UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

UNITED STATES OF AMERICA, *Plaintiff*, v. QUAD/GRAPHICS, INC., *et al.*, *Defendants*.	Case No. 1:19-cv-04153 Hon. Charles R. Norgle, Sr.

DEFENDANT LSC COMMUNICATION, INC.'S
ANSWER AND DEFENSES TO PLAINTIFF'S COMPLAINT

Defendant LSC Communications, Inc. ("LSC") hereby responds to Plaintiff's Complaint as set forth below. Any allegation not expressly admitted is denied. LSC also states that, except to the extent stated explicitly below, it lacks knowledge or information sufficient to form a belief about the truth or falsity of allegations that relate to the actions, statements, or intentions of Quad/Graphics, Inc. or QLC Merger Sub, Inc. (together, "Quad") or of any third parties, and therefore denies them. LSC reserves the right to amend this Answer.

GENERAL RESPONSE TO PLAINTIFF'S ALLEGATIONS

1. Quad and LSC are two of a large number of competitors in a crowded commercial printing industry that continues to rapidly lose volume because of the accelerating movement of advertising and content from print products to digital platforms. Demand for print is declining rapidly as consumers turn to electronic and mobile devices for content consumption, communications, shopping and entertainment

and as advertisers and marketers focus their efforts at reaching consumers through social media, search engine optimization, search engine marketing, and other online marketing and advertising.

2. According to market research company *eMarketer*, in 2018, print products (such as magazines, catalogs, newspapers, and directories) accounted for just 9% of all advertising spending, compared to nearly 40% in 2008. By contrast, digital channels accounted for more than 50% of advertising spending in 2018, as advertisers increasingly shifted their spending towards digital advertising giants such as Google, Facebook, and Amazon. While publications such as *Money*, *ESPN The Magazine*, *Glamour*, *Brides*, *Seventeen*, *The Weekly Standard*, and *Motorcyclist* have all announced since the transaction was signed that they will no longer be printing magazines and instead will make their content available exclusively on the Internet, and retailers such as Calvin Klein and Lands' End have reduced or eliminated their catalogs, Amazon's advertising business is expected to grow by more than 50% in 2019. Catalogs and magazines that are still being printed are getting thinner, becoming less frequent, and seeing reduced circulation.

3. Book printing, too, is on the decline. The release of Amazon's Kindle e-reader in late 2007 spurred the rapid adoption of e-books in the United States, and by 2013, approximately 23.8% of trade books sold in the U.S. were sold in e-book form. Sales of audiobooks are growing by double digits annually. Digital textbooks and other digital materials are gaining popularity as education book publishers, such as Pearson Education and McGraw-Hill Education, encourage a shift towards "digital learning" over traditional print textbooks at both the K–12 and higher education levels. And, although

some large education book publishers may supplement their digital learning programs with print products, those products are overwhelmingly softcover textbooks and workbooks, which can be produced by many more printers than have traditionally participated in the educational book segment.

4. The dramatic shift from print to digital has left both Quad and LSC with a shrinking customer base and substantial excess capacity. Both companies need to close inefficient plants to lower their costs. Combining the platforms of Quad and LSC will allow the combined company to achieve a more efficient platform than would result from Quad and LSC each continuing separately to close plants, resulting in less disruption to customers. The proposed merger of Quad and LSC would generate more than $100 million in recurring annual synergies and create a lower-cost print platform, which could help slow the migration of content and advertising to digital platforms.

5. Plaintiff's Complaint—which alleges that the combination of Quad and LSC "likely would lead Quad to, among other things, reduce printing capacity, reduce printing quality, and raise the prices of its printing services above those that would prevail absent the transaction" (Complaint ¶ 25)—demonstrates a fundamental misunderstanding of the state of the print industry. A combined Quad/LSC would have no incentive to facilitate its own demise by deliberately failing to pass along cost savings to customers, thereby further hastening the decline of print.

6. More importantly, Plaintiff ignores the many commercial printers that compete intensely against Quad and LSC for the diminishing volume of print products that remain, and thus constrain the price of print services. One would never know from reading Plaintiff's Complaint that the commercial printing industry is highly fragmented.

