Quad/Graphics, Inc.
Form 10-Q
August 02, 2016
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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 June 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 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 July 28, 2016
Class A Common Stock	35,838,547
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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales				
Products	$887.4	$910.4	$1,784.7	$1,840.7
Services	144.9	149.6	290.1	307.3
Total net sales	1,032.3	1,060.0	2,074.8	2,148.0
Cost of sales				
Products	721.1	748.6	1,425.1	1,508.8
Services	99.9	109.1	199.4	224.3
Total cost of sales	821.0	857.7	1,624.5	1,733.1
Operating expenses				
Selling, general and administrative expenses	113.0	110.4	232.0	220.1
Depreciation and amortization	77.6	83.4	155.7	164.7
Restructuring, impairment and transaction-related charges	7.4	34.3	36.3	44.4
Goodwill impairment	—	—	—	23.3
Total operating expenses	1,019.0	1,085.8	2,048.5	2,185.6
Operating income (loss)	$13.3	$(25.8)	$26.3	$(37.6)
Interest expense	18.6	21.6	39.3	44.1
Gain on debt extinguishment	—	—	(14.1)	—
Earnings (loss) before income taxes and equity in loss of unconsolidated entities	(5.3)	(47.4)	1.1	(81.7)
Income tax expense (benefit)	1.0	(3.8)	2.7	(4.8)
Loss before equity in loss of unconsolidated entities	(6.3)	(43.6)	(1.6)	(76.9)
Equity in loss of unconsolidated entities	1.4	1.5	2.3	3.4
Net loss	$(7.7)	$(45.1)	$(3.9)	$(80.3)
Loss per share				
Basic and diluted	$(0.16)	$(0.94)	$(0.08)	$(1.68)
Dividends declared per share	$0.30	$0.30	$0.60	$0.60
Weighted average number of common shares outstanding				
Basic and diluted	47.4	47.9	47.5	47.8

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,	
	2016	2015	2016	2015
Net loss	$(7.7)	$(45.1)	$(3.9)	$(80.3)
Other comprehensive income (loss)				
Translation adjustments	(1.3)	1.8	7.1	(23.1)
Other comprehensive income (loss), before tax	(1.3)	1.8	7.1	(23.1)
Income tax benefit related to items of other comprehensive income (loss)	—	—	—	—
Other comprehensive income (loss), net of tax	(1.3)	1.8	7.1	(23.1)
Comprehensive income (loss)	$(9.0)	$(43.3)	$3.2	$(103.4)

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, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$8.7	$ 10.8
Receivables, less allowances for doubtful accounts of $54.7 million at June 30, 2016, and $50.1 million at December 31, 2015	524.3	648.7
Inventories	269.9	280.1
Prepaid expenses and other current assets	45.0	38.2
Restricted cash	14.6	13.5
Total current assets	862.5	991.3
Property, plant and equipment—net	1,575.0	1,675.8
Other intangible assets—net	69.7	110.5
Equity method investments in unconsolidated entities	2.8	4.4
Other long-term assets	73.3	65.5
Total assets	$2,583.3	$ 2,847.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	$320.1	$ 358.8
Amounts owing in satisfaction of bankruptcy claims	2.4	1.4
Accrued liabilities	320.2	347.5
Short-term debt and current portion of long-term debt	85.8	94.6
Current portion of capital lease obligations	5.4	5.1
Total current liabilities	733.9	807.4
Long-term debt	1,096.6	1,239.9
Unsecured notes to be issued	6.9	7.1
Capital lease obligations	8.1	9.7
Deferred income taxes	58.1	59.0
Other long-term liabilities	284.3	300.5
Total liabilities	2,187.9	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	917.4	956.7
Treasury stock, at cost	(154.6)	(193.6)
Accumulated deficit	(223.4)	(188.1)
Accumulated other comprehensive loss	(145.4)	(152.5)
Total shareholders' equity	395.4	423.9
Total liabilities and shareholders' equity	$2,583.3	$ 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)

	Six Months Ended June 30,	
	2016	2015
OPERATING ACTIVITIES		
Net loss	$(3.9)	$(80.3)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	155.7	164.7
Impairment charges	16.8	24.1
Goodwill impairment	—	23.3
Amortization of debt issuance costs and original issue discount	2.2	2.2
Gain on debt extinguishment	(14.1)	—
Stock-based compensation	8.2	5.9
Gain on sale or disposal of property, plant and equipment	(6.3)	(0.3)
Deferred income taxes	(1.5)	(10.1)
Equity in loss of unconsolidated entities	2.3	3.4
Changes in operating assets and liabilities—net of acquisitions	60.2	(9.5)
Net cash provided by operating activities	219.6	123.4
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(40.6)	(83.3)
Cost investment in unconsolidated entities	(9.9)	(1.2)
Proceeds from the sale of property, plant and equipment	10.8	2.5
Proceeds from the sale of investments	—	3.5
Transfers from restricted cash	—	0.5
Acquisition of businesses—net of cash acquired	(0.9)	(79.9)
Net cash used in investing activities	(40.6)	(157.9)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	19.7	—
Payments of long-term debt	(148.6)	(44.6)
Payments of capital lease obligations	(2.6)	(2.4)
Borrowings on revolving credit facilities	488.3	793.2
Payments on revolving credit facilities	(499.1)	(678.5)
Payments of debt financing fees	(0.1)	—
Bankruptcy claim payments on unsecured notes to be issued	(0.2)	(0.1)
Purchases of treasury stock	(8.8)	—
Sale of stock for options exercised	1.7	2.2
Shares withheld from employees for the tax obligations paid on equity grants	(1.4)	(1.6)
Tax benefit on equity award activity	—	1.6
Payment of cash dividends	(29.5)	(30.1)
Net cash provided by (used in) financing activities	(180.6)	39.7
Effect of exchange rates on cash and cash equivalents	(0.5)	(1.2)
Net increase (decrease) in cash and cash equivalents	(2.1)	4.0
Cash and cash equivalents at beginning of period	10.8	9.6
Cash and cash equivalents at end of period	$8.7	$13.6

