

Quad/Graphics, Inc.
 Form 10-Q
 August 08, 2012
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UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549
 FORM 10-Q

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

For the quarterly period ended June 30, 2012

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 T 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 T No "

Yes T 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 T

Accelerated filer o

Non-accelerated filer o

Smaller reporting company o

(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 T
 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 August 6, 2012

Class A Common Stock

32,678,480

Class B Common Stock

14,198,464

Class C Common Stock

245,353

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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 June		Six Months Ended June 30,	
	30, 2012	2011	2012	2011
Net sales				
Products	\$824.4	\$863.1	\$1,699.6	\$1,768.1
Services	109.8	114.1	224.2	231.5
Total net sales	934.2	977.2	1,923.8	1,999.6
Cost of sales				
Products	656.4	665.2	1,343.1	1,362.2
Services	84.4	91.4	170.6	178.1
Total cost of sales	740.8	756.6	1,513.7	1,540.3
Selling, general and administrative expenses	80.6	104.6	172.6	202.5
Depreciation and amortization	84.7	83.5	169.3	170.8
Restructuring, impairment and transaction-related charges	37.7	21.6	75.9	50.3
Total operating expenses	943.8	966.3	1,931.5	1,963.9
Operating income (loss) from continuing operations	(9.6	) 10.9	(7.7	) 35.7
Interest expense	20.7	29.3	42.1	59.1
Loss from continuing operations before income taxes and equity in earnings (loss) of unconsolidated entities	(30.3	) (18.4	) (49.8	) (23.4
Income tax benefit	(10.3	) (3.7	) (44.1	) (10.9
Loss from continuing operations before equity in earnings (loss) of unconsolidated entities	(20.0	) (14.7	) (5.7	) (12.5
Equity in earnings (loss) of unconsolidated entities	(0.8	) 0.3	0.3	1.1
Net loss from continuing operations	\$(20.8	) \$(14.4	) \$(5.4	) \$(11.4
Earnings (loss) from discontinued operations, net of tax	—	4.2	(3.2	) (6.1
Gain on disposal of discontinued operations, net of tax	—	—	35.3	—
Net earnings (loss)	\$(20.8) \$(10.2) \$26.7	\$(17.5
Net earnings attributable to noncontrolling interests	—	(0.1) (0.1) (0.1

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Net earnings (loss) attributable to Quad/Graphics common shareholders \$(20.8) \$(10.3) \$26.6 \$(17.6)

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

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QUAD/GRAPHICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (continued)

(in millions, except per share data)

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Earnings (loss) per share attributable to Quad/Graphics common shareholders:				
Basic and diluted:				
Continuing operations	\$ (0.44)	\$ (0.31)	\$ (0.12)	\$ (0.24)
Discontinued operations	—	0.09	0.69	(0.13)
Earnings (loss) per share attributable to Quad/Graphics common shareholders	\$ (0.44)	\$ (0.22)	\$ 0.57	\$ (0.37)
Weighted average number of common shares outstanding:				
Basic and diluted	46.8	47.3	46.8	47.3
Amounts attributable to Quad/Graphics common shareholders:				
Net loss from continuing operations	\$ (20.8)	\$ (14.4)	\$ (5.4)	\$ (11.4)
Net earnings attributable to noncontrolling interests	—	(0.1)	(0.1)	(0.1)
Net loss from continuing operations attributable to Quad/Graphics common shareholders	\$ (20.8)	\$ (14.5)	\$ (5.5)	\$ (11.5)
Earnings (loss) from discontinued operations, net of tax	\$ —	\$ 4.2	\$ (3.2)	\$ (6.1)
Gain on disposal of discontinued operations, net of tax	—	—	35.3	—
Net gain (loss) from discontinued operations, net of tax	\$ —	\$ 4.2	\$ 32.1	\$ (6.1)
Net earnings (loss) attributable to Quad/Graphics common shareholders	\$ (20.8)	\$ (10.3)	\$ 26.6	\$ (17.6)

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 June 30,		Six Months Ended June 30,		
	2012	2011	2012	2011	
Net earnings (loss)	\$ (20.8	) \$ (10.2	) \$ 26.7	\$ (17.5)
Other comprehensive income (loss)					
Foreign currency translation adjustments	(15.2	) 15.0	(2.2	) 27.8	
Postretirement benefit plan amendment, net of tax	4.5	—	4.5	—	
Pension and other postretirement benefit amortization, net of tax	(0.3	) (0.5	) (0.6	) (1.0)
Total other comprehensive income (loss)	(11.0	) 14.5	1.7	26.8	
Total comprehensive income (loss)	(31.8	) 4.3	28.4	9.3	
Less: comprehensive income attributable to noncontrolling interests	—	(0.1	) (0.1	) (0.1)
Comprehensive income (loss) attributable to Quad/Graphics common shareholders	\$ (31.8	) \$ 4.2	\$ 28.3	\$ 9.2	

