Quad/Graphics, Inc.
Form 10-Q
May 03, 2017

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 March 31, 2017

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o
(Do not check if a smaller reporting company)	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 April 28, 2017
Class A Common Stock	37,787,351
Class B Common Stock	14,198,464

Class C Common Stock	—

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For the Quarter Ended March 31, 2017

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PART I — FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements (Unaudited)

QUAD/GRAPHICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)
(UNAUDITED)

	Three Months Ended March 31,	
	2017	2016
Net sales		
Products	$854.3	$897.3
Services	144.3	145.2
Total net sales	998.6	1,042.5
Cost of sales		
Products	682.4	704.0
Services	98.7	99.5
Total cost of sales	781.1	803.5
Operating expenses		
Selling, general and administrative expenses	96.0	119.0
Depreciation and amortization	58.7	78.1
Restructuring, impairment and transaction-related charges	9.2	28.9
Total operating expenses	945.0	1,029.5
Operating income	$53.6	$13.0
Interest expense	18.2	20.7
Loss (gain) on debt extinguishment	2.6	(14.1)
Earnings before income taxes and equity in loss of unconsolidated entity	32.8	6.4
Income tax expense	6.7	1.7
Earnings before equity in loss of unconsolidated entity	26.1	4.7
Equity in loss of unconsolidated entity	0.7	0.9
Net earnings	$25.4	$3.8
Earnings per share		
Basic	$0.52	$0.08
Diluted	$0.49	$0.08
Dividends declared per share	$0.30	$0.30
Weighted average number of common shares outstanding		
Basic	49.1	47.6
Diluted	51.5	48.5

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

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QUAD/GRAPHICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)
(UNAUDITED)

	Three Months Ended March 31,	
	2017	2016
Net earnings	$25.4	$3.8
Other comprehensive income		
Translation adjustments	7.7	8.4
Interest rate swap adjustments	0.4	—
Other comprehensive income, before tax	8.1	8.4
Income tax expense related to items of other comprehensive income	—	—
Other comprehensive income, net of tax	8.1	8.4
Comprehensive income	$33.5	$12.2

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

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

	March 31, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$6.5	$ 9.0
Receivables, less allowances for doubtful accounts of $52.4 million at March 31, 2017, and $53.5 million at December 31, 2016	505.1	563.6
Inventories	269.0	265.4
Prepaid expenses and other current assets	50.9	54.4
Restricted cash	3.8	10.2
Total current assets	835.3	902.6
Property, plant and equipment—net	1,487.2	1,519.9
Intangible assets—net	55.4	59.7
Equity method investment in unconsolidated entity	3.1	3.6
Other long-term assets	89.9	84.3
Total assets	$2,470.9	$ 2,570.1
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	$304.4	$ 323.5
Amounts owing in satisfaction of bankruptcy claims	2.1	2.3
Accrued liabilities	289.5	356.7
Short-term debt and current portion of long-term debt	71.6	84.7
Current portion of capital lease obligations	7.2	7.4
Total current liabilities	674.8	774.6
Long-term debt	1,006.4	1,019.8
Unsecured notes to be issued	0.9	5.4
Capital lease obligations	17.6	18.9
Deferred income taxes	38.6	35.3
Other long-term liabilities	271.9	274.6
Total liabilities	2,010.2	2,128.6
Commitments and contingencies (Note 7)		
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	897.9	912.4
Treasury stock, at cost	(97.4)	(113.3)
Accumulated deficit	(196.7)	(206.4)
Accumulated other comprehensive loss	(144.5)	(152.6)
Total shareholders' equity	460.7	441.5
Total liabilities and shareholders' equity	$2,470.9	$ 2,570.1

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

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QUAD/GRAPHICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(UNAUDITED)