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

QUAD/GRAPHICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016
(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"). During 2016, the Company modified its presentation of byproduct recoveries to include byproduct recoveries as a reduction of cost of sales–products in the condensed consolidated statements of operations. Previously, byproduct recoveries were reported in net sales–products. Classification of byproduct recoveries as a reduction of cost of sales aligns the proceeds from byproduct recoveries with the corresponding manufacturing costs. The condensed consolidated statements of operations and corresponding notes to the financial statements for the three and six months ended June 30, 2015, have been reclassified to reflect this change in presentation. This reclassification had no impact on operating income (loss) or net earnings (loss) in the condensed consolidated statements of operations. 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, 2015, and notes thereto included in the Company's latest Annual Report on Form 10-K filed with the SEC on February 23, 2016.

The Company is subject to seasonality in its quarterly results as net sales and operating income are higher in the third and fourth quarters of the calendar year as compared to the first and second quarters. The fourth quarter is the highest seasonal quarter for cash flows from operating activities due to the reduction of working capital requirements that reach peak levels during the third quarter. 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 and six months ended June 30, 2016 and 2015. All of these adjustments are of a normal recurring nature, except as otherwise noted. 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

2015 Specialty Finishing, Inc. Acquisition

The Company completed the acquisition of Specialty Finishing, Inc. ("Specialty") on August 25, 2015, for $61.8 million. Specialty is a full-service paperboard folding carton manufacturer and logistics provider located in Omaha, Nebraska. The purchase price of $61.8 million included $0.1 million of acquired cash for a net purchase price of $61.7 million. Included in the preliminary purchase price allocation are $9.6 million of identifiable intangible

assets, which are amortized over their estimated useful lives ranging from three to six years, and $3.5 million of goodwill. 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 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 net assets acquired, excluding acquired cash, were classified as Level 3 in the valuation hierarchy (see Note 12, "Financial Instruments and Fair Value Measurements," for the definition of Level 3 inputs). Specialty's operations are included in the United States Print and Related Services segment.

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FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016
(In millions, except share and per share data and unless otherwise indicated)

2015 Copac Global Packaging, Inc. Acquisition

The Company completed the acquisition of Copac Global Packaging, Inc. ("Copac") on April 14, 2015, for $59.4 million. Copac is a leading international provider of innovative packaging and supply chain solutions, including turnkey packaging design, production and fulfillment services across a range of end markets. Copac manufactures products such as folding cartons, labels, inserts, tags and specialty envelopes, and has production facilities in Spartanburg, South Carolina and Santo Domingo, Dominican Republic, as well as strategically sourcing packaging product manufacturing over multiple end markets in Central America and Asia, giving it a global footprint. The purchase price of $59.4 million included $0.9 million of acquired cash for a net purchase price of $58.5 million. Included in the purchase price allocation are $22.2 million of identifiable intangible assets, which are amortized over their estimated useful lives of six years, and $23.5 million of goodwill. The final allocation of the purchase price was based on valuations performed to determine the fair value of the net assets as of the acquisition date. The net assets acquired, excluding acquired cash, were classified as Level 3 in the valuation hierarchy (see Note 12, "Financial Instruments and Fair Value Measurements," for the definition of Level 3 inputs). Copac's operations are included in the United States Print and Related Services segment.

2015 Marin's International Acquisition

The Company completed the acquisition of Marin's International, S.A. ("Marin's") on February 3, 2015, for $31.1 million. Marin's, headquartered in Paris, France, is a worldwide leader in the point-of-sale display industry and specializes in the research and design of display solutions. Marin's products are produced by a global network of licensees, including Quad/Graphics, as well as one wide-format digital print, kitting and fulfillment facility in Paris. Marin's uses its own European–based sales force and the global licensees to sell its patented product portfolio. The purchase price of $31.1 million included $10.1 million of acquired cash for a net purchase price of $21.0 million. Included in the purchase price allocation are $17.9 million of identifiable intangible assets, which are amortized over their estimated useful lives ranging from three to eight years, and $6.8 million of goodwill. The final allocation of the purchase price was based on valuations performed to determine the fair value of the net assets as of the acquisition date. The net assets acquired, excluding acquired cash, were classified as Level 3 in the valuation hierarchy (see Note 12, "Financial Instruments and Fair Value Measurements," for the definition of Level 3 inputs). Marin's operations are included in the International segment.