According to the 2018 edition of *Printing Impressions 400* (an annual ranking of participating printers in the United States) and *IBISWorld*, the top 400 printers by volume account for less than half of the $75 billion U.S. print industry. No single printer accounts for more than 5.0% of the overall U.S. sales of printed materials. Approximately 150 of the top 400 printers by volume have one or more web offset presses, the type of printing press most often used for printing long-run catalogs, magazines, and books. Yet Plaintiff's Complaint prominently displays a chart that shows just a combined Quad/LSC and four unidentified printers as support for the assertion that Quad and LSC "control a particularly high percentage of web offset presses." (*See* Complaint ¶ 8.) There is ample evidence that far more than four printers can and do compete against Quad and LSC to provide catalog, magazine, and book printing services. To the extent there are printers today that are using their web offset presses to print things such as retail inserts (*i.e.*, the ads tucked inside of newspapers), direct mail, telephone books, or brochures, those printers could easily begin printing catalogs, magazines, or books with little to no capital investment.

7. Plaintiff is far from clear in its Complaint exactly who it considers participants in its four narrow putative markets—"magazine printing services," "catalog printing services," "one-color trade book printing services" sold to "major" U.S. publishers, and "education book printing services" sold to "major" U.S. publishers. (*See* Complaint ¶¶ 20–23.) But any putative market for print services that does not include the many printers with web offset print capacity—as well as the hundreds of additional printers with web digital printing presses or sheet-fed offset printing presses that can be used to print catalogs, magazines, and books—is not legally defensible.

8. In sum, Plaintiff is seeking to block a transaction that would create a healthy printer with a lower cost structure than either Quad or LSC has today. The transaction would help customers of the combined company compete with digital advertising behemoths like Google, Facebook, and Amazon. Plaintiff's failure to recognize that the accelerating movement of advertising and content from print to digital channels has created intense competition among printers for the diminishing volume of print products that remain is fatal to Plaintiff's claim.

RESPONSE TO SPECIFIC ALLEGATIONS

I. "INTRODUCTION"

Complaint Paragraph No. 1: *The combination of Quad and LSC—the two most significant magazine, catalog, and book printers in the United States—threatens to increase prices, reduce quality, and limit availability of printed material that millions of Americans rely on to receive and disseminate information and ideas. Although printing several pages of text is a simple task, many magazines, catalogs, and books require complex printing equipment and distribution networks. In the United States, Quad and LSC's printing and distribution resources vastly exceed those of other competitors and the two serve as the only realistic options for many publishers and retailers that rely on these firms' resources and experience to ensure that high-quality products reach consumers in an efficient and timely manner. Quad and LSC compete head-to-head on price and quality to win customers' business. By eliminating the "intense rivalry" between these two firms, the proposed merger would deny their customers the benefits of competition and likely increase the price and reduce the availability of products from popular magazines to grade school textbooks.*

Answer: LSC denies the allegations of Paragraph 1, which do not present a fair and complete description of the matters described therein, except (a) admits that (i) LSC prints and distributes magazines, catalogs, and books, (ii) printing several pages of text is a simple task, and (iii) LSC competes with Quad, among many other competitors, to win customers' business, and (b) respectfully refers the Court to any unidentified documents quoted therein for a complete and accurate statement of their contents.

Complaint Paragraph No. 2: *Competition between Quad and LSC has resulted in better prices, greater output, and higher quality for magazine, catalog, and book printing in the United States. These two firms are one another's "#1 competitor." They bid aggressively against each other by leveraging their scale and scope, and by undercutting one another's prices. As competition between the two reduced their margins, Quad and LSC contemplated a merger that would dramatically consolidate the industry. As LSC CEO Tom Quinlan remarked to investors mere months before the current deal was announced, combining LSC and Quad would eliminate "battle[s]" between the two and could help lead to "[p]ricing stability."*

Answer: LSC denies the allegations of Paragraph 2, which do not present a fair and complete description of the matters described therein, except (a) admits that LSC competes with Quad, among many other competitors, to win customers' business, and (b) respectfully refers the Court to (i) the transcript of LSC's March 6, 2018 investor meeting, snippets of which are quoted out of context in Paragraph 2, and (ii) any additional unidentified documents quoted therein for a complete and accurate statement of their contents.