	Three Months Ended March 31, 2017	2016
OPERATING ACTIVITIES		
Net earnings	$25.4	$3.8
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	58.7	78.1
Impairment charges	0.4	16.7
Amortization of debt issuance costs and original issue discount	0.9	1.1
Loss (gain) on debt extinguishment	2.6	(14.1)
Stock-based compensation	6.0	5.2
Gain on sale or disposal of property, plant and equipment	(3.7)	(1.4)
Deferred income taxes	3.2	(2.7)
Equity in loss of unconsolidated entity	0.7	0.9
Changes in operating assets and liabilities	(30.9)	25.0
Net cash provided by operating activities	63.3	112.6
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(23.4)	(26.2)
Proceeds from the sale of property, plant and equipment	10.8	2.5
Proceeds from insurance	3.0	—
Transfers from restricted cash	6.3	—
Loan to an unconsolidated entity	(5.0)	—
Net cash used in investing activities	(8.3)	(23.7)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	375.0	18.4
Payments of long-term debt	(384.0)	(115.4)
Payments of capital lease obligations	(2.1)	(1.3)
Borrowings on revolving credit facilities	67.0	293.6
Payments on revolving credit facilities	(83.8)	(258.5)
Payments of debt issuance costs and financing fees	(4.6)	(0.1)
Bankruptcy claim payments on unsecured notes to be issued	(4.1)	—
Purchases of treasury stock	—	(8.8)
Sale of stock for options exercised	1.3	—
Equity awards redeemed to pay employees' tax obligations	(5.9)	(1.4)
Payment of cash dividends	(16.8)	(15.4)
Other financing activities	—	(0.6)
Net cash used in financing activities	(58.0)	(89.5)
Effect of exchange rates on cash and cash equivalents	0.5	0.1
Net decrease in cash and cash equivalents	(2.5)	(0.5)
Cash and cash equivalents at beginning of period	9.0	10.8
Cash and cash equivalents at end of period	$6.5	$10.3

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

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QUAD/GRAPHICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(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. 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, 2016, and notes thereto included in the Company's latest Annual Report on Form 10-K filed with the SEC on February 22, 2017.

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 typically 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 months ended March 31, 2017 and 2016. 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. Restructuring, Impairment and Transaction-Related Charges

The Company recorded restructuring, impairment and transaction-related charges for the three months ended March 31, 2017 and 2016, as follows:

	Three Months Ended March 31,	
	2017	2016
Employee termination charges	$2.9	$4.9
Impairment charges	0.4	16.7
Transaction-related charges	0.8	0.6
Integration costs	—	0.1
Other restructuring charges	5.1	6.6
Total	$9.2	$28.9

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 18, "Segment Information," for restructuring, impairment and transaction-related charges by segment.

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QUAD/GRAPHICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(In millions, except share and per share data and unless otherwise indicated)

Restructuring Charges

The Company began a restructuring program in 2010 related to eliminating excess manufacturing capacity and properly aligning its cost structure. The Company has announced a total of 37 plant closures and has reduced headcount by approximately 11,400 employees since 2010. The Company recorded the following charges as a result of plant closures and other restructuring programs:

- Employee termination charges of $2.9 million and $4.9 million were recorded during the three months ended March 31, 2017 and 2016, respectively. The Company reduced its workforce through facility consolidations and involuntary separation programs.

- There were no integration costs recorded during the three months ended March 31, 2017. Integration costs of $0.1 million were recorded during the three months ended March 31, 2016, related to costs for the integration of acquired companies.

- Other restructuring charges of $5.1 million were recorded during the three months ended March 31, 2017, which consisted of the following: (1) $3.2 million of lease exit charges primarily related to the closures of the Huntington Beach, California; and Manassas, Virginia plants; (2) $1.2 million of equipment and infrastructure removal costs from closed plants; and (3) $0.7 million of vacant facility carrying costs, net of a $3.7 million gain from the sale of the East Greenville, Pennsylvania and Marengo, Iowa plants. Other restructuring charges of $6.6 million were recorded during the three months ended March 31, 2016, which consisted of the following: (1) $4.0 million of vacant facility carrying costs; (2) $2.5 million of equipment and infrastructure removal costs from closed plants; and (3) $0.1 million of lease exit charges.

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 $0.4 million during the three months ended March 31, 2017, for machinery and equipment no longer being utilized in production as a result of facility consolidations, as well as other capacity reduction restructuring activities.

The Company recognized impairment charges of $16.7 million during the three months ended March 31, 2016, which consisted of the following: (1) $12.1 million of land and building impairment charges related to the Atglen, Pennsylvania plant closure; and (2) $4.6 million 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.

The fair values of the impaired assets were determined by the Company to be Level 3 under the fair value hierarchy (see Note 11, "Financial Instruments and Fair Value Measurements," for the definition of Level 3 inputs) and were estimated based on internal discounted cash flow estimates, quoted market prices where available and independent appraisals, as appropriate. These assets were adjusted to their estimated fair values at the time of impairment.

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Transaction-Related Charges

The Company incurs transaction-related charges primarily consisting of professional service fees related to business acquisition and divestiture activities. The Company recognized transaction-related charges of $0.8 million and $0.6 million during the three months ended March 31, 2017 and 2016, respectively. The transaction-related charges were expensed as incurred in accordance with the applicable accounting guidance on business combinations.