Note 3. Restructuring, Impairment and Transaction-Related Charges

The Company recorded restructuring, impairment and transaction-related charges for the three and six months ended June 30, 2016 and 2015, as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Employee termination charges	$1.7	$7.4	$6.6	$12.5

Impairment charges	0.1	17.8	16.8	24.1
Transaction-related charges (income)	0.9	1.0	1.5	(8.2)
Integration costs	—	2.0	0.1	3.8
Other restructuring charges	4.7	6.1	11.3	12.2
Total	$7.4	$34.3	$36.3	$44.4

The costs related to these activities have been recorded in 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.

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

Restructuring Charges

Since 2010, the Company has implemented restructuring programs to eliminate excess manufacturing capacity and properly align its cost structure. The Company has announced a total of 33 plant closures and has reduced headcount by approximately 11,000 employees since 2010.

The Company announced the closures of the Atglen, Pennsylvania and Lenexa, Kansas plants during the six months ended June 30, 2016. The Company recorded the following charges as a result of plant closures and other restructuring programs:

- Employee termination charges of $1.7 million and $6.6 million were recorded during the three and six months ended June 30, 2016, respectively, and $7.4 million and $12.5 million were recorded during the three and six months ended June 30, 2015, respectively. The Company reduced its workforce through facility consolidations and involuntary separation programs.

- There were no integration costs recorded during the three months ended June 30, 2016. Integration costs of $0.1 million were recorded during the six months ended June 30, 2016. Integration costs of $2.0 million and $3.8 million were recorded during the three and six months ended June 30, 2015, respectively, and 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 acquired companies.

- Other restructuring charges of $4.7 million and $11.3 million were recorded during the three and six months ended June 30, 2016, respectively, which consisted of the following: (1) $3.1 million and $7.1 million, respectively, of vacant facility carrying costs; (2) $1.3 million and $3.8 million, respectively, of equipment and infrastructure removal costs from closed plants; and (3) $0.3 million and $0.4 million, respectively, of lease exit charges. Other restructuring charges of $6.1 million and $12.2 million, respectively, were recorded during the three and six months ended June 30, 2015, which consisted of the following: (1) $4.5 million and $6.7 million, respectively, of vacant facility carrying costs; (2) $0.9 million and $1.3 million, respectively, of equipment and infrastructure removal costs from closed plants; and (3) $0.7 million and $4.2 million, respectively, of lease exit charges primarily related to the closure of the Atlanta, Georgia facility.

The restructuring charges recorded were based on plans that have been committed to by management and were, 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 $0.1 million and $16.8 million during the three and six months ended June 30, 2016, respectively, which consisted of the following: (1) $12.1 million during the six months ended June 30, 2016 of land and building impairment charges related to the Atglen, Pennsylvania plant closure; and (2) $0.1 million and $4.7 million during the three and six months ended June 30, 2016, respectively, of impairment charges primarily for machinery and equipment no longer being utilized in production as a result of facility

consolidations, including Atglen, Pennsylvania; Augusta, Georgia; and East Greenville, Pennsylvania, as well as other capacity reduction restructuring activities.

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

The Company recognized impairment charges of $17.8 million and $24.1 million during the three and six months ended June 30, 2015, respectively, which consisted of the following: (1) $16.7 million of impairment charges recorded in the second quarter of 2015 to reduce the book value of the Company's equity method investment in Chile to fair value (see Note 7, "Equity Method Investments in Unconsolidated Entities," for additional details related to the impairment of the Company's equity method investment in Chile); (2) $1.1 million and $5.2 million, respectively, of impairment charges for machinery and equipment no longer being utilized in production as a result of facility consolidations, including Atlanta, Georgia; Dickson, Tennessee; and Queretaro, Mexico, as well as other capacity reduction restructuring initiatives; and (3) $2.2 million of impairment charges recorded in the first quarter of 2015 for property, plant and equipment and other intangible assets as a result of the restructuring proceedings in Argentina for the Company's Argentina subsidiaries, World Color Argentina, S.A. and Anselmo L. Morvillo S.A. (the "Argentina Subsidiaries").

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, internal expertise related to current marketplace conditions and estimated future undiscounted cash flows. These assets were adjusted to their estimated fair values at the time of impairment.

The non-cash goodwill impairment charges included in the line item entitled goodwill impairment on the Company's condensed consolidated statements of operations are discussed in Note 4, "Goodwill and Other Intangible Assets."

Transaction-Related Charges (Income)

The Company incurs transaction-related charges (income) primarily consisting of professional service fees related to business acquisition and divestiture activities. The Company recognized transaction-related charges of $0.9 million and $1.5 million during the three and six months ended June 30, 2016, respectively. The Company recognized transaction-related charges of $1.0 million and income of $8.2 million during the three and six months ended June 30, 2015, respectively, which, in the six month period, included a $10.0 million non-recurring gain as a result of Courier Corporation's ("Courier") termination of the agreement pursuant to which Quad/Graphics was to acquire Courier, partially offset by $1.8 million of professional service fees primarily for the terminated acquisition of Courier and for the acquisitions of Marin's and Copac. 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 six months ended June 30, 2016, was as follows:

	Employee Termination Charges	Impairment Charges	Transaction-Related Charges	Integration Costs	Other Restructuring Charges	Total
Balance at December 31, 2015	$ 24.4	$ —	$ 0.1	$ 1.4	$ 13.0	$38.9
Expense	6.6	16.8	1.5	0.1	11.3	36.3
Cash payments	(23.4)	—	(1.1)	(0.3)	(13.7)	(38.5)

Non-cash adjustments	(0.2)	(16.8)	—	(0.1)	(1.4)	(18.5)
Balance at June 30, 2016	$ 7.4	$ —	$ 0.5	$ 1.1	$ 9.2	$ 18.2

The Company's restructuring, impairment and transaction-related reserves at June 30, 2016, included a short-term and a long-term component. The short-term portion included $11.6 million in accrued liabilities and $1.0 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 $5.6 million is included in other long-term liabilities (see Note 13, "Other Long-Term Liabilities") in the condensed consolidated balance sheets.

