Quad/Graphics, Inc.
Form 10-Q
November 15, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

or

o TRANSITION REPORT PURSURANT 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.)

N63 W23075 Highway 74, Sussex, Wisconsin 53089-2827

(Address of principal executive offices) (Zip Code)

(414) 566 6000

(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 o

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). (Registrant is not yet required to provide financial disclosure in an Interactive Data File Format.) Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or 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 o
Non-accelerated filer x (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 o 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 November 12, 2010
Class A Common Stock	31,820,095
Class B Common Stock	15,005,672

Class C Common Stock	245,353

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QUAD/GRAPHICS, INC.

FORM 10-Q INDEX

For the Quarter Ended September 30, 2010

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

QUAD/GRAPHICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(UNAUDITED)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net sales				
Products	$ 1,077.7	$ 416.3	$ 1,774.5	$ 1,121.3
Services	131.0	55.3	232.1	154.6
Total net sales	1,208.7	471.6	2,006.6	1,275.9
Cost of sales				
Products	840.5	294.8	1,356.2	809.7
Services	98.3	36.3	168.2	105.4
Total cost of sales	938.8	331.1	1,524.4	915.1
Selling, general and administrative expenses	112.6	48.3	209.5	142.3
Depreciation and amortization	87.8	49.3	185.3	147.4
Restructuring, impairment and transaction-related charges	74.0	1.3	111.6	10.0
Total operating expenses	1,213.2	430.0	2,030.8	1,214.8
Operating income (loss)	(4.5)	41.6	(24.2)	61.1
Interest expense	31.1	15.8	61.4	48.3
Earnings (loss) before income taxes and equity in earnings of unconsolidated entities	(35.6)	25.8	(85.6)	12.8
Income tax expense (benefit)	198.8	(0.2)	197.2	0.6
Earnings (loss) before equity in earnings of unconsolidated entities	(234.4)	26.0	(282.8)	12.2
Equity in earnings of unconsolidated entities	2.0	2.5	6.3	4.6
Net earnings (loss)	$ (232.4)	$ 28.5	$ (276.5)	$ 16.8

Net earnings attributable to noncontrolling interests		(0.1)		(0.1)		(0.2)		(0.1)
Net earnings (loss) attributable to Quad/Graphics common shareholders	$	(232.5)	$	28.4	$	(276.7)	$	16.7
Earnings (loss) per share attributable to Quad/Graphics common shareholders:								
Basic	$	(5.01)	$	1.01	$	(8.07)	$	0.59
Diluted	$	(5.01)	$	0.98	$	(8.07)	$	0.57
Weighted average number of common shares outstanding:								
Basic		46.4		28.2		34.3		28.3
Diluted		46.4		29.0		34.3		29.2

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

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QUAD/GRAPHICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)

(UNAUDITED)

	September 30, 2010		December 31, 2009	
ASSETS				
Cash and cash equivalents	$	36.8	$	8.9
Receivables, less allowances for doubtful accounts of $87.3 at September 30, 2010 and $22.4 at December 31, 2009		757.8		227.2
Inventories		299.2		87.3
Prepaid expenses and other current assets		60.9		7.4
Deferred income taxes		90.4		5.3
Restricted cash		5.9		
Total current assets		1,251.0		336.1
Property, plant and equipment net		2,349.8		1,677.3
Goodwill		790.8		39.6
Other intangible assets net		384.7		10.0
Restricted cash		122.0		
Equity method investments in unconsolidated entities		77.1		40.7
Other long-term assets		79.8		5.5
Total assets	$	5,055.2	$	2,109.2
LIABILITIES AND SHAREHOLDERS EQUITY				
Accounts payable	$	230.2	$	105.0
Income and other taxes payable				6.9
Amounts owing in satisfaction of bankruptcy claims		39.0		
Accrued liabilities		454.1		144.8
Short-term debt and current portion of long-term debt		99.0		100.1
Current portion of capital lease obligations		15.2		7.6
Total current liabilities		837.5		364.4
Long-term debt		1,599.3		749.7
Unsecured notes to be issued		50.5		
Capital lease obligations		44.4		15.8
Deferred income taxes		407.0		16.0
Other long-term liabilities		712.0		39.9
Total liabilities		3,650.7		1,185.8
Commitments and contingencies (Note 10)				
Redeemable equity (Note 19)		12.0		141.5
Quad/Graphics common stock and other equity (Note 19)				

Preferred stock				
Common stock, Class A		1.0		0.4
Common stock, Class B		0.4		0.4
Common stock, Class C				
Additional paid-in capital		1,000.2		77.8
Treasury stock, at cost		(301.9)		(304.5)
Retained earnings		693.0		1,011.2
Accumulated other comprehensive loss		(0.7)		(3.7)
Quad/Graphics common stock and other equity		1,392.0		781.6
Noncontrolling interests		0.5		0.3
Total common stock and other equity and noncontrolling interests		1,392.5		781.9
Total liabilities and shareholders equity	$	5,055.2	$	2,109.2

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)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
OPERATING ACTIVITIES		
Net earnings (loss)	$ (276.5)	$ 16.8
Adjustments to reconcile net earnings (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	185.3	147.4
Amortization of debt issuance costs	3.0	
Impairment and other non-cash integration charges	34.7	
Stock-based compensation charges	3.8	3.3
Loss on sales or disposal of property, plant and equipment	0.7	0.4
Deferred income taxes	194.7	1.2
Equity in earnings of unconsolidated entities	(6.3)	(4.6)
Dividends from unconsolidated entities	0.4	1.0
Changes in operating assets and liabilities net of acquisitions	(156.9)	(55.3)
Net cash (used in) provided by operating activities	(17.1)	110.2
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(73.9)	(72.7)
Proceeds from the sale of property, plant and equipment	10.1	0.5
Equity investment in unconsolidated entities	(10.0)	
Transfers to restricted cash	(66.0)	
Acquisition of businesses net of cash acquired	20.6	
Net cash used in investing activities	(119.2)	(72.2)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	689.2	
Payments of long-term debt	(490.0)	(31.7)
Payments of capital lease obligations	(25.3)	(6.2)
Borrowings on revolving credit facilities	627.9	450.9
Payments on revolving credit facilities	(428.0)	(448.5)
Payment of capitalized debt issuance costs	(45.8)	
Proceeds from issuance of common stock	0.8	1.1
Purchase of treasury stock		(11.7)
Payment of cash distributions	(140.0)	
Payment of cash dividends	(14.0)	
Payment of tax distributions	(9.5)	(10.1)
Net cash provided by (used in) financing activities	165.3	(56.2)
Effect of exchange rates on cash and cash equivalents	(1.1)	3.1
Net increase (decrease) in cash and cash equivalents	27.9	(15.1)