Complaint Paragraph No. 3: *If not enjoined, Quad's proposed acquisition of LSC would bring about "pricing stability" and end the aggressive competition that has resulted in lower prices and greater benefits to their customers. Quad would control the vast majority of magazine, catalog, and book printing in the United States, leaving many of the nation's publishers and retailers with few, if any, other competitive options. Accordingly, the proposed acquisition likely would lessen competition substantially in the markets for magazine, catalog, and trade and education book printing services in the United States in violation of Section 7 of the Clayton Act, 15 U.S.C. § 18, and should be enjoined.*

Answer: Paragraph 3 consists of legal conclusions as to which no response is required. To the extent a response is required, LSC denies the allegations of Paragraph 3, except (a) admits that Plaintiff purports to bring a claim under Section 7 of the Clayton Act, and (b) respectfully refers the Court to the transcript of LSC's March 6, 2018 investor meeting for a complete and accurate statement of its contents.

II. "DEFENDANTS AND THE PROPOSED ACQUISITION"

Complaint Paragraph No. 4: *Quad/Graphics, Inc. is a Wisconsin corporation headquartered in Sussex, Wisconsin. It offers a variety of printing services, including magazine, catalog, and book printing services, to publishers across the country. In 2018, Quad's revenues were approximately $4.2 billion. QLC Merger Sub, Inc. ("QLC") is a Delaware corporation headquartered in Sussex, Wisconsin. It is a wholly-owned subsidiary of Quad.*

Answer: The allegations contained in Paragraph 4 are not directed towards LSC and LSC does not need to respond to them. To the extent a response is required, LSC admits on information and belief that (i) Quad/Graphics, Inc. is a Wisconsin corporation headquarted in Sussex, Wisconsin, (ii) Quad prints magazines, catalogs, and books, (iii) Quad's publically reported revenues were approximately $4.2 billion in 2018, and (iv) QLC Merger Sub, Inc. is a Delaware corporation headquartered in Sussex, Wisconsin, and a wholly owned subsidiary of Quad.

Complaint Paragraph No. 5: *LSC Communications, Inc. is a Delaware corporation headquartered in Chicago, Illinois. In 2016, it was spun off from printing firm R.R. Donnelley. LSC offers a similar set of magazine, catalog, and book printing services as Quad. In 2018, LSC's revenues were approximately $3.8 billion.*

Answer: LSC admits that (i) LSC Communications, Inc. is a Delaware corporation headquartered in Chicago, Illinois, (ii) LSC was spun off from R.R. Donnelley & Sons Company in October 2016, (iii) LSC's publicly reported 2018 revenues were approximately $3.8 billion, (iv) LSC prints (among other offerings) magazines, catalogs, and books, and (v) Quad prints (among other offerings) magazines, catalogs, and books.

Complaint Paragraph No. 6: *On October 31, 2018, Quad announced that it would, via its subsidiary QLC, acquire LSC in an all-stock transaction valued at approximately $1.4 billion, including the assumption of debt.*

Answer: LSC admits the allegations of Paragraph 6.