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FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016
(In millions, except share and per share data and unless otherwise indicated)

Note 4. Goodwill and Other Intangible Assets

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in a business combination. Goodwill is assigned to specific reporting units and 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.

On March 25, 2015, due to deteriorating economic conditions, including inflation and currency devaluation, combined with uncertain political conditions, declining print volume and labor challenges, the Company's Argentina Subsidiaries (included within the Latin America reporting unit) commenced bankruptcy restructuring proceedings with a goal of consolidating operations. As a result, the Company conducted an interim goodwill impairment assessment of the Latin America reporting unit, which included comparing the carrying amount of net assets, including goodwill, to its respective fair value as of March 31, 2015, the date of the interim assessment.

Fair value was determined using an equal weighting of both the income and market approaches. Under the income approach, the Company determined fair value based on estimated future cash flows discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk and the rate of return an outside investor would expect to earn. Under the market approach, the Company derived the fair value of the reporting units based on market multiples of comparable publicly-traded companies. The Company performed an additional fair value measurement calculation to determine whether a Latin America reporting unit impairment charge should be recorded because the fair value of the reporting unit was below its carrying amount. As part of this calculation, the Company also estimated the fair values of significant tangible and intangible long-lived assets in the Latin America reporting unit. This fair value determination was categorized as Level 3 in the fair value hierarchy (see Note 12, "Financial Instruments and Fair Value Measurements," for the definition of Level 3 inputs).

The Company recorded a $23.3 million non-cash goodwill impairment charge during the six months ended June 30, 2015, for the Latin America reporting unit within the International segment as a result of the March 31, 2015, interim goodwill assessment. The goodwill impairment charge resulted from a reduction in estimated fair value of the reporting unit based on lower expectations for future revenue, profitability and cash flows due to volume and pricing pressures as compared to expectations in the last annual goodwill impairment assessment performed as of October 31, 2014.

All remaining goodwill was impaired in the third and fourth quarters of 2015, and the accumulated goodwill impairment losses and the carrying value of goodwill at June 30, 2016, and December 31, 2015, were as follows:

	United States Print and Related Services	International	Total

Goodwill	$ 778.3	$ 30.0	$ 808.3
Accumulated goodwill impairment loss	(778.3)	(30.0)	(808.3)
Balance at June 30, 2016 and December 31, 2015	$ —	$ —	$ —

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QUAD/GRAPHICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016
(In millions, except share and per share data and unless otherwise indicated)

Other Intangible Assets

The components of other intangible assets at June 30, 2016, and December 31, 2015, were as follows:

		June 30, 2016			December 31, 2015		
	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trademarks, patents, licenses and agreements	7	$22.6	$ (8.0)	$ 14.6	$22.1	$ (5.5)	$ 16.6
Capitalized software	5	6.5	(6.2)	0.3	6.5	(6.2)	0.3
Acquired technology	5	6.3	(6.3)	—	6.2	(5.9)	0.3
Customer relationships	6	460.1	(405.3)	54.8	459.4	(366.1)	93.3
Total		$495.5	$ (425.8)	$ 69.7	$494.2	$ (383.7)	$ 110.5

The gross carrying amount and accumulated amortization within other intangible assets—net in the condensed consolidated balance sheets at June 30, 2016, and December 31, 2015, differs from the value originally recorded at acquisition due to impairment charges recorded and the effects of currency fluctuations between the purchase date and June 30, 2016, and December 31, 2015.

Other intangible assets are evaluated for potential impairment whenever events or circumstances indicate that the carrying value may not be recoverable. There were no impairment charges recorded on other intangible assets for the three and six months ended June 30, 2016, and for the three months ended June 30, 2015. The Company recorded other intangible asset impairment charges of $0.1 million for the six months ended June 30, 2015, (see Note 3, "Restructuring, Impairment and Transaction-Related Charges," for further discussion on impairment charges).

Amortization expense for other intangible assets was $21.3 million and $41.4 million for the three and six months ended June 30, 2016, respectively, and $20.5 million and $39.6 million for the three and six months ended June 30, 2015, respectively. The estimated future amortization expense related to other intangible assets as of June 30, 2016, was as follows:

	Amortization Expense
Remainder of 2016	$ 9.3
2017	18.1
2018	17.6
2019	12.8
2020	7.6
2021 and thereafter	4.3
Total	$ 69.7

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Note 5. Inventories

The components of inventories at June 30, 2016, and December 31, 2015, were as follows:

	June 30, 2016	December 31, 2015
Raw materials and manufacturing supplies	$ 153.1	$ 154.8
Work in process	46.3	51.0
Finished goods	70.5	74.3
Total	$ 269.9	$ 280.1

Note 6. Property, Plant and Equipment

The components of property, plant and equipment at June 30, 2016, and December 31, 2015, were as follows:

	June 30, 2016	December 31, 2015
Land	$ 128.6	$ 135.9
Buildings	942.0	952.6
Machinery and equipment	3,623.2	3,603.9
Other[1]	196.5	194.1
Construction in progress	25.5	24.2
Property, plant and equipment—gross	$ 4,915.8	$ 4,910.7
Less: accumulated depreciation	(3,340.8)	(3,234.9)
Property, plant and equipment—net	$ 1,575.0	$ 1,675.8

(1) Other consists of computer equipment, vehicles, furniture and fixtures, leasehold improvements and communication-related equipment.