Cash and cash equivalents at beginning of period		8.9		18.8
Cash and cash equivalents at end of period	$	36.8	$	3.7
SUPPLEMENTAL NON-CASH DISCLOSURE				
Acquisition of noncontrolling interest (Note 3)	$		$	8.9
Acquisitions of businesses (Note 3):				
Fair value of assets acquired, net of cash	$	1,977.1	$	
Liabilities assumed		(1,834.5)		
Goodwill		744.7		
Net equity issued for acquisition of World Color Press		(908.6)		
Fair value of assets acquired, net of cash, other acquisitions		0.7		
Acquisition of businesses net of cash acquired	$	20.6		

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 AND NINE MONTHS ENDED SEPTEMBER 30, 2010

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

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements for Quad/Graphics, Inc. and its subsidiaries (the Company or Quad/Graphics) have been prepared by the Company pursuant to the rules and regulations for interim financial information of the United States Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been omitted pursuant to such SEC rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated annual financial statements as of and for the year ended December 31, 2009 and notes thereto included in the Company s Registration Statement on Form S-4/A (Registration No. 333-165259) filed with the SEC on May 26, 2010, which incorporates by reference the World Color Press Inc. (World Color Press or WCP) audited consolidated annual financial statements as of and for the year ended December 31, 2009 and notes thereto in the World Color Press Form 40-F (Registration No. 001-14118) filed with the SEC on March 1, 2010.

The Company s business is seasonal, with the majority of historical operating income recognized in the second half of the fiscal year, primarily as a result of a higher number of magazine pages, new product launches and back-to-school, retail and holiday catalog promotions, and increased book volumes. Within any year, the seasonality could adversely affect the Company s cash flow and results of operations on a quarterly basis. As a result of seasonality and other potential factors, the results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that can be expected for the entire year ending December 31, 2010. The financial information contained herein reflects all adjustments, in the opinion of management, necessary for a fair presentation of the Company s results of operations for the three and nine months ended September 30, 2010 and 2009. All significant intercompany transactions have been eliminated in consolidation. These unaudited condensed consolidated financial statements include estimates and assumptions of management that affect the amounts reported in the condensed consolidated financial statements. Actual results could differ from these estimates.

On July 2, 2010, pursuant to the terms and conditions of the arrangement agreement with World Color Press dated January 25, 2010, World Color Press became a wholly-owned subsidiary of Quad/Graphics, as further discussed in Note 3. World Color Press results of operations and account balances are included in the Company s results of operations and balance sheet prospectively as of the July 2, 2010 transaction date. See Note 21 for discussion of the impact of the acquisition on the Company s operating and reportable segments.

Note 2. Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued accounting guidance which introduces a requirement to perform ongoing assessments to determine whether an entity is a variable interest entity and whether an enterprise is the primary beneficiary of a variable interest entity. In addition, this accounting guidance clarifies that the enterprise that is required to consolidate a variable interest entity will have a controlling financial interest evidenced by (1) the power to direct the activities that most significantly affect the entity s economic performance and (2) the obligation to absorb losses or the right to receive benefits that are potentially significant to the variable interest entity. Additional disclosures are required regarding involvement with variable interest entities, as well as the methodology used to determine the primary beneficiary of any variable interest entities. The Company adopted this guidance effective January 1, 2010, and the adoption of the accounting guidance did not have an impact on the Company s condensed consolidated financial statements.

In January 2010, the FASB issued accounting guidance which requires additional disclosures regarding transfers between Levels 1, 2, and 3 of the fair value hierarchy, as well as a more detailed reconciliation of recurring Level 3 measurements. Certain aspects of this accounting guidance were effective and adopted by the Company in the first quarter of 2010. This adoption did not have a material impact on the Company s condensed consolidated financial statements.

In July 2010, the FASB issued accounting guidance which amends existing disclosure requirements and requires additional quantitative and qualitative disclosures concerning financing receivables, credit risk exposures and the allowance for credit losses. Certain aspects of this accounting guidance will be effective for the Company in the fourth quarter of 2010. This adoption is not expected to have a material impact on the Company s condensed consolidated financial statements.

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Note 3. Acquisitions

2010 Acquisitions

On July 2, 2010, the Company completed the acquisition of World Color Press as described in the definitive arrangement agreement, dated as of January 25, 2010, pursuant to which World Color Press became a wholly-owned subsidiary of the Company. World Color Press is a provider of comprehensive print, digital and related services to retailers, catalogers, publishers, branded-goods companies and other businesses in North America and Latin American countries. World Color Press products include advertising inserts, circulars, catalogs, direct mail products, magazines, books, directories, digital pre-media, logistics, and mail list technologies. The operations of World Color Press are complimentary to the Company s existing business, and as a result this acquisition is expected to improve the Company s ability to serve customers and reduce management, procurement, manufacturing and distribution costs. In connection with the closing of the acquisition, the Company registered its Class A common stock with the SEC under the Securities Exchange Act of 1934, as amended, and on July 6, 2010, Quad/Graphics Class A common stock commenced trading on The New York Stock Exchange under the symbol QUAD .

At the completion of the acquisition, each outstanding World Color Press common share, including the common shares issued upon conversion of certain World Color Press preferred shares, was converted into the right to receive 0.2154 shares of Class A common stock of Quad/Graphics. The former World Color Press common shareholders received a total of 18,734,045 shares of Quad/Graphics Class A common stock (subject to fractional share cash-outs). Immediately following the completion of the acquisition, the shareholders of Quad/Graphics who were shareholders prior to completion of the acquisition owned approximately 60% of the outstanding common stock of Quad/Graphics and former common shareholders of World Color Press owned approximately 40% of the outstanding common stock of Quad/Graphics. In addition to the share consideration, former holders of World Color Press common shares received aggregate cash consideration of $48.4 million, or approximately $0.56 per share. Quad/Graphics also provided $44.9 million of cash consideration to purchase all outstanding World Color Press warrants and to fund redemptions of or payments due on any other equity securities not converted to common shares, including dividends on preferred shares.