Restructuring Reserves

Activity impacting the Company's restructuring reserves for the three months ended March 31, 2017, was as follows:

	Employee Termination Charges	Impairment Charges	Transaction-Related Charges	Integration Costs	Other Restructuring Charges	Total
Balance at December 31, 2016	$ 7.6	$ —	$ 0.1	$ 1.1	$ 10.4	$19.2
Expense	2.9	0.4	0.8	—	5.1	9.2
Cash payments	(2.9)	—	(0.5)	—	(3.0)	(6.4)
Non-cash adjustments	—	(0.4)	—	—	—	(0.4)
Balance at March 31, 2017	$ 7.6	$ —	$ 0.4	$ 1.1	$ 12.5	$21.6

The Company's restructuring reserves at March 31, 2017, included a short-term and a long-term component. The short-term portion included $15.3 million in accrued liabilities (see Note 12, "Accrued Liabilities and Other Long-Term 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 $5.3 million is included in other long-term liabilities (see Note 12, "Accrued Liabilities and Other Long-Term Liabilities") in the condensed consolidated balance sheets.

Note 3. Intangible Assets

The components of intangible assets at March 31, 2017, and December 31, 2016, were as follows:

		March 31, 2017			December 31, 2016		
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Finite-lived intangible assets:							
Trademarks, patents, licenses and agreements	7	$21.9	$ (10.1)	$ 11.8	$21.7	$ (9.3)	$ 12.4
Capitalized software	5	6.6	(6.3)	0.3	6.4	(6.2)	0.2
Acquired technology	5	6.1	(6.1)	—	6.1	(6.1)	—
Customer relationships	6	459.9	(416.6)	43.3	459.4	(412.3)	47.1
Total finite-lived intangible assets		$494.5	$ (439.1)	$ 55.4	$493.6	$ (433.9)	$ 59.7

The gross carrying amount and accumulated amortization within intangible assets—net in the condensed consolidated balance sheets at March 31, 2017, and December 31, 2016, differs from the value originally recorded at acquisition due to impairment charges recorded and the effects of currency fluctuations since the purchase date.

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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 intangible assets for the three months ended March 31, 2017 and 2016.

Amortization expense for intangible assets was $4.5 million and $20.1 million for the three months ended March 31, 2017 and 2016, respectively. The estimated future amortization expense related to intangible assets as of March 31, 2017, was as follows:

	Amortization Expense
Remainder of 2017	$ 13.7
2018	17.4
2019	12.8
2020	7.6
2021	2.8
2022 and thereafter	1.1
Total	$ 55.4

Note 4. Inventories

The components of inventories at March 31, 2017, and December 31, 2016, were as follows:

	March 31, 2017	December 31, 2016
Raw materials and manufacturing supplies	$ 156.0	$ 142.4
Work in process	42.1	45.3
Finished goods	70.9	77.7
Total	$ 269.0	$ 265.4

Note 5. Property, Plant and Equipment

The components of property, plant and equipment at March 31, 2017, and December 31, 2016, were as follows:

	March 31, 2017	December 31, 2016
Land	$ 125.5	$ 126.2
Buildings	929.6	935.4
Machinery and equipment	3,602.3	3,574.4
Other[(1)]	195.0	191.5
Construction in progress	51.7	59.5
Property, plant and equipment—gross	$ 4,904.1	$ 4,887.0
Less: accumulated depreciation	(3,416.9)	(3,367.1)
Property, plant and equipment—net	$ 1,487.2	$ 1,519.9

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

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The Company recorded impairment charges of $0.4 million and $16.7 million for the three months ended March 31, 2017 and 2016, respectively, to reduce the carrying amounts of certain property, plant and equipment no longer utilized in production to fair value (see Note 2, "Restructuring, Impairment and Transaction-Related Charges," for further discussion on impairment charges).

The Company recognized depreciation expense of $54.2 million and $58.0 million for the three months ended March 31, 2017 and 2016, 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 $7.4 million and $5.2 million as of March 31, 2017, and December 31, 2016, 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 11, "Financial Instruments and Fair Value Measurements," for the definition of Level 3 inputs) and were estimated based on internal discounted cash flow estimates, quoted market prices where available and independent appraisals, as appropriate. Assets held for sale are included in prepaid expenses and other current assets in the condensed consolidated balance sheets.

