31, 2014). In light of the substantial number and amount of claims filed, the claims resolution process will take considerable time to complete.

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Note 10. Debt

Long-term debt consisted of the following as of March 31, 2014, and December 31, 2013:

| | March 31, 2014 | December 31, 2013 |
|---|-------------------|----------------------|
| Master note and security agreement | \$487.7 | \$490.2 |
| Term loan A—\$450.0 million | 405.0 | 416.3 |
| Term loan B—\$200.0 million | 194.4 | 194.8 |
| Revolving credit facility—\$850.0 million | 261.0 | 209.8 |
| International term loan—\$78.4 million | 56.1 | 58.2 |
| International revolving credit facility—\$16.5 million | 7.8 | 2.3 |
| Equipment term loans | 15.7 | 16.4 |
| Other | 4.4 | 5.3 |
| Total debt | \$1,432.1 | \$1,393.3 |
| Less: short-term debt and current portion of long-term debt | (132.9 |) (127.6 |
| Long-term debt | \$1,299.2 | \$1,265.7 |

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 \$1.4 billion at March 31, 2014. The fair value determination of the Company's total debt was categorized as Level 2 in the fair value hierarchy (see Note 12, "Financial Instruments and Fair Value Measurements," for the definition of Level 2 inputs).

As of March 31, 2014, 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 March 31, 2014 (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 March 31, 2014, the Company's leverage ratio was 2.48 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 March 31, 2014, the Company's interest coverage ratio was 7.36 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 March 31, 2014, the Company's fixed charge coverage ratio was 4.35 to 1.00).

Consolidated net worth of at least \$745.8 million plus 40% of positive consolidated net income cumulatively for each year. As of March 31, 2014, consolidated net worth must be at least \$793.9 million (as of March 31, 2014, the Company's consolidated net worth under the most restrictive covenant per the various debt agreements was \$1.2 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.

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On April 28, 2014, the Company completed its \$1.9 billion debt financing arrangements, which included refinancing, extending and expanding its existing revolving credit facility, Term Loan A and Term Loan B with a \$1.6 billion senior secured credit facility and a high-yield bond offering of \$300 million aggregate principal amount of its unsecured 7.0% senior notes due May 1, 2022. See Note 21, "Subsequent Events," for further details on these debt arrangements.

Note 11. 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.

The Company's unrecognized tax benefits did not materially change for the three months ended March 31, 2014. The Company anticipates a decrease to its liability for unrecognized tax benefits of \$13.3 million within the next 12 months due to resolution of audits or statute expirations.

Note 12. 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 March 31, 2014.

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 March 31, 2014 and December 31, 2013. See Note 10, "Debt," 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 2, "Acquisitions and Strategic Investments," for further discussion on acquisitions and Note 3, "Restructuring, Impairment and Transaction-Related Charges," 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. There were no open foreign currency exchange contracts as of March 31, 2014.

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The Company periodically enters into natural gas forward purchase contracts to hedge against increases in commodity costs. During the three months ended March 31, 2014 and 2013, 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.

Note 13. Other Long-Term Liabilities

Other long-term liabilities consisted of the following as of March 31, 2014 and December 31, 2013:

| | March 31, 2014 | December 31, 2013 |
|--|-------------------|----------------------|
| Single employer pension and postretirement obligations | \$99.1 | \$109.2 |
| Multiemployer pension plans—withdrawal liability | 49.5 | 53.1 |
| Tax-related liabilities | 26.3 | 24.6 |
| Employee-related liabilities | 54.4 | 54.5 |
| Restructuring reserve | 8.0 | 8.5 |
| Other | 50.5 | 54.0 |
| Total | \$287.8 | \$303.9 |

Note 14. Employee Retirement Plans

Defined Benefit Plans and Other Postretirement Benefit Plans

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 and net postretirement benefits income for the three months ended March 31, 2014 and 2013, are as follows:

| | Three Months Ended March 31, | |
|-------------------------------------|------------------------------|----------|
| | 2014 | 2013 |
| Pension income | | |
| Interest cost | \$(7.3 |) \$(7.0 |
| Expected return on plan assets | 8.6 | 7.5 |
| Net periodic pension benefit income | 1.3 | 0.5 |
| Amortization of actuarial loss | — | (0.1 |
| Net pension income | \$1.3 | \$0.4 |

Postretirement benefits income

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| | | |
|--------------------------------------|-------|-------|
| Amortization of prior service credit | \$1.4 | \$1.4 |
| Amortization of actuarial gain | 0.1 | — |
| Net postretirement benefits income | \$1.5 | \$1.4 |