Based on this consideration, the total purchase price to consummate the acquisition of World Color Press was as follows:

	Purchase Price	
New Quad/Graphics Class A common shares issued		18.734045
Average Quad/Graphics Class A common share price on July 6, 2010 (first day of trading)	$	48.50
Stock consideration		908.6
Cash consideration		93.3
Purchase price	$	1,001.9

Concurrent with the closing of the acquisition, Quad/Graphics received a $250.0 million advance from the revolving credit facility and $689.2 million from the term loan portion of the $1.23 billion debt financing agreement discussed in Note 12. These amounts, as well as Quad/Graphics and World Color Press cash, were used on the July 2, 2010 closing date of the acquisition to fund:

(1) Replacement of Quad/Graphics former revolving credit facilities, which had outstanding borrowings of $106.1 million (including interest owed and payment of debt issuance costs due upon the transaction for the new debt financing agreement of $32.9 million);

(2) Satisfaction of certain World Color Press debt obligations of $580.6 million, which included $8.0 million of early repayment premiums and funding of $123.9 million to defease the World Color Press unsecured notes (of which $34.7 million was returned to the Company on August 2, 2010 upon the unsecured notes being called by the Company, resulting in $89.2 million of restricted cash related to the unsecured notes remaining);

(3) Transaction costs of $45.5 million were paid on July 2, 2010 (excluding debt issuance costs); any transaction costs incurred by Quad/Graphics were expensed as incurred in accordance with the acquisition method of accounting and are classified as restructuring, impairment and transaction-related charges on the condensed consolidated statements of operations;

(4) Redemption of outstanding World Color Press equity securities (consisting of preferred shares, warrants, deferred share units and restricted share units) and the cash consideration paid to the former World Color Press common shareholders described above, which in total were $88.5 million (in addition to $4.8 million of preferred dividends, which had been paid after the January 25, 2010 date of the arrangement agreement but prior to July 2, 2010);

(5) Distribution of $140.0 million to Quad/Graphics then existing common shareholders;

(6) Collateralization of letters of credit of $32.0 million;

(7) Payment to settle a capital lease of $17.6 million; and

(8) Other obligations arising from the acquisition of $14.7 million.

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The following unaudited pro forma combined financial information presents the Company s results as though Quad/Graphics and World Color Press had combined at the beginning of each respective period. The pro forma information has been prepared with the following considerations:

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

(2) World Color Press historical amounts have been converted from Canadian generally accepted accounting principles to GAAP.

(3) On July 21, 2009, upon emergence from bankruptcy protection in Canada and the United States, World Color Press was required to adopt fresh start financial accounting. Under fresh start accounting, World Color Press undertook a comprehensive re-evaluation of its assets and liabilities and World Color Press became a new entity for financial reporting purposes (that new entity referred to as the successor , and the periods prior to fresh start date are referred to as the periods of the predecessor). Fresh start accounting was adopted as of the nearest month-end date of July 31, 2009, as the activity between July 22, 2009 and July 31, 2009 was deemed to be immaterial. For the purposes of the pro forma combined financial information for 2009 presented below, the three and nine months of predecessor activity from January 1, 2009 through September 30, 2009 has been adjusted to reflect what the three and nine months of activity would have been on a successor basis.

(4) The pro forma combined financial information does not reflect any operating 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, or the tax effects for the Company s transition to a C corporation.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010 (as reported)		2009 (proforma)		2010 (proforma)		2009 (proforma)	
Pro forma net sales	$	1,208.7	$	1,243.6	$	3,379.6	$	3,511.9
Pro forma net earnings (loss) attributable to common shareholders	$	(232.5)	$	42.8	$	(255.6)	$	(5.2)
Pro forma diluted earnings (loss) per share attributable to common shareholders	$	(5.01)	$	0.89	$	(5.46)	$	(0.11)

World Color Press net sales were $711.8 million during the third quarter of 2010 and are included in the condensed consolidated statement of operations. Disclosure of the earnings of World Color Press since the acquisition date is not practicable as it is not being operated as a standalone business.

The Company has recorded a preliminary allocation of the purchase price to World Color Press tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values as of July 2, 2010. Goodwill has been recorded 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 (in millions):

	Purchase Price Allocation	
Cash and cash equivalents	$	114.6
Other current assets		629.8
Property, plant and equipment		844.5
Identifiable intangible assets		393.0
Other long-term assets		109.8

Current liabilities		(504.8)
Long-term debt and long-term capital lease obligations		(500.3)
Long-term deferred income taxes, net		(129.7)
Pension and postretirement obligations		(546.9)
Other long-term liabilities		(152.8)
Goodwill		744.7
Purchase price	$	1,001.9

The preliminary allocation of the purchase price is based on valuations performed to determine the fair value of the net assets as of the acquisition date. The Company expects to complete the purchase price allocation during the fourth quarter of 2010 and may adjust the amounts recorded as of September 30, 2010 to reflect any revised evaluations.

2009 Acquisitions

On January 30, 2009, the Company acquired the final 32% interest in Quad/Winkowski Sp. z o.o. (Quad/Winkowski) to increase the Company s ownership to 100% in exchange for fair value consideration of $8.9 million. Quad/Winkowski s operations are included in the International segment.

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Note 4. Restructuring, Impairment and Transaction-Related Charges

The Company recorded restructuring, impairment and transaction-related charges for the three and nine months ended September 30, 2010 and 2009 as follows:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Employee terminations	$ 21.5	$ 1.3	$ 22.7	$ 10.0
Impairment charges	6.4		30.8	
Transaction-related charges	32.1		41.0	
Integration costs	8.1		10.3	
Other restructuring charges	5.9		6.8	
Total	$ 74.0	$ 1.3	$ 111.6	$ 10.0

The restructuring charges recorded are based on restructuring 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 adjustments to the restructuring liabilities. The costs related to restructuring activities have been recorded on the condensed consolidated statements of operations as restructuring, impairment and transaction-related charges. For restructuring, impairment and transaction-related charges by segment, see Note 21.