Note 6. Equity Method Investment in Unconsolidated Entity

The Company has a 49% ownership interest in Plural Industria Gráfica Ltda. ("Plural"), a commercial printer based in São Paulo, Brazil. The Company's ownership interest in Plural was accounted for using the equity method of accounting for all periods presented. The Company's equity loss of Plural's operations was recorded in equity in loss of unconsolidated entity in the condensed consolidated statements of operations and was included within the International segment.

Plural's condensed statements of operations for the three months ended March 31, 2017 and 2016, are presented below:

	Three Months Ended March 31,	
	2017	2016
Net sales	$18.0	$14.0
Operating loss	1.1	1.0
Net loss	1.4	1.8

Note 7. 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 ultimately result from such lawsuits are not expected by management to have a material impact on the condensed consolidated financial statements of the Company.

QUAD/GRAPHICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2017
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In April 2016, the Company self-reported to the SEC and the Department of Justice ("DOJ") certain Foreign Corrupt Practices Act ("FCPA") issues, and a resulting internal investigation, related to its operations managed from Peru. These operations had approximate annual sales ranging from $95.0 million to $135.0 million from the date that the Company acquired those operations in July 2010 until the date the issues were discovered. 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. During the course of its internal investigation, the Company has also identified, and self-reported to the DOJ and SEC, transactions raising similar issues involving certain sales made in its Quad/Tech China operations. For the period 2011 through 2015, the approximate annual sales of these China operations ranged from $2.0 million to $3.0 million. 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.

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 8. 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 $1.0 million and $1.2 million of such recorded claims have yet to be paid as of March 31, 2017, and December 31, 2016, 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 for the future satisfaction of 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 with a trustee, and that amount is being used to pay creditors for allowed Class 3 Claims, with excess amounts not required for Class 3 Claim payments reverting to the Company.

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QUAD/GRAPHICS, INC.
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FOR THE THREE MONTHS ENDED MARCH 31, 2017
(In millions, except share and per share data and unless otherwise indicated)

During the three months ended March 31, 2017, $4.1 million of the restricted cash was paid to Class 3 Claim creditors. The Company also received refunds of $2.2 million of restricted cash. At March 31, 2017, a $0.9 million maximum potential payout to the Class 3 Claim creditors remains and is classified as restricted cash in the condensed consolidated balance sheet. Based on the Company's analysis of the outstanding Class 3 Claims, the Company has a liability of $0.9 million at March 31, 2017, 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 three months ended March 31, 2017, was as follows:

	Restricted Cash	Unsecured Notes to be Issued
Balance at December 31, 2016	$ 7.2	$ 5.4
Class 3 Claim payments	(4.1)	(4.1)
Restricted cash refunded to Quad/Graphics	(2.2)	—
Non-cash adjustments	—	(0.4)
Balance at March 31, 2017	$ 0.9	$ 0.9

The components of restricted cash at March 31, 2017, and December 31, 2016, were as follows:

	March 31, 2017	December 31, 2016
Defeasance of unsecured notes to be issued	$ 0.9	$ 7.2
Restricted cash for Class 4 Claim payments	1.1	1.1
Other	1.8	1.9
Total	$ 3.8	$ 10.2

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.

QUAD/GRAPHICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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(In millions, except share and per share data and unless otherwise indicated)

Note 9. Debt

The components of long-term debt as of March 31, 2017, and December 31, 2016, were as follows:

	March 31, 2017	December 31, 2016
Master note and security agreement	$ 149.2	$ 152.6
Term loan A—$375.0 million due January 2021	375.0	376.9
Term loan B—$300.0 million due April 2021	290.0	290.6
Revolving credit facility—$725.0 million due January 2021	3.6	19.0
Senior unsecured notes—$300.0 million due May 2022	243.5	243.5
International term loan—$18.9 million	15.1	16.8
International revolving credit facility—$15.1 million	4.1	5.3
Equipment term loans	8.5	9.5
Other	1.6	1.6
Debt issuance costs	(12.6)	(11.3)
Total debt	$ 1,078.0	$ 1,104.5
Less: short-term debt and current portion of long-term debt	(71.6)	(84.7)
Long-term debt	$ 1,006.4	$ 1,019.8

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 $1.1 billion at March 31, 2017, and December 31, 2016. The fair value determination of the Company's total debt was categorized as Level 2 in the fair value hierarchy (see Note 11, "Financial Instruments and Fair Value Measurements," for the definition of Level 2 inputs).