The Company recorded impairment charges of $0.1 million and $16.8 million for the three and six months ended June 30, 2016, respectively, and $1.1 million and $7.3 million for the three and six months ended June 30, 2015, respectively, to reduce the carrying amounts of certain property, plant and equipment no longer 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 $56.3 million and $114.3 million for the three and six months ended June 30, 2016, respectively, and $62.9 million and $125.1 million for the three and six months ended June 30, 2015, respectively.

Assets Held for Sale

The Company considered certain closed facilities for held for sale classification on the condensed consolidated balance sheets. The net book value of assets held for sale was $6.7 million and $6.3 million as of June 30, 2016, and

December 31, 2015, respectively. These assets were carried at the lesser of original cost or 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. ("Plural"), a commercial printer based in São Paulo, Brazil. The Company had a 50% ownership interest in Quad/Graphics Chile S.A. ("Chile"), a commercial printer based in Santiago, Chile, until the Company sold its ownership interest in Chile on July 31, 2015, for $10.5 million. The Company's ownership interest in Plural and Chile was accounted for using the equity method of accounting for all periods presented. The Company's equity loss of Plural's and Chile's operations was recorded in equity in loss of unconsolidated entities in the Company's condensed consolidated statements of operations and was included within the International segment.

The Company reviews its equity method investments regularly for indicators of other than temporary impairment. During the second quarter of 2015, the Company recorded a $16.7 million impairment charge to reduce the book value of the 50% ownership interest in Chile to fair value based on the intent to sell the investment. The impairment was recorded in restructuring, impairment and transaction-related charges on the condensed consolidated statement of operations and was included within the International segment. The fair value measurement of the investment, which was classified as Level 3 in the fair value hierarchy (see Note 12, "Financial Instruments and Fair Value Measurements," for the definition of Level 3 inputs), was determined using internal expertise of current marketplace conditions.

The combined condensed statements of operations of unconsolidated entities for the three and six months ended June 30, 2016 and 2015, are presented below. Results from the Chile equity method investment are included in the following table through the July 31, 2015 sale date:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales	$18.5	$29.7	$32.5	$67.9
Operating loss	2.0	2.9	3.0	6.2
Net loss	2.8	3.0	4.6	6.9

Note 8. Commitments and Contingencies

Litigation

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

In April 2016, the Company self-reported to the SEC and the Department of Justice ("DOJ") certain Foreign Corrupt Practices Act ("FCPA") issues related to its Peru operations. These issues appear to be isolated to the Company's Peru operations, which had approximate annual sales ranging from $55 million to $85 million since the date that the

Company acquired those operations in July 2010. The self-reported issues were identified by the Company's financial internal controls. The Company, under the oversight of its Audit Committee and Board of Directors, proactively initiated an investigation into this matter with the assistance of external legal counsel and external forensic accountants. In connection with this investigation, the Company has made and continues to evaluate certain enhancements to its compliance program. The Company is fully cooperating with the SEC and the DOJ. At this time, the Company does not anticipate any material adverse effect on its business or financial condition as a result of this matter.

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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 as 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 on the Company's condensed consolidated financial position.

Note 9. World Color Press Inc. 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. ("World Color Press") 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 (the "Class 4 Claims"), 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 $1.3 million and $1.4 million of such recorded claims have yet to be paid as of June 30, 2016, and December 31, 2015, respectively. With respect to claims asserted by the holders thereof as being entitled to Class 4 Claims, during the second quarter of 2016 the Company was provided $1.1 million of restricted cash to satisfy the cash portion of the remaining Class 4 Claims. The obligations for both the priority cash claims and the Class 4 Claims are 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 equaling 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. Each allowed Class 3 Claim will also receive accrued interest and a 5% prepayment redemption premium thereon (the total aggregate maximum principal, interest and prepayment redemption premium for all Class 3 Claims 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) excess amounts not required for Class 3 Claim payments will revert to the Company.