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

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QUAD/GRAPHICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)

(UNAUDITED)

	June 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	\$ 17.6	\$ 25.6
Receivables, less allowances for doubtful accounts of \$68.3 at June 30, 2012 and \$73.7 at December 31, 2011	531.9	656.1
Inventories	252.5	249.5
Prepaid expenses and other current assets	75.7	142.3
Deferred income taxes	70.6	86.7
Short-term restricted cash	17.2	8.5
Current assets of discontinued operations (Note 4)	—	72.6
Total current assets	965.5	1,241.3
Property, plant and equipment—net	2,023.2	2,123.3
Goodwill	787.3	787.1
Other intangible assets—net	262.1	295.6
Long-term restricted cash	47.3	67.4
Equity method investments in unconsolidated entities	68.2	69.4
Other long-term assets	49.0	46.2
Long-term assets of discontinued operations (Note 4)	—	104.9
Total assets	\$4,202.6	\$4,735.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$ 266.2	\$ 301.9
Amounts owing in satisfaction of bankruptcy claims	10.4	19.5
Accrued liabilities	341.0	393.9
Purchase price payable on business exchange transaction (Note 3)	—	62.4
Short-term debt and current portion of long-term debt	98.7	82.1
Current portion of capital lease obligations	10.3	20.7
Current liabilities of discontinued operations (Note 4)	—	48.4
Total current liabilities	726.6	928.9
Long-term debt	1,208.7	1,342.8
Unsecured notes to be issued	27.6	38.7
Capital lease obligations	20.5	24.9
Deferred income taxes	432.4	471.9
Other long-term liabilities	470.9	521.5
Long-term liabilities of discontinued operations (Note 4)	—	99.6
Total liabilities	2,886.7	3,428.3
Commitments and contingencies (Note 11)		

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Redeemable equity (Note 20)	3.5	3.5
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	979.4	984.2
Treasury stock, at cost	(283.7	) (295.4
Retained earnings	650.6	650.2
Accumulated other comprehensive loss	(36.0	) (37.7
Quad/Graphics common stock and other equity	1,311.7	1,302.7
Noncontrolling interests	0.7	0.7
Total common stock and other equity and noncontrolling interests	1,312.4	1,303.4
Total liabilities and shareholders' equity	\$4,202.6	\$4,735.2
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)

	Six Months Ended June 30,	
	2012	2011
OPERATING ACTIVITIES		
Net earnings (loss)	\$26.7	\$(17.5)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation and amortization	169.3	178.2
Impairment charges	14.1	—
Amortization of debt issuance costs	2.3	5.6
Stock-based compensation charges	6.9	4.6
Gain on disposal of discontinued operations, net of tax	(35.3)	—
(Gain) loss on sales or disposal of property, plant and equipment	0.1	(0.2)
Deferred income taxes	(25.5)	9.4
Equity in earnings of unconsolidated entities	(0.3)	(1.1)
Dividends from unconsolidated entities	—	1.6
Changes in operating assets and liabilities—net of acquisitions	12.2	(63.9)
Net cash provided by operating activities	170.5	116.7
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(54.2)	(98.5)
Investment in ManipalTech (Note 3)	(18.1)	—
Proceeds from the sale of property, plant and equipment	10.0	8.2
Transfers from restricted cash	11.4	17.3
Deposit refunded related to business exchange transaction (Note 3)	50.0	—
Purchase price payments on business exchange transaction (Note 3)	(4.2)	—
Acquisition of business—net of cash acquired	(6.6)	—
Net cash used in investing activities	(11.7)	(73.0)
FINANCING ACTIVITIES		
Payments of long-term debt	(35.9)	(43.6)
Payments of capital lease obligations	(15.9)	(8.8)
Borrowings on revolving credit facilities	65.1	389.5
Payments on revolving credit facilities	(142.6)	(360.9)
Bankruptcy claim payments on unsecured notes to be issued	(11.1)	(8.0)
Proceeds from issuance of common stock	—	1.6
Tax benefit on exercise of stock options	—	0.8
Payment of cash dividends	(23.4)	(9.4)