2010 Restructuring Events

For the three and nine months ended September 30, 2010, the Company recorded: (1) $21.5 million and $22.7 million, respectively, of severance for 2010 plant closures and various reductions in force, (2) $6.4 million and $30.8 million, respectively, of impairment charges on assets related to the June 2010 announcement of the closure of the Pila, Poland plant and the August 2010 announcement of the closure of the Reno, Nevada plant, (3) $32.1 million and $41.0 million, respectively, of transaction costs in connection with the acquisition of World Color Press, (4) $8.1 million and $10.3 million, respectively, of integration costs in connection with the integration of World Color Press operations into Quad/Graphics and (5) $5.9 million and $6.8 million, respectively, of various other restructuring charges including utility contract costs, lease termination costs, equipment moves, and employee relocation costs. The transaction costs and the integration costs are expensed as incurred in accordance with the applicable accounting guidance on business combinations.

Throughout the 2010 third quarter, the Company began to execute various workforce reduction initiatives related to certain corporate and administrative functions, including the closure of the World Color Press corporate headquarters in Montreal, Quebec. As a part of this initiative, the Company has recognized $7.5 million of severance charges for the three and nine months ended September 30, 2010 and will incur additional severance charges in the future attributable to 296 headcount reductions. Prior to the acquisition, World Color Press implemented a retention bonus plan for certain employees, for which $2.7 million of expense was recognized for the three months ended September 30, 2010. The Company expects the majority of the restructuring related cash payments to be made within the next twelve months.

On August 5, 2010, the Company announced plant closures in Reno, Nevada; Clarksville, Tennessee; Corinth, Mississippi; and Cincinnati (Lebanon), Ohio, as well as the acceleration of the previously announced plant closure in Dyersburg, Tennessee. The operations of these plants will be consolidated into other existing facilities as part of the integration efforts to streamline the operations of the Company. The Reno plant closed during the third quarter and the other plants are expected to conclude production by the end of 2010. As a part of these closures, the Company recognized $9.7 million of severance charges, $6.4 million of impairment charges, $4.0 million of long-term utility contract costs and $0.3 million of lease termination costs for the three and nine months ended September 30, 2010. The Company will incur additional severance charges in the future attributable to 2,123 headcount reductions. The Company expects the majority of the restructuring related cash payments to be made within the next twelve months.

On June 16, 2010, the Company announced the closure of a printing plant in Pila, Poland and consolidation of these operations into the Company s Wyszkow, Poland printing plant. The Company began equipment relocations in July and expects to complete the majority of moves by the end of 2010. As part of this plant closure, the Company has recognized $1.6 million and $2.8 million of severance charges for the three and nine months ended September 30, 2010 and will incur additional severance charges in the future attributable to 707 headcount reductions. The Company has also recognized $0.4 million of equipment move charges in the three and nine months ended September 30, 2010. During the second quarter of 2010 and coinciding with the announcement of the plant

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closure, the Company recognized $24.4 million of asset impairment charges, which are included in the results of the nine months ended September 30, 2010. The Company expects the majority of the restructuring related cash payments to be made within the next twelve months.

2009 Restructuring Events

For the three and nine months ended September 30, 2009, the company recorded $1.3 million and $10.0 million of severance charges. These charges are attributable to 15 and 731 headcount reductions for the three and nine months ended September 30, 2009 in the U.S. as well as 56 and 128 headcount reductions for the three and nine months ended September 30, 2009 in Europe.

Restructuring Reserve

Activity impacting the Company s restructuring reserve for the nine months ended September 30, 2010 is as follows:

	Employee Terminations	Impairment Charges	Transaction-Related Charges	Integration Costs	Other Restructuring Charges	Total
Balance at December 31, 2009	$ 0.1	$	$	$	$ 1.4	$ 1.5
Acquired reserves (see Note 3)	21.2		11.9		38.4	71.5
Reserve provisions	22.7	30.8	41.0	10.3	6.8	111.6
Cash payments	(12.9)		(52.8)	(6.4)	(6.6)	(78.7)
Non-cash write-offs		(30.8)		(3.9)		(34.7)
Balance at September 30, 2010	$ 31.1	$	$ 0.1	$	$ 40.0	$ 71.2

Certain restructuring initiatives were assumed by the Company in the acquisition of World Color Press and the related reserves were established as part of the purchase price allocation. These initiatives related to the closure of certain facilities in North America as well as various workforce reductions announced prior to the acquisition.

Note 5. Goodwill and Other Intangible Assets

Goodwill of $744.7 million was realized from the acquisition of World Color Press and the valuation of the World Color Press balance sheet (see Note 3). 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. Goodwill at September 30, 2010 and December 31, 2009 did not include any accumulated impairment losses.

Goodwill at September 30, 2010 and December 31, 2009 was as follows:

	North America Print and Related Services	International	Total
Balance at December 31, 2009	$ 37.5	$ 2.1	$ 39.6
Goodwill from World Color Press acquisition (see Note 3)	718.6	26.1	744.7
Goodwill from other acquisitions		6.5	6.5
Balance at September 30, 2010	$ 756.1	$ 34.7	$ 790.8

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The components of other intangible assets at September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010					December 31, 2009			
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization and Foreign Exchange	Impairment	Net Book Value	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization and Foreign Exchange	Net Book Value
Finite-lived intangible assets:									
Trademarks, patents, licenses and agreements	5	$ 10.2	$ (9.3)	$	$ 0.9	5	$ 10.1	$ (8.9)	$ 1.2
Customer relationships	6	393.0	(15.7)		377.3				
Capitalized software	5	4.2	(0.8)		3.4	5	4.1	(0.1)	4.0
Acquired technology	5	5.3	(2.4)		2.9	5	5.3	(1.7)	3.6
Total finite-lived intangible assets		412.7	(28.2)		384.5		19.5	(10.7)	8.8
Other indefinite-lived intangible assets		1.2		(1.0)	0.2		1.2		1.2
Total		$ 413.9	$ (28.2)	$ (1.0)	$ 384.7		$ 20.7	$ (10.7)	$ 10.0

For the nine months ended September 30, 2010, the gross carrying amount of other intangible assets increased $393.2 million primarily due to $393.0 million of intangible assets for customer relationships acquired in the acquisition of World Color Press as discussed in Note 3. For the nine months ended September 30, 2009, the Company recorded additions to intangible assets of $2.3 million primarily as a result of internally generated capitalized software.