During the six months ended June 30, 2016, $0.2 million was paid to Class 3 Claim creditors, and no refunds of restricted cash were received. At June 30, 2016, a $11.5 million maximum potential payout to the Class 3 Claim creditors remained and was classified as restricted cash in the condensed consolidated balance sheet. Based on the

Company's analysis of the outstanding Class 3 claims, the Company had a liability of $6.9 million at June 30, 2016, classified as unsecured notes to be issued in the condensed consolidated balance sheets. Activity impacting restricted cash and unsecured notes to be issued for the six months ended June 30, 2016, was as follows:

	Restricted Cash	Unsecured Notes to be Issued
Balance at December 31, 2015	$ 11.5	$ 7.1
Class 3 Claim payments	—	(0.2)
Balance at June 30, 2016	$ 11.5	$ 6.9

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The components of restricted cash at June 30, 2016, and December 31, 2015, were as follows:

	June 30, 2016	December 31, 2015
Defeasance of unsecured notes to be issued	$ 11.5	$ 11.5
Restricted cash for Class 4 Claim payments	1.1	—
Other	2.0	2.0
Total	$ 14.6	$ 13.5

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, Class 4 claims or Class 3 claims that will ultimately be allowed by the United States Bankruptcy Court. Therefore, payments for amounts owing in satisfaction of bankruptcy claims could be higher than the amounts accrued on the condensed consolidated balance sheets, which would require additional cash payments to be made and expense to be recorded for the amount exceeding the Company's estimate. Amounts payable related to the unsecured notes could exceed current estimates, which would require additional expense to be recorded. The Company has resolved the majority of claims since acquiring World Color Press in 2010, but the ultimate timing for completion of the bankruptcy process depends on the resolution of the remaining claims.

Note 10. Debt

The components of long-term debt as of June 30, 2016, and December 31, 2015, were as follows:

	June 30, 2016	December 31, 2015
Master note and security agreement	$173.4	$ 260.4
Term loan A—$450.0 million due April 2019	393.8	410.6
Term loan B—$300.0 million due April 2021	291.9	293.2
Revolving credit facility—$850.0 million due April 2019	60.0	70.8
Senior unsecured notes—$300.0 million due May 2022	243.5	300.0
International term loan—$19.7 million due December 2021	19.7	—
International revolving credit facility—$12.7 million	—	—
Equipment term loans	11.5	13.4
Other	1.7	2.2
Debt issuance costs	(13.1)	(16.1)
Total debt	$1,182.4	$ 1,334.5
Less: short-term debt and current portion of long-term debt	(85.8)	(94.6)
Long-term debt	$1,096.6	$ 1,239.9

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Gain on Debt Extinguishment

The gain on debt extinguishment recorded during the six months ended June 30, 2016, was as follows:

	Master Note and Security Agreement	Senior Unsecured Notes	Total
Principal amount repurchased	$ 60.1	$ 56.5	$116.6
Repurchase price	61.2	42.5	103.7
Less: accrued interest paid	(1.2)	(1.1)	(2.3)
Net repurchase price	60.0	41.4	101.4
Debt financing fees expensed	(0.1)	—	(0.1)
Debt issuance costs expensed	(0.2)	(0.8)	(1.0)
Gain (loss) on debt extinguishment	$ (0.2)	$ 14.3	$14.1

Master Note and Security Agreement Tender

The Company redeemed $60.1 million of its senior notes under the Master Note and Security Agreement, resulting in a net loss on debt extinguishment of $0.2 million during the six months ended June 30, 2016. All tendered senior notes under the Master Note and Security Agreement were canceled. The Company used cash flows from operating activities and borrowings under its revolving credit facility to fund the tender. The tender was primarily completed to reallocate debt to the lower interest rate revolving credit facility and thereby reduce interest expense based on current London Interbank Offered Rate ("LIBOR") rates.

Senior Unsecured Note Repurchases

The Company repurchased $56.5 million of its $300.0 million aggregate principal amount of unsecured 7.0% senior notes due May 1, 2022, (the "Senior Unsecured Notes") in the open market, resulting in a net gain on debt extinguishment of $14.3 million during the six months ended June 30, 2016. All repurchased Senior Unsecured Notes were canceled. The Company used cash flows from operating activities and borrowings under its revolving credit facility to fund the repurchases. These repurchases were primarily completed to efficiently reduce debt balances and interest expense based on current LIBOR rates.

International Debt Obligations

The Company entered into a fixed rate Euro denominated international term loan on December 28, 2015, for purposes of financing certain capital expenditures and general business needs. The term loan has a term of six years maturing on December 28, 2021. The $19.7 million term loan was fully funded as of June 30, 2016, through an $18.5 million tranche with a five year life maturing on December 31, 2020, bearing interest at a fixed rate of 1.72% and a $1.2 million tranche with a five year life maturing on March 31, 2021, bearing interest at a fixed rate of 1.71%.

Fair Value of Debt

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 $1.2 billion at June 30, 2016, and December 31, 2015. 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).

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Covenants and Compliance

The Company's various lending arrangements include 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 June 30, 2016:

- Total Leverage Ratio. On a rolling twelve-month basis, the total leverage ratio, defined as total consolidated debt to consolidated EBITDA, shall not exceed 3.75 to 1.00 (for the twelve months ended June 30, 2016, the Company's total leverage ratio was 2.45 to 1.00).

- Senior Secured Leverage Ratio. On a rolling twelve-month basis, the senior secured leverage ratio, defined as senior secured debt to consolidated EBITDA, shall not exceed 3.50 to 1.00 (for the twelve months ended June 30, 2016, the Company's senior secured leverage ratio was 1.96 to 1.00).

- Minimum Interest Coverage Ratio. 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 June 30, 2016, the Company's minimum interest coverage ratio was 6.27 to 1.00).