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During the three months ended March 31, 2014, the Company made the following contributions and benefit payments to its defined benefit pension and postretirement plans:

| | Three Months Ended March 31, 2014 |
|---|--------------------------------------|
| Contributions on qualified pension plans | \$8.3 |
| Benefit payments on non-qualified pension plans | 3.1 |
| Benefit payments on postretirement plans | 0.2 |
| Total benefit plan payments | \$11.6 |

Multiemployer Pension Plans

The Company has withdrawn from all significant MEPPs and 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 original reserves established by the Company for the withdrawals. The Company is in the process of determining the final withdrawal payment, and is currently in arbitration with the MEPPs' trustees and arbitrators have been selected. The withdrawal liability reserved by the Company is within the range of the Company's estimated potential outcomes. The Company made payments totaling \$3.6 million for the three months ended March 31, 2014 and 2013, respectively, 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 March 31, 2014, the Company has reserved \$69.4 million as its estimate of the total MEPPs withdrawal liability, of which \$49.5 million is recorded in other long-term liabilities, \$14.4 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' trustees.

Note 15. Loss Per Share Attributable to Quad/Graphics Common Shareholders

Basic loss per share attributable to Quad/Graphics common shareholders is computed as net loss attributable to Quad/Graphics common shareholders less the allocation of participating securities, divided by the basic weighted average common shares outstanding of 47.4 million and 46.8 million shares for the three months ended March 31, 2014 and 2013, respectively. 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 losses, and accordingly, the Company excludes them from the calculation. Due to the net loss attributable to Quad/Graphics common shareholders incurred during the three months ended March 31, 2014 and March 31, 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. Unvested

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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 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. There was no impact to basic and diluted earnings per share attributable to Quad/Graphics common shareholders due to the Company's participating securities during the three months ended March 31, 2014. The Company's participating securities reduced basic and diluted loss per share attributable to Quad/Graphics common shareholders by \$0.01 for the three months ended March 31, 2013.

Reconciliations of the numerator and the denominator of the basic and diluted per share computations for the Company's common stock, for the three months ended March 31, 2014 and 2013, are summarized as follows:

| | Three Months Ended March 31, | |
|---|------------------------------|-----------|
| | 2014 | 2013 |
| Numerator: | | |
| Net loss attributable to Quad/Graphics common shareholders | \$(8.8 |) \$(14.0 |
| Adjustments to net loss attributable to Quad/Graphics common shareholders | |) |
| Allocation to participating securities | (0.1 |) (0.3 |
| Net loss attributable to Quad/Graphics common shareholders – adjusted | \$(8.9 |) \$(14.3 |
| | |) |
| Denominator: | | |
| Basic weighted average number of common shares outstanding for all classes of common shares | 47.4 | 46.8 |
| Plus: effect of dilutive equity incentive instruments | — | — |
| Diluted weighted average number of common shares outstanding for all classes of common shares | 47.4 | 46.8 |
| Loss per share attributable to Quad/Graphics common shareholders: | | |
| Basic and Diluted | \$(0.19 |) \$(0.31 |
| | |) |
| Cash dividends paid per common share for all classes of common shares | \$0.30 | \$0.30 |

Note 16. 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 7,871,652 shares of class A common stock reserved for issuance under 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 common 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 common stock on the date of grant. As of March 31, 2014, there are 1,708,128 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 three to four year service period of the awards, except deferred stock units ("DSU"), which are fully vested and expensed on the grant date. 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.

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Equity Incentive Compensation Expense

The total compensation expense recognized related to all equity incentive programs was \$4.2 million and \$5.2 million for the three months ended March 31, 2014 and 2013, respectively, and was recorded in selling, general and administrative expenses in the condensed consolidated statements of operations. Total future compensation expense related to all equity incentive programs granted as of March 31, 2014, is approximately \$30.9 million. Estimated future compensation expense is \$14.3 million for 2014, \$10.5 million for 2015, \$5.2 million for 2016 and \$0.9 million for 2017.

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, 24 months after termination for death, 36 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. Stock options are only to be granted to employees.

There were no stock options granted under the Omnibus Plan during the three months ended March 31, 2014 and 2013. Compensation expense recognized related to stock options was \$2.0 million and \$2.5 million for the three months ended March 31, 2014 and 2013, respectively. Total future compensation expense for all stock options granted as of March 31, 2014, is approximately \$5.6 million. Estimated future compensation expense is \$5.4 million for 2014 and \$0.2 million for 2015.

The following table is a summary of the stock option activity for the three months ended March 31, 2014:

| Shares Under Option | Weighted Average |
|------------------------|---------------------|
|------------------------|---------------------|