Amortization expense for other intangible assets was $16.9 million and $18.1 million for the three and nine months ended September 30, 2010, respectively. Amortization expense for other intangible assets was $0.6 million and $1.6 million for the three and nine months ended September 30, 2009, respectively. The following table outlines the estimated amortization expense related to intangible assets as of September 30, 2010:

2010	$ 17.0
2011	68.0
2012	67.7
2013	67.0
2014	66.3
2015 and thereafter	98.7
Total	$ 384.7

Note 6. Inventories

The components of the Company s inventories at September 30, 2010 and December 31, 2009 were as follows:

		September 30, 2010		December 31, 2009
Raw materials and manufacturing supplies	$	181.2	$	61.3
Work in process		67.8		16.6
Finished goods		50.2		9.4
Total	$	299.2	$	87.3

On January 1, 2010, the Company changed its method of accounting for certain inventories from last-in, last-out (LIFO) method to first-in, first-out (FIFO). The Company believes the change is preferable because the FIFO inventory method provides a more meaningful presentation of financial position as it reflects more recent costs in the condensed consolidated balance sheet. Moreover, the change also conforms all of the Company s raw material, work in process and finished goods to a single costing method. The impact of the inventory valuation change to FIFO did not result in a material impact on the Company s condensed consolidated financial statements.

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Note 7. Property, Plant and Equipment

The components of the Company s property, plant and equipment at September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010	December 31, 2009
Land	$ 138.7	$ 74.2
Buildings	916.3	731.9
Machinery and equipment	3,319.9	2,821.1
Other	185.7	151.5
Construction in progress	62.1	20.1
	4,622.7	3,798.8
Less: Accumulated depreciation	(2,272.9)	(2,121.5)
Total	$ 2,349.8	$ 1,677.3

Other consists of computer equipment, vehicles, furniture and fixtures, leasehold improvements and communication related equipment. At September 30, 2010, no events or changes in circumstances indicate that the carrying value of such property, plant and equipment may not be recoverable.

The Company recognized depreciation expense of $70.9 million and $167.2 million for the three and nine months ended September 30, 2010. Depreciation expense of $48.7 million and $145.8 million was recorded for the three and nine months ended September 30, 2009, respectively.

Assets Held for Sale

Certain World Color Press facilities closed prior to the acquisition are considered held for sale. The net book value of the assets held for sale was $24.6 million as of September 30, 2010. These assets were valued at the fair value determined as part of the preliminary World Color Press purchase price allocation, which reflects ordinary liquidation value less the estimated costs to sell. Assets held for sale are included in prepaid expenses and other current assets in the condensed consolidated balance sheets. There were no assets considered held for sale at December 31, 2009.

Note 8. Restricted Cash

Restricted cash included on the September 30, 2010 condensed consolidated balance sheet primarily relates to required transaction payments assumed in the acquisition of World Color Press (as further described in Note 3). There was no restricted cash at December 31, 2009.

The following table summarizes the details of restricted cash as of September 30, 2010:

		September 30, 2010
Defeasance of unsecured notes to be issued	$	89.2
Collateralization of letters of credit		32.0
Other		6.7
Total	$	127.9

Note 9. Equity Method Investments in Unconsolidated Entities

The Company has a 49% ownership interest in Plural Editora e Gráfica (Plural), a commercial printer based in São Paulo, Brazil. The Company s ownership interest in Plural is accounted for using the equity method of accounting for all periods presented.

The Company s percentage of Plural s net results of operations is recorded in the line item entitled equity in earnings of unconsolidated entities in the Company s condensed consolidated statements of operations, and is included within the International segment.

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The condensed statements of operations for Plural for the three and nine months ended September 30, 2010 and 2009 are presented below:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net sales	$ 40.7	$ 40.1	$ 111.3	$ 103.3
Operating income	5.2	5.7	16.3	11.6
Net earnings	3.7	5.1	11.7	9.3

On February 28, 2010, the Company acquired a 47% interest in HGI Company, LLC (HGI), a Wisconsin-based commercial printer, for $10.0 million. HGI specializes in short to medium-run books, manuals, directories, publications, marketing collateral and in-store/point-of-purchase materials. HGI is included within the North America Print and Related Services segment. Through September 30, 2010, HGI was accounted for using the equity method of accounting. As discussed in Note 22, on October 29, 2010, the Company purchased the remaining 53% ownership interest in HGI, and as a result HGI s results of operations and account balances will be fully consolidated in the Company s results of operations and balance sheet prospectively as of the October 29, 2010 transaction date.

Note 10. Commitments and Contingencies

Commitments

The Company had firm commitments of approximately $29.6 million to purchase press and finishing equipment at September 30, 2010.

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 ultimately result from such lawsuits are not expected to have a material adverse effect on the condensed consolidated financial statements of the Company.

Note 11. World Color Press Insolvency Proceedings

On January 20, 2008, Quebecor World Inc. (QWI) and 53 of its subsidiaries filed for creditor protection under the Companies Creditors Arrangement Act (CCAA) in Canada. On the following day, Quebecor World (USA) Inc., and 52 of its domestic and indirect subsidiaries (the U.S. Debtors) filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code in the United States. In connection with the insolvency proceedings in Canada and the U.S., QWI formulated a Canadian plan of reorganization and compromise pursuant to the CCAA and the U.S. Debtors formulated a plan of reorganization pursuant to the U. S. Bankruptcy Code. The respective plans of reorganization provided for the coordinated restructuring of QWI and its debtor subsidiaries, the compromise of certain claims of their respective creditors, and a reorganization of QWI s capital structure (the Plans). The Plans were sanctioned by the Quebec Superior Court and confirmed by the U.S.

Bankruptcy Court, respectively, and became effective on July 21, 2009. As a result, QWI and the U.S. Debtors emerged from bankruptcy protection, and QWI changed its name to World Color Press Inc.

Although QWI and the U.S. Debtors have emerged from their respective insolvency proceedings, the proceedings themselves are ongoing, primarily for the purpose of resolving claims filed in each of the proceedings. To the extent claims are allowed, the holders of such claims are then entitled to receive recovery under the Plans, 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 some combination of World Color Press common shares, preferred shares and warrants. However, with the acquisition of World Color Press by the Company, the World Color Press common shares, preferred shares and warrants were exchanged for Quad/Graphics common stock and cash, as further described in Note 3.