2017 Senior Secured Credit Facility Amendment

The Company completed the second amendment to the Company's April 28, 2014 Senior Secured Credit Facility on February 10, 2017. This second amendment was completed to reduce the sizing of the revolving credit facility and Term Loan A and to extend the Company's debt maturity profile while maintaining the Company's current cost of borrowing and covenant structure. The amendment resulted in a loss on debt extinguishment in the amount of $2.6 million during the three months ended March 31, 2017.

The revolving credit facility was lowered to a maximum borrowing amount of $725.0 million with a term of just under four years, maturing on January 4, 2021. The Term Loan A was lowered to an aggregate amount of $375.0 million with a term of just under four years, maturing on January 4, 2021, subject to certain required amortization. Borrowings under the revolving credit facility and Term Loan A loans made under the Senior Secured Credit Facility will initially bear interest at 2.00% in excess of reserve adjusted London Interbank Offered Rate ("LIBOR"), or 1.00% in excess of an alternate base rate. This amendment to the Senior Secured Credit Facility does not have an impact on the quarterly financial covenant requirements the Company is subject to.

The Senior Secured Credit Facility remains secured by substantially all of the unencumbered assets of the Company. The Senior Secured Credit Facility also requires the Company to provide additional collateral to the lenders in certain limited circumstances.

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Debt Issuance Costs

Activity impacting the Company's debt issuance costs for the three months ended March 31, 2017, was as follows:

	Debt Issuance Costs
Balance at December 31, 2016	$ 11.3
Debt issuance costs from February 10, 2017 debt financing arrangement	3.2
Loss on debt extinguishment from April 28, 2014 debt financing arrangement	(1.1)
Amortization of debt issuance costs	(0.8)
Balance at March 31, 2017	$ 12.6

2017 Loss on Debt Extinguishment

The Company incurred $4.7 million in debt issuance costs in conjunction with the second amendment to the Company's Senior Secured Credit Facility. In accordance with the accounting guidance for the treatment of debt issuance costs in a debt extinguishment, of the $4.7 million in new debt issuance costs, $3.2 million is classified as a reduction of long-term debt in the condensed consolidated balance sheets and $1.5 million was expensed and is classified as loss on debt extinguishment in the condensed consolidated statements of operations.

The loss on debt extinguishment recorded in the condensed consolidated statement of operations for the three months ended March 31, 2017, was comprised of the following:

	Loss on Debt Extinguishment
Debt issuance costs from April 28, 2014 debt financing arrangement	$ 1.1
Debt issuance costs from February 10, 2017 debt financing arrangement	1.5
Total	$ 2.6

2016 Gain on Debt Extinguishment

The gain on debt extinguishment recorded during the three months ended March 31, 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

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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 three months ended March 31, 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 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 three months ended March 31, 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.

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 March 31, 2017:

- 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 March 31, 2017, the Company's total leverage ratio was 2.24 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 March 31, 2017, the Company's senior secured leverage ratio was 1.75 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 March 31, 2017, the Company's minimum interest coverage ratio was 7.02 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 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.

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- 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 10. Income Taxes

The Company records income tax expense on an interim basis. The estimated annual effective income tax rate is adjusted quarterly, and items discrete to a specific quarter are reflected in tax expense for that interim period. The effective income tax rate for the interim period can differ from the statutory tax rate, as it reflects changes in valuation allowances due to expected current year earnings or loss and other discrete items, such as changes in the liability for unrecognized tax benefits related to establishment and settlement of income tax exposures.

The Company's liability for unrecognized tax benefits as of March 31, 2017, was $29.4 million. The Company anticipates a $1.4 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 11. 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 March 31, 2017.

Interest Rate Swap

The Company entered into a $250.0 million interest rate swap on February 7, 2017. The swap was designated as a cash flow hedge as its purpose is to reduce the variability of cash flows from interest payments related to a portion of Quad/Graphics' variable-rate debt. The swap became effective on February 28, 2017, and effectively converts $250.0 million of the Company's variable-rate debt based on one-month LIBOR to a fixed rate of 3.89% (including a 2.00% spread on underlying debt). The variable interest rate resets monthly and the swap is a five year arrangement, maturing on February 28, 2022.