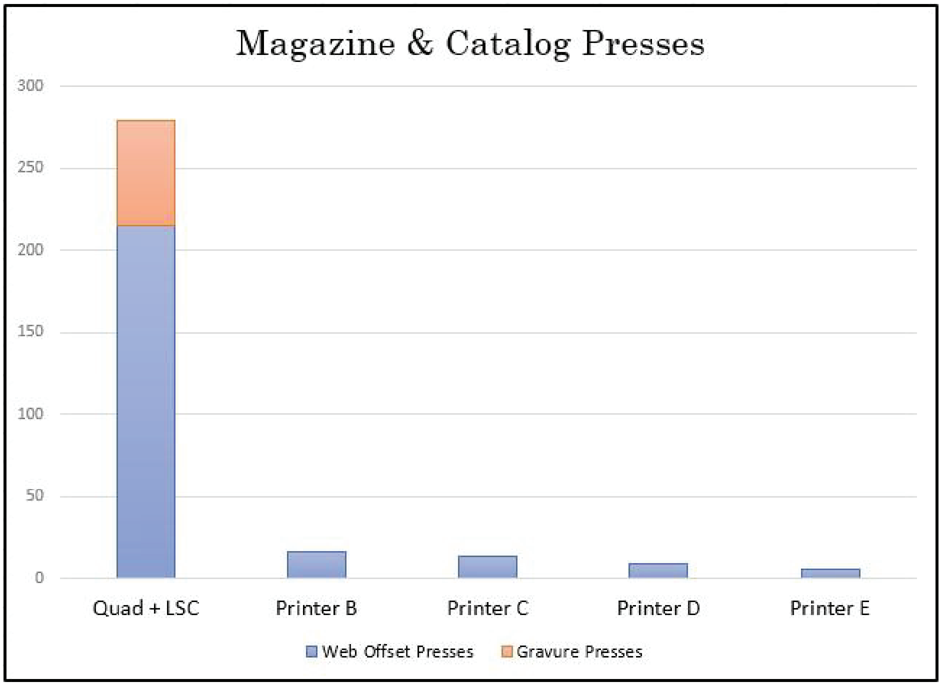
III. "THE PRINTING INDUSTRY"

A. "The Printing Process"

Complaint Paragraph No. 7: *The printing process plays a crucial role in delivering magazine, catalog, and book content to consumers, and many publishers establish multi-year contracts with printers to ensure high-quality product reaches consumers on time. The process of printing, finishing, and distributing publications typically begins when the printer receives content from a publisher that it has under contract, often with only a narrow window of time for the printer to produce and deliver the final product. Based on the order's specifications, including the required print quality and number of units, the printer schedules production, determines the optimal type of press, and assigns the order to one or more of its printing facilities after factoring in available capacity and the best geographic location for efficient distribution.*

Answer: LSC denies the allegations of Paragraph 7, which do not present a fair and complete description of the matters described therein, except admits that (i) what Plaintiff refers to as the "printing process" is necessary to deliver printed magazines, catalogs, and books to consumers, (ii) certain publishers establish multi-year contracts with printers, and (iii) the process of printing, binding, and distributing a publication can only begin after the printer receives content from a publisher.

Complaint Paragraph No. 8: *Printing and binding equipment is central to the printing process. The printing and binding equipment necessary for commercial publication printing is not only costly, but it requires large facilities and may take several years to plan for, purchase, and install. The type of printing equipment used is largely determined by the number of units ordered (the "run"), and the required print quality. For shorter runs, publishers may turn to printers offering digital presses and sheet-fed offset presses. For longer runs, publishers turn to printers offering web offset presses and high-quality rotogravure presses. Although Quad and LSC provide printing services on digital and sheet-fed offset presses, as reflected in the chart below, they control a particularly high percentage of web offset presses and all rotogravure presses in the United States.*



Answer: LSC denies the allegations of Paragraph 8 and the accompanying chart, which do not present a fair and complete description of the matters described therein, except (a) admits that (i) printing and binding equipment is necessary for commercial publication printing, (ii) for shorter runs, publishers may turn to printers offering printing services using digital presses and sheet-fed offset presses, among other types of presses, (iii) for longer runs, publishers may turn to printers offering web offset presses or rotogravure presses, among other types of presses, and (iv) Quad and LSC provide printing services on digital presses, sheet-fed offset presses, web offset presses, and rotogravure presses, and (b) lacks knowledge or information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 8 and the accompanying chart that relate to the number of web offset presses and rotogravure presses owned by Quad, Printer B, Printer C, Printer D, and Printer E.

Complaint Paragraph No. 9: *After the material is printed, the printer also uses binding equipment to finish the product in one of a variety of binding styles, including hard and soft cover book binding, and saddle stitched or perfect bound magazine and catalog binding. Binding and printing equipment are often integrated into the same production line. Although combining several lines of binding and printing equipment requires a large production facility, doing so is critical for timely, efficient production.*

Answer: LSC denies the allegations of Paragraph 9, which do not present a fair and complete description of the matters described therein, except admits that (i) printers and third-party binderies use binding equipment to finish catalogs, magazines, and books, (ii) hard cover and soft