With respect to claims asserted by the holders thereof as being entitled to a priority cash recovery, the Company has estimated that approximately $39.0 million of such recorded claims have yet to be paid as of September 30, 2010, and this obligation is classified in the condensed consolidated balance sheet as amounts owing in satisfaction of bankruptcy claims.

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With respect to unsecured claims held by creditors of the operating subsidiary debtors of Quebecor World (USA) Inc. (the Class 3 Claims), the U.S. Plan provides that upon allowance of each such claim the creditor holding such 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 million, and that in the event that the total of all allowed Class 3 Claims exceeds $150 million each creditor holding an allowed Class 3 Claim will receive its pro rata share of $75 million of the unsecured notes issued, together with accrued interest thereon. In connection with the Company s acquisition of World Color Press, however, the unsecured notes were defeased pursuant to the terms and conditions of the applicable unsecured notes indenture, and $123.9 million, representing the maximum principal amount of all notes that could be issued (i.e., $75 million), together with all interest that would accrue on such unsecured notes through the maturity date of July 15, 2013 and a 5% prepayment redemption premium, was deposited with the trustee of the unsecured notes indenture. Further, upon the Company s acquisition of World Color Press and the defeasance of the unsecured notes, the Company then elected to redeem the unsecured notes, and, to that end, provided the requisite thirty day notice to the trustee under the unsecured notes indenture. Upon the expiration of such thirty day notice period, the unsecured notes were redeemed, with the trustee under the unsecured notes indenture retaining approximately $89.2 million on account of the principal amount of the then redeemed unsecured notes, together with accrued interest through the redemption date of August 2, 2010, and the 5% prepayment redemption premium, and the balance of approximately $34.7 million was returned to the Company on said date. The $89.2 million held by the trustee under the unsecured notes indenture is classified as restricted cash in the condensed consolidated balance sheet. As of September 30, 2010, the Company recorded approximately $50.5 million (representing $42.7 million of principal, $5.7 million of accrued interest, and $2.1 million of prepayment penalties) of the approximately $89.2 million as unsecured notes to be issued in the condensed consolidated balance sheet. In the event that any excess remains after the allowance and payment of all Class 3 Claims, such amount will revert to the Company.

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 sheet could be materially higher than the amounts estimated and the amounts payable on account of the unsecured notes could reach the maximum aggregate principal amount of $75.0 million. In light of the substantial number and amount of claims filed, the claims resolution process may take considerable time to complete.

Note 12. Debt

Long-term debt consists of the following as of September 30, 2010 and December 31, 2009:

		September 30, 2010		December 31, 2009
Master note and security agreement	$	691.4	$	725.9
Term loan agreement $700 million ($10.8 million original issue discount)		687.5		
Revolving credit agreement $530 million		226.8		
Former revolving credit agreement $200 million				26.5
International term loans		77.9		81.9
International revolving credit facility		14.7		15.5
Total debt	$	1,698.3	$	849.8
Less: short-term and current portion of long-term debt		(99.0)		(100.1)
Long-term debt	$	1,599.3	$	749.7

Based upon the interest rates available to the Company for borrowings with similar terms and maturities, the fair value of the Company s debt was approximately $1,773 million at September 30, 2010.

On April 23, 2010, Quad/Graphics entered into a $1.23 billion debt financing agreement with certain lenders consisting of a $700.0 million term loan and a $530.0 million revolving credit facility, and on July 2, 2010 the Company received $689.2 million of cash from the term loan (net of a $10.8 million of original issue discount) and borrowed $250.0 million on the revolving credit facility. This debt financing agreement was entered into to fund transaction-related payments for the World Color Press acquisition, refinance Quad/Graphics existing revolving credit facilities and refinance certain World Color Press debt obligations outstanding. This $1.23 billion of financing is guaranteed by certain subsidiaries of Quad/Graphics and is secured by substantially all of Quad/Graphics and each subsidiary guarantor s U.S. and, to a certain extent, Canadian assets, which were unencumbered prior to the date of the new debt financing agreement. The $700.0 million term loan matures on July 1, 2016, requires variable quarterly principal payments and bears interest at a variable interest rate primarily based on LIBOR, subject to a 1.5% LIBOR minimum rate (weighted average interest rate

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was 5.5% at September 30, 2010). The $530.0 million revolving credit facility matures on July 1, 2014 and bears interest at a variable interest rate primarily based on LIBOR (weighted average interest rate was 3.9% at September 30, 2010).

This debt financing agreement subjects Quad/Graphics to certain quarterly financial covenants (all financial terms, numbers and ratios below are as defined in the respective debt agreement):

- 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 September 30, 2010, the Company s leverage ratio was 2.65 to 1.00). This ratio will step down to 3.50 to 1.00 on December 31, 2012 and further step down to 3.25 to 1.00 on December 31, 2013.

- 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 3.00 to 1.00 (for the twelve months ended September 30, 2010, the Company s interest coverage ratio was 5.47 to 1.00). This ratio will step up to 3.25 to 1.00 on December 31, 2011 and further step up to 3.50 to 1.00 on December 31, 2012.

- Consolidated net worth of at least $745.8 million plus 40% of positive consolidated net income cumulatively for each year beginning with the year ending December 31, 2010. This covenant is first effective beginning December 31, 2010.

The debt financing agreement also includes certain limitations on acquisitions, indebtedness, liens, dividends and repurchases of capital stock. Pursuant to the debt financing agreement, the Company is prohibited from paying any dividends, repurchasing capital stock or making any distributions other than, among other limited situations, annual dividends or distributions not to exceed $10.0 million from July 2, 2010 to December 31, 2010, and $60.0 million during each of 2011 and 2012, provided that the aggregate amount of dividends paid or distributions made does not exceed $120.0 million from July 2, 2010 to December 31, 2012, taken as a whole. Starting January 1, 2013, the Company has additional dividend restrictions (based on free cash flow as defined in the debt financing agreement) if the Company s total leverage ratio is greater than 2.75 to 1.00, but has no restrictions if the Company s total leverage ratio is less than 2.75 to 1.00 (total leverage ratio as defined in the debt financing agreement). As of September 30, 2010, the Company was in compliance with all debt covenants.