The indenture underlying the Senior Unsecured Notes contains various covenants, including, but not limited to, covenants that, subject to certain exceptions, limit the Company's and its restricted subsidiaries' ability to incur and/or guarantee additional debt; pay dividends, repurchase stock or make certain other restricted payments; enter into agreements limiting dividends and certain other restricted payments; prepay, redeem or repurchase subordinated debt; grant liens on assets; enter into sale and leaseback transactions; merge, consolidate, transfer or dispose of substantially all of the Company's consolidated assets; sell, transfer or otherwise dispose of property and assets; and engage in transactions with affiliates.

In addition to those covenants, the Company's $1.6 billion senior secured credit facility (the "Senior Secured Credit Facility") also includes certain limitations on acquisitions, indebtedness, liens, dividends and repurchases of capital stock, including the following:

- If the Company's total leverage ratio is greater than 3.00 to 1.00 (as defined in the Senior Secured Credit Facility), 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.

- If the Company's senior secured leverage ratio is greater than 3.00 to 1.00 or the Company's total leverage ratio is greater than 3.50 to 1.00 (these ratios as defined in the Senior Secured Credit Facility), the Company is prohibited from voluntarily prepaying any of the Senior Unsecured Notes and from voluntarily prepaying any other unsecured or subordinated indebtedness, with certain exceptions (including any mandatory prepayments on the Senior Unsecured Notes or any other unsecured or subordinated debt). If the senior secured leverage ratio is less than 3.00 to 1.00 and the total leverage ratio is less than 3.50 to 1.00, there are no such restrictions.

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.

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The Company's liability for unrecognized tax benefits as of June 30, 2016, was $29.9 million. The Company anticipates a $1.1 million decrease to its liability for unrecognized tax benefits within the next twelve months due to resolution of income tax 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 were no Level 3 recurring measurements of assets or liabilities as of June 30, 2016.

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 June 30, 2016, and December 31, 2015. 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. See Note 3, "Restructuring, Impairment and Transaction-Related Charges," and Note 4, "Goodwill and Other Intangible Assets," 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 June 30, 2016.

The Company periodically enters into natural gas forward purchase contracts to hedge against increases in commodity costs. The Company's commodity contracts qualified for the exception related to normal purchases and sales during the three and six months ended June 30, 2016 and 2015, as the Company takes delivery in the normal course of

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Note 13. Other Long-Term Liabilities

The components of other long-term liabilities as of June 30, 2016, and December 31, 2015, were as follows:

	June 30, 2016	December 31, 2015
Single employer pension obligations	$ 129.2	$ 136.0
Multiemployer pension plans—withdrawal liability	25.7	31.0
Tax-related liabilities	22.6	22.2
Employee-related liabilities	63.5	64.6
Restructuring reserve	5.6	6.6
Other	37.7	40.1
Total	$ 284.3	$ 300.5

Note 14. Employee Retirement Plans

Pension 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.

The components of net pension income for the three and six months ended June 30, 2016 and 2015, were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest cost	$(5.2)	$(6.7)	$(10.3)	$(13.4)
Expected return on plan assets	7.9	8.7	15.8	17.4
Net pension income	$2.7	$2.0	$5.5	$4.0

For 2015, the Company measured interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the plan obligations. Beginning in the first quarter of 2016, the Company changed the approach used to measure interest costs for pension benefits and elected to measure interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows. The new method would also impact the calculation of service costs, but this is not applicable to the Company's pension plans due to their frozen status. The Company made this change to provide a more precise measurement of interest costs by aligning the timing of the plans' liability cash flows to the corresponding spot rates on the yield curve. This change did not affect the measurement of the plan obligations. The Company has reflected this as a change in accounting estimate, and accordingly, has accounted for it on a prospective basis.

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The Company made the following contributions and benefit payments to its defined benefit pension plans during the six months ended June 30, 2016:

	Six Months Ended June 30, 2016
Contributions on qualified pension plans	$ 0.3
Benefit payments on non-qualified pension plans	1.0
Total	$ 1.3

On April 1, 2016, the Company provided the option to receive a lump-sum pension payment to a select group of terminated vested participants. Total lump sum payments of $63.3 million have been paid from January 1, 2016 to July 15, 2016, of which $56.4 million was paid in July 2016 under the lump-sum program. The Company will record a non-cash settlement charge of $6.5 million during the third quarter of 2016 in connection with the lump sum payments. The settlement charge will be classified as restructuring, impairment and transaction-related charges in the condensed consolidated statement of operations.

Multiemployer Pension Plans ("MEPPs")

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 currently in litigation with the MEPPs' trustees to determine the amount and duration of the withdrawal payments. Arbitration proceedings with the GCIU and GCC have been completed, both sides have appealed the arbitrator's ruling, and litigation in Federal court has commenced. The withdrawal liability reserved by the Company is within the range of the Company's estimated potential outcomes. The Company made monthly payments totaling $5.8 million and $6.2 million for the six months ended June 30, 2016 and 2015, respectively, 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.

The Company has reserved $41.8 million as its estimate of the total MEPPs withdrawal liability as of June 30, 2016, of which $25.7 million is recorded in other long-term liabilities, $10.6 million is recorded in accrued liabilities and

$5.5 million is recorded in unsecured notes to be issued in the condensed consolidated balance sheets. This estimate may increase or decrease depending on the final conclusion of the litigation with the MEPPs' trustees.