The Company classifies the interest rate swap as Level 2 because the inputs into the valuation model are observable or can be derived or corroborated utilizing observable market data at commonly quoted intervals. The interest rate swap was highly effective as of March 31, 2017; therefore, the entire change in fair value during the period of $0.4 million is included in accumulated other comprehensive loss in the condensed consolidated balance sheets and is shown as a change in other comprehensive income in the condensed consolidated statements of comprehensive income. No amount of ineffectiveness has been recorded into earnings related to this cash flow hedge. The fair value of the interest rate swap as of March 31, 2017 was $0.4 million and is recorded in prepaid expenses and other current assets in the condensed consolidated balance sheets.

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The net payment of interest under the terms of the interest rate swap totaled an expense of $0.2 million during the three months ended March 31, 2017, and has been recognized as an adjustment to interest expense in the condensed consolidated statements of operations.

Foreign Exchange Contracts

The Company has operations in countries that have transactions outside their functional currencies and periodically enters into foreign exchange contracts. These contracts are used to hedge the net exposures of changes in foreign currency exchange rates and are designated as either cash flow hedges or fair value hedges. Gains or losses on net foreign currency hedges are intended to offset losses or gains on the underlying net exposures in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates. There were no open foreign currency exchange contracts as of March 31, 2017.

Natural Gas Forward Contracts

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 months ended March 31, 2017 and 2016, as the Company takes delivery in the normal course of business.

Debt

The Company measures fair value on its debt instruments using interest rates available to the Company for borrowings with similar terms and maturities and is categorized as Level 2. See Note 9, “Debt,” for the fair value of the Company’s debt as of March 31, 2017.

Nonrecurring Fair Value Measurements

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, "Restructuring, Impairment and Transaction-Related Charges" and Note 5, "Property, Plant and Equipment" for further discussion on impairment charges recorded as a result of the remeasurement of certain long-lived assets.

Other Estimated Fair Value Measurements

The fair value of cash and cash equivalents, receivables, inventories, restricted cash, accounts payable, accrued liabilities and amounts owing in satisfaction of bankruptcy claims approximate their carrying values as of March 31, 2017, and December 31, 2016.

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Note 12. Accrued Liabilities and Other Long-Term Liabilities

The components of accrued and other long-term liabilities as of March 31, 2017, and December 31, 2016, were as follows:

	March 31, 2017			December 31, 2016		
	Accrued Liabilities	Other Long-Term Liabilities	Total	Accrued Liabilities	Other Long-Term Liabilities	Total
Employee-related liabilities [1]	$133.3	$ 61.6	$194.9	$194.3	$ 61.7	$256.0
Single employer pension plan obligations	1.8	109.5	111.3	1.8	112.4	114.2
Multiemployer pension plans – withdrawal liability	6.8	35.9	42.7	10.6	33.4	44.0
Tax-related liabilities	34.4	21.2	55.6	24.6	22.9	47.5
Restructuring liabilities	15.3	5.3	20.6	13.5	4.8	18.3
Interest and rent liabilities	13.2	2.6	15.8	7.6	3.3	10.9
Other	84.7	35.8	120.5	104.3	36.1	140.4
Total	$289.5	$ 271.9	$561.4	$356.7	$ 274.6	$631.3

[1] Employee-related liabilities consist primarily of payroll, bonus, vacation, health and workers' compensation.

Note 13. 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 months ended March 31, 2017 and 2016, were as follows:

	Three Months Ended March 31,	
	2017	2016
Interest cost	$(4.3)	$(5.1)
Expected return on plan assets	6.9	7.9
Net pension income	$2.6	$2.8

The Company made $0.3 million in benefit payments to its non-qualified defined benefit pension plans and made no contributions to its qualified defined benefit pension plans during the three months ended March 31, 2017.

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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 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 the estimated withdrawal liability based on information provided by each plan's trustee.

The Company has received a notice of withdrawal and demand for payment letter from the GCIU, which is in excess of the reserve established by the Company for the GCIU withdrawal. The Company is currently in litigation with the GCIU trustees to determine the amount and duration of the withdrawal payments for the GCIU. Arbitration proceedings with the GCIU have been completed, both sides have appealed the arbitrator's ruling, and litigation in Federal court has commenced. During April 2017, a Federal district court overturned the arbitration decision in one of the pending disputes in this matter. The Company intends to appeal the district court’s ruling to the Ninth Circuit.

During the fourth quarter of 2016, the Company and the GCC reached a settlement agreement for all claims, with scheduled payments until February 2024.

The Company made payments totaling $6.4 million and $3.2 million for the three months ended March 31, 2017 and 2016, respectively. The payments include monthly payments, as required by the Employee Retirement Income Security Act, although such payments to the GCIU do not waive the Company's rights to object to the withdrawal liabilities submitted by the GCIU plan administrator.

