

**EXHIBIT B**

**QUAD/GRAPHICS, INC. NOVEMBER 15, 2010 10-Q**



Print Page Close Window

## SEC Filings

10-Q

Quad/Graphics, Inc. filed this Form 10-Q on 11/15/10

<< Previous Page | Next Page >>

Table of Contents

---

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

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

For the quarterly period ended September 30, 2010

or

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

For the transition period from            to

Commission File Number 001-34806

**QUAD/GRAPHICS, INC.**

(Exact name of Registrant as specified in its charter)

**Wisconsin**  
(State or other jurisdiction of  
incorporation or organization)

**39-1152983**  
(I.R.S. Employer  
Identification No.)

**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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any,

## Table of Contents

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
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.

## Table of Contents

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	<u>\$ 1,599.3</u>	<u>\$ 749.7</u>

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

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUAD/GRAPHICS, INC.

Date: November 15, 2010

By: /s/ J. Joel Quadracci  
J. Joel Quadracci  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 15, 2010

By: /s/ John C. Fowler  
John C. Fowler  
Executive Vice President and Chief Financial  
Officer  
(Principal Financial Officer)