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Note 15. Loss Per Share

Basic loss per share is computed as net loss divided by the basic weighted average common shares outstanding of 47.4 million and 47.5 million for the three and six months ended June 30, 2016, respectively, and 47.9 million and 47.8 million shares for the three and six months ended June 30, 2015, respectively. The calculation of diluted earnings per share 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 the following: (1) the amount the employee must pay upon exercise of the award; (2) the amount of unearned stock-based compensation costs attributable to future services; and (3) for the three and six months ended June 30, 2015, the amount of excess tax benefits, if any, that would be credited to additional paid-in capital, assuming exercise of the award. The calculation of total proceeds for the three and six months ended June 30, 2016, excludes the excess tax benefits as a result of the early prospective adoption of new accounting guidance related to share-based compensation during the second quarter of 2016, with retrospective application to January 1, 2016. See Note 21, "New Accounting Pronouncements," for further discussion of the adoption of the new accounting standard related to share-based compensation and its impacts to the condensed consolidated financial statements.

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, and accordingly, the Company excludes them from the calculation. Due to the net loss incurred during the three and six months ended June 30, 2016 and 2015, the assumed exercise of all equity incentive instruments was anti-dilutive and, therefore, not included in the diluted loss per share calculation for those periods.

Reconciliations of the numerator and the denominator of the basic and diluted per share computations for the Company's common stock, for the three and six months ended June 30, 2016 and 2015, are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator				
Net loss	$(7.7)	$(45.1)	$(3.9)	$(80.3)
Denominator				
Basic weighted average number of common shares outstanding for all classes of common shares	47.4	47.9	47.5	47.8
Plus: effect of dilutive equity incentive instruments	—	—	—	—
Diluted weighted average number of common shares outstanding for all classes of common shares	47.4	47.9	47.5	47.8
Loss per share				
Basic and diluted	$(0.16)	$(0.94)	$(0.08)	$(1.68)
Cash dividends paid per common share for all classes of common shares	$0.30	$0.30	$0.60	$0.60

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Note 16. Equity Incentive Programs

The shareholders of the Company approved the Quad/Graphics, Inc. 2010 Omnibus Incentive Plan ("Omnibus Plan") for two complementary 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 June 30, 2016, there were 68,177 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, 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 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 $3.0 million and $8.2 million for the three and six months ended June 30, 2016, respectively, and $3.2 million and $5.9 million for the three and six months ended June 30, 2015, 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 June 30, 2016, was estimated to be $20.5 million. Estimated future compensation expense is $6.5 million for 2016, $8.9 million for 2017, $4.5 million for 2018 and $0.6 million for 2019.

Net tax benefit (expense) on equity award activity was an expense of $0.5 million and a benefit of $1.6 million during the six months ended June 30, 2016 and 2015, respectively. With the prospective adoption of the new accounting standard on share-based compensation, net tax benefit (expense) on equity award activity is included in net earnings (loss) in the operating activities section of the condensed consolidated statement of cash flows for the six months ended June 30, 2016. See Note 21, "New Accounting Pronouncements," for further discussion of the adoption of the new accounting standard related to share-based compensation and its impacts to the condensed consolidated financial statements. Net tax benefit (expense) on equity award activity is shown as tax benefit on equity award activity in the financing activities section of the condensed consolidated statement of cash flows for the six months ended June 30, 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, 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 during the three and six months ended June 30, 2016 and 2015. There was no compensation expense recognized related to stock options for the three and six months ended June 30, 2016. There was no compensation expense recognized related to stock options for the three months ended June 30, 2015, and $0.1 million recognized for the six months ended June 30, 2015. There is no future compensation expense for stock options as of June 30, 2016.

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The following table is a summary of the stock option activity for the six months ended June 30, 2016:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (millions)
Outstanding at December 31, 2015	3,290,336	$ 21.37	3.6	$ —
Granted	—	—		
Exercised	(130,424)	13.96		
Canceled/forfeited/expired	(21,485)	26.54		
Outstanding and exercisable at June 30, 2016	3,138,427	$ 21.64	3.0	$ 13.4

The intrinsic value of options outstanding and exercisable at June 30, 2016, and December 31, 2015, was based on the fair value of the stock price. All outstanding options were vested as of June 30, 2016.

The following table is a summary of the stock option exercises and vesting activity for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Total intrinsic value of stock options exercised	$0.8	$0.4	$0.8	$1.3
Cash received from stock option exercises	1.7	0.9	1.7	2.2
Total grant date fair value of stock options vested	—	—	0.3	1.8

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 common stock which are awarded to employees of the Company. There were no PS or PSU awards granted during the three and six months ended June 30, 2016 and 2015. Shares awarded in 2013 had a performance period of three years that ended December 31, 2015. The Company did not achieve the established performance targets for the performance period ended December 31, 2015; therefore, the PS and PSU awards were canceled.

Compensation expense for awards granted was recognized based on a best estimate of the anticipated payout, net of estimated forfeitures. There was no compensation expense recognized related to PS and PSUs for the three and six months ended June 30, 2016. Compensation expense (income) recognized related to PS and PSUs was income of $0.3 million for the three months ended June 30, 2015, and expense of $0.2 million for the six months ended June 30, 2015. There is no future compensation expense for PS and PSUs as of June 30, 2016.

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Restricted Stock and Restricted 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 common 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, 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 are not entitled to vote, but do earn dividends. 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 the Company's class A common stock.

The following table is a summary of RS and RSU award activity for the six months ended June 30, 2016:

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