The Company has reserved $42.7 million as its estimate of the total MEPPs withdrawal liability as of March 31, 2017, of which $35.9 million was recorded in other long-term liabilities and $6.8 million was recorded in accrued liabilities in the condensed consolidated balance sheets. The withdrawal liability reserved by the Company is within the range of the Company's estimated potential outcomes. This estimate may increase or decrease depending on the final conclusion of the litigation with the GCIU trustees.

Note 14. Earnings Per Share

Basic earnings per share is computed as net earnings divided by the basic weighted average common shares outstanding of 49.1 million and 47.6 million shares for the three months ended March 31, 2017 and 2016, 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 amount the employee must pay upon exercise of the award and the amount of unearned stock-based compensation costs attributable to future services.

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. Anti-dilutive equity instruments of 1.0 million and 3.2 million class A common shares were excluded from the computation of diluted net earnings per share for the three months ended March 31, 2017 and 2016, respectively.

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Reconciliations of the numerator and the denominator of the basic and diluted per share computations for the Company's common stock, for the three months ended March 31, 2017 and 2016, are summarized as follows:

	Three Months Ended March 31,	
	2017	2016
Numerator		
Net earnings	$25.4	$3.8
Denominator		
Basic weighted average number of common shares outstanding for all classes of common shares	49.1	47.6
Plus: effect of dilutive equity incentive instruments	2.4	0.9
Diluted weighted average number of common shares outstanding for all classes of common shares	51.5	48.5
Earnings per share		
Basic	$0.52	$0.08
Diluted	$0.49	$0.08
Cash dividends paid per common share for all classes of common shares	$0.30	$0.30

Note 15. 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 10,871,652 shares of class A common stock reserved for issuance under the Omnibus Plan. Awards under the Omnibus Plan may consist of incentive awards, stock options, stock appreciation rights, performance shares, performance share units, shares of class A common stock, restricted stock, restricted stock units, deferred stock units or other stock-based awards as determined by the Company's Board of Directors. Each stock option granted has an exercise price of no less than 100% of the fair market value of the class A common stock on the date of grant. As of March 31, 2017, there were 2,097,584 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 $6.0 million and $5.2 million for the three months ended March 31, 2017 and 2016, respectively, and was recorded in selling, general and administrative expenses in the condensed consolidated statements of operations. Total future compensation expense related to all equity incentive programs granted as of March 31, 2017, was estimated to be $27.0 million. Estimated future compensation expense is $10.2 million for 2017, $9.9 million for 2018, $6.0 million for 2019 and $0.9 million for 2020.

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Net tax benefit (expense) on equity award activity was a benefit of $1.7 million and an expense of $0.6 million during the three months ended March 31, 2017 and 2016, respectively. See Note 20, "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.

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, and no compensation expense was recognized related to stock options for the three months ended March 31, 2017 and 2016. There is no future compensation expense for stock options as of March 31, 2017.

The following table is a summary of the stock option activity for the three months ended March 31, 2017:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (millions)
Outstanding at December 31, 2016	1,702,866	$ 23.00	3.3	$ 12.3
Granted	—	—		
Exercised	(74,803)	17.98		
Canceled/forfeited/expired	(12,392)	31.67		
Outstanding and exercisable at March 31, 2017	1,615,671	$ 23.17	3.1	$ 10.0

The intrinsic value of options outstanding and exercisable at March 31, 2017, and December 31, 2016, was based on the fair value of the stock price. All outstanding options were vested as of March 31, 2017.

The following table is a summary of the stock option exercises and vesting activity for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31, 2017	2016
Total intrinsic value of stock options exercised	$ 0.7	$ —
Cash received from stock option exercises	1.3	—

Total grant date fair value of stock options vested	—	0.3

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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 three months ended March 31, 2017:

	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 Fair Value Per Share	Weighted-Average Remaining Contractual Term (years)
Nonvested at December 31, 2016	2,485,389	$ 15.89	1.5	235,886	$ 11.04	1.8
Granted	659,866	26.88		71,438	26.88	
Vested	(612,395)	23.44		(10,529)	23.45	
Forfeited	(8,131)	15.06		—	—	
Nonvested at March 31, 2017	2,524,729	$ 16.94	2.0	296,795	$ 14.41	1.9

In general, RS and RSU awards will vest on the third anniversary of the grant date, provided the holder of the share is continuously employed by the Company until the vesting date. Compensation expense recognized for RS and RSUs was $5.1 million and $4.4 million for the three months ended March 31, 2017 and 2016, respectively. Total future compensation expense for all RS and RSUs granted as of March 31, 2017, is approximately $27.0 million. Estimated future compensation expense is $10.2 million for 2017, $9.9 million for 2018, $6.0 million for 2019 and $0.9 million for 2020.