To complete the $1.23 billion debt financing agreement, the Company incurred a total of $45.8 million of debt issuance costs. The debt issuance costs are being amortized on a straight-line basis over the six and four year maturities of the term loan and revolving credit facility, respectively, and are classified as other long-term assets on the condensed consolidated balance sheet.

Note 13. Income Taxes

In connection with the July 2, 2010 acquisition of World Color Press (see Note 3) and the public registration of the Quad/Graphics Class A common stock, the Company changed the tax status of certain entities within the Quad/Graphics legal structure to C corporation status under the provisions of the Internal Revenue Code of 1986, as amended. From that point forward, these entities will be subject to federal and state income taxes. The impact from the conversion to C corporation status resulted in the recognition of net short-term deferred tax assets of $23.6 million, net long-term deferred tax liabilities of $223.3 million, an increase in accumulated other comprehensive loss due to the impact of foreign currency translation of $0.8 million, and recognition of income tax expense in the third quarter of 2010 of $200.5 million.

From January 1, 2005 to July 1, 2010, Quad/Graphics was contractually required under a shareholders agreement to pay tax distributions to shareholders in connection with the Company s election to be taxed as an S corporation. As a result of the Company s issuance of shares of Class A common stock pursuant to the acquisition of World Color Press and the termination of the S corporation election, the shareholders agreement was amended to terminate the obligation to pay tax distributions for periods following July 1, 2010 and to revise certain provisions concerning adjustments to tax distributions related to the S corporation periods prior to July 1, 2010. The shareholders during the S corporation years will receive adjusting payments if there is ultimately an increased tax liability or will be required to reimburse the Company if the tax liability decreases from what was previously estimated and distributed for such prior periods. Adjustments could be required for: (1) the finalization of the unfiled tax year of 2010 or (2) audits or other necessary adjustments of prior periods. All such adjustments made will be recorded to retained earnings on the condensed consolidated balance sheet.

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Income taxes have been based on the following components of earnings before income taxes and equity in earnings of unconsolidated entities for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
U.S.	$ (7.9)	$ 35.8	$ (20.8)	$ 32.7
Foreign	(27.7)	(10.0)	(64.8)	(19.9)
Total	$ (35.6)	$ 25.8	$ (85.6)	$ 12.8

The components of income tax expense consist of the following for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Federal:				
Current	$ 0.5	$ 0.2	$ 0.8	$ (1.1)
Deferred	184.3	0.3	182.3	2.0
State:				
Current	1.0	(0.4)	1.1	(0.1)
Deferred	12.5	(0.2)	12.3	
Foreign:				
Current	0.6	0.2	0.6	0.6
Deferred	(0.1)	(0.3)	0.1	(0.8)
Total	$ 198.8	$ (0.2)	$ 197.2	$ 0.6

The following table outlines the reconciliation of differences between the Federal statutory tax rate and the Company s effective tax rate:

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Federal statutory rate	35.0%	35.0%	35.0%	35.0%
Tax adjustment due to S corporation status		(35.5)	(19.1)	(41.0)
Foreign rate differential	(4.3)	0.2	(2.2)	3.7
State taxes, net of federal benefit	0.3	2.1	0.4	3.2
Nondeductible transaction costs	(10.8)		(4.5)	
Establish net deferred tax liabilities due to S corporation status termination	(563.2)		(234.2)	
Adjustment to valuation allowances	(17.6)		(7.5)	
Other	2.2	(2.6)	1.7	3.8
Effective income tax rate	(558.4)%	(0.8)%	(230.4)%	4.7%

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Deferred Income Taxes

The significant deferred tax assets and liabilities as of September 30, 2010, July 2, 2010, and December 31, 2009 were as follows:

	September 30, 2010	July 2, 2010	December 31, 2009
Deferred tax assets:			
Accrued liabilities	$ 87.9	$ 91.2	$ 6.5
Accrued compensation	64.2	32.5	
Allowance for doubtful accounts	27.0	25.3	
Interest limitation	80.9	83.2	
Pension, postretirement and workers compensation benefits	168.0	204.0	
Net operating loss and other tax carryforwards	299.4	288.4	50.3
Other	50.2	65.2	0.9
Total deferred tax assets	777.6	789.8	57.7
Valuation allowance	(364.0)	(355.0)	(40.8)
Net deferred tax assets	$ 413.6	$ 434.8	$ 16.9
Deferred tax liabilities:			
Property, plant and equipment	(436.3)	(440.3)	(25.8)
Goodwill and intangible assets	(131.1)	(149.6)	
Investment in U.S. subsidiaries	(146.0)	(146.0)	
Other	(16.8)	(23.3)	(1.8)
Total deferred tax liabilities	(730.2)	(759.2)	(27.6)
Net deferred tax liabilities	$ (316.6)	$ (324.4)	$ (10.7)

The net deferred tax assets (liabilities) above are classified on the condensed consolidated balance sheets as follows:

	September 30, 2010	July 2, 2010	December 31, 2009
Current net deferred tax asset	$ 90.4	$ 93.0	$ 5.3
Non-current net deferred tax (liability)	(407.0)	(417.4)	(16.0)
Total	$ (316.6)	$ (324.4)	$ (10.7)

At September 30, 2010, the Company had foreign net operating loss carry forwards of $1,113.9 million and state net operating loss carry forwards of $554.2 million. Of the foreign net operating loss carry forwards, $40.5 million is available without expiration while the remainder expires in varying amounts through 2030. The state net operating loss carry forwards expire in varying amounts through 2030. The company also has $57.3 million of various state credit carry forwards of which $32.3 million is available without expiration while the remainder expires beginning in 2010 through 2025. At September 30, 2010, the Company has recorded a valuation allowance of $364.0 million against deferred tax assets that are not expected to be realized.

The Company s policy is to remit earnings from foreign subsidiaries only to the extent any resultant foreign income taxes are creditable in the United States. The Company considers all other earnings to be permanently invested. Accordingly, the Company does not currently provide for the additional United States and foreign income taxes which would become payable upon remission of undistributed earnings of foreign subsidiaries. The cumulative undistributed earnings of such subsidiaries at September 30, 2010 are not material.