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Deferred Stock Units

Deferred stock units ("DSU") are awards of rights to shares of the Company's class A common stock and are awarded to non-employee directors of the Company. The following table is a summary of DSU award activity for the three months ended March 31, 2017:

	Deferred Stock Units	
	Units	Weighted-Average Grant Date Fair Value Per Share
Outstanding at December 31, 2016	249,739	$ 16.98
Granted	34,656	26.86
Dividend equivalents granted	3,373	25.05
Settled	—	—
Forfeited	—	—
Outstanding at March 31, 2017	287,768	$ 18.27

Each DSU award entitles the grantee to receive one share of class A common stock upon the earlier of the separation date of the grantee or the second anniversary of the grant date, but could be subject to acceleration for a change in control, death or disability as defined in the individual DSU grant agreement. Grantees of DSU awards may not exercise voting rights, but are credited with dividend equivalents, and those dividend equivalents will be converted into additional DSU awards based on the closing price of the class A common stock. There was $0.9 million and $0.8 million of compensation expense recorded for DSUs during the three months ended March 31, 2017 and 2016, respectively. As DSU awards are fully vested on the grant date, all compensation expense was recognized at the date of grant.

Other information

Authorized unissued shares or treasury shares may be used for issuance under the Company's equity incentive programs. The Company intends to use treasury shares of its class A common stock to meet the stock requirements of its awards in the future.

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Note 16. Shareholders' Equity

The Company has three classes of common stock as follows (share data in millions):

		Issued Common Stock		
	Authorized Shares	Outstanding	Treasury	Total Issued Shares
Class A stock ($0.025 par value)	80.0			
March 31, 2017		37.8	2.2	40.0
December 31, 2016		37.2	2.8	40.0
Class B stock ($0.025 par value)	80.0			
March 31, 2017		14.2	0.8	15.0
December 31, 2016		14.2	0.8	15.0
Class C stock ($0.025 par value)	20.0			
March 31, 2017		—	0.5	0.5
December 31, 2016		—	0.5	0.5

In accordance with the Articles of Incorporation, each class A common share has one vote per share and each class B and class C common share has ten votes per share on all matters voted upon by the Company's shareholders. Liquidation rights are the same for all three classes of common stock.

The Company also has 0.5 million shares of $0.01 par value preferred stock authorized, of which none were issued at March 31, 2017, and December 31, 2016. The Company has no present plans to issue any preferred stock.

On September 6, 2011, the Company's Board of Directors authorized a share repurchase program of up to $100.0 million of the Company's outstanding class A common stock. There were no share repurchases during the three months ended March 31, 2017. As of March 31, 2017, there were $82.9 million of authorized repurchases remaining under the program.

In accordance with the Articles of Incorporation, dividends are paid equally for all three classes of common shares. The dividend activity related to the then outstanding shares for the three months ended March 31, 2017 and 2016, was as follows:

	Declaration Date	Record Date	Payment Date	Dividend Amount per Share
2017				
Q1 Dividend	February 17, 2017	February 27, 2017	March 10, 2017	$ 0.30
2016				

Q1 Dividend	February 19, 2016	March 7, 2016	March 18, 2016	0.30

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QUAD/GRAPHICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(In millions, except share and per share data and unless otherwise indicated)

Activity impacting shareholders' equity for the three months ended March 31, 2017, was as follows:

	Shareholders' Equity
Balance at December 31, 2016	$ 441.5
Net earnings	25.4
Translation adjustments	7.7
Interest rate swap adjustments	0.4
Cash dividends declared	(15.7)
Stock-based compensation	6.0
Sale of stock for options exercised	1.3
Equity awards redeemed to pay employees' tax obligations	(5.9)
Balance at March 31, 2017	$ 460.7

Note 17. Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive loss by component, net of tax, for the three months ended March 31, 2017, were as follows:

	Translation Adjustments	Interest Rate Swap Adjustments	Pension Benefit Plan Adjustments	Total
Balance at December 31, 2016	$ (130.8)	$ —	$ (21.8)	$(152.6)
Other comprehensive income before reclassifications	7.7	0.4		