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Uncertain Tax Positions

The following table summarizes the activity of the Company s liability for unrecognized tax benefits, substantially all of which would impact the Company s effective tax rate, if recognized:

	September 30, 2010	December 31, 2009
Balance at beginning of period	$ 7.8	$ 7.4
Additions due to the acquisition of World Color Press	35.8	
Additions for tax positions of the current year	0.2	0.5
Additions for tax positions of prior years	0.3	
Reductions for tax positions of prior years	(0.3)	(0.1)
Settlements during the period	(1.0)	
Lapses of applicable statutes of limitations	(0.2)	
Foreign exchange and other	0.2	
Balance at end of period	$ 42.8	$ 7.8

As of September 30, 2010, it is reasonably possible that $10.2 million of the total amount of unrecognized tax benefits will decrease within 12 months due to resolution of audits or statute expirations.

The Company classifies interest expense and any related penalties related to income tax uncertainties as a component of income tax expense. The total interest expense (income) related to tax uncertainties recognized in the consolidated statements of operations for the three months ended September 30, 2010 and 2009 was $0.4 million and $0.1 million, respectively and for the nine months ended September 30, 2010 and 2009 interest expense was $0.6 million and $0.4 million, respectively. No penalties were recognized for the three and nine month periods ended September 30, 2010 and 2009. Accrued interest of $8.6 million and $3.3 million related to income tax uncertainties was reported as a component of other long-term liabilities on the consolidated balance sheets at September 30, 2010 and December 31, 2009, respectively. Accrued penalties of $1.4 million and $0.3 million related to income tax uncertainties were reported in other long-term liabilities on the consolidated balance sheets at September 30, 2010 and December 31, 2009, respectively.

The Company s 2006 through 2009 tax years remain open and subject to examination by the Internal Revenue Service. Tax years from 1995 through 2009 remain open and subject to examination in the Company s various major state jurisdictions.

Note 14. Financial Instruments and Fair Value Measurements

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

The Company also periodically enters into foreign exchange contracts against firm equipment purchase contracts denominated in foreign currencies and natural gas forward purchase contracts to hedge against increases in these costs. Estimated market values were determined based upon quoted market prices.

GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. 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. There are no Level 1 assets or liabilities as of September 30, 2010 and December 31, 2009.

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. There are no Level 2 assets or liabilities as of September 30, 2010 and December 31, 2009.

Level 3: Unobservable inputs for the asset or liability. There are no Level 3 assets or liabilities as of September 30, 2010 and December 31, 2009.

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The fair value of cash and cash equivalents, receivables, restricted cash, accounts payable, accrued liabilities and amounts owing in satisfaction of bankruptcy claims approximate their carrying values as of September 30, 2010 and December 31, 2009. See Note 12 for further discussion on the fair value of the Company s debt.

Note 15. Other Long-Term Liabilities

Other long-term liabilities consist of the following as of September 30, 2010 and December 31, 2009:

	September 30, 2010		December 31, 2009	
Single employer pension and postretirement obligations	$	429.3	$	
Multiemployer pension plans withdrawal liability		100.1		
Tax-related liabilities		52.8		11.4
Employee-related liabilities		51.3		15.5
Other		78.5		13.0
Total	$	712.0	$	39.9

Note 16. Pension and Other Postretirement Benefits

With the acquisition of World Color Press, the Company has become subject to certain pension and postretirement benefit plans. Prior to the acquisition of World Color Press, the Company did not have defined benefit plans and the resulting pension and postretirement obligations. The components of the estimated pension and postretirement benefits expense for the three and nine months ended September 30, 2010 are as follows:

	Three and Nine Months Ended September 30, 2010	
Pension expense		
Service cost	$	1.3
Interest cost		12.2
Expected return on assets		(9.7)
Net pension expense	$	3.8
Postretirement benefit expense		
Service cost	$	0.2
Interest cost		0.7
Net postretirement benefits expense	$	0.9

In addition, as a result of the acquisition of World Color Press, the Company participates in nine union multiemployer pension plans (MEPPs) covering approximately 3,500 employees. Five of the nine MEPPs are defined benefit plans and cover approximately 2,650 employees. The Company records the required cash contributions to the MEPPs as expenses in the period incurred and a liability is only recognized for any contributions due and unpaid, with the exception of recognition of a withdrawal liability. For the three and nine months ended September 30, 2010, expenses recorded for the MEPPs were $1.2 million.

Due to the significantly underfunded status of the MEPPs, the Company intends to exit out of all MEPPs and replace these pension benefits with a company sponsored pay as you go defined contribution plan, which is historically the form of retirement benefit provided to Quad/Graphics employees. As a result, the Company recorded a $100.1 million withdrawal liability as part of the purchase price allocation for the MEPPs, based on withdrawal estimates provided by each plan s trustees.

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Note 17. Earnings (Loss) Per Share Attributable to Quad/Graphics Common Shareholders

Basic earnings (loss) per share attributable to Quad/Graphics common shareholders is computed by dividing net earnings (loss) attributable to Quad/Graphics common shareholders by the weighted average common shares outstanding of 46.4 million and 34.3 million shares for the three and nine months ended September 30, 2010, respectively, and 28.2 million and 28.3 million for the three and nine months ended September 30, 2009, respectively. Diluted earnings (loss) per share attributable to Quad/Graphics common shareholders includes the effect of dilutive stock options. The Company uses the treasury stock method to calculate the effect of outstanding stock options, 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. Stock options for which the total employee proceeds from exercise of the stock options exceed the average fair value of the same stock options over the period have an anti-dilutive effect on earnings per share, and accordingly, the Company excludes them from the calculation. Due to the net loss attributable to Quad/Graphics common shareholders incurred during the three and nine months ended September 30, 2010, the assumed exercise of stock options was anti-dilutive and therefore not included in the diluted loss per share attributable to Quad/Graphics common shareholders calculation.

Reconciliations of the numerator and the denominator of the basic and diluted per share computations for the Company s common stock are summarized as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010		2009		2010		2009	
Numerator:								
Net earnings (loss) attributable to Quad/Graphics common shareholders	$	(232.5)	$	28.4	$	(276.7)	$	16.7
Denominator:								
Basic weighted average number of common shares outstanding for all classes of common shares		46.4		28.2		34.3		28.3
Plus: effect of dilutive stock options				0.8				0.9
Diluted weighted average number of common shares outstanding for all classes of common shares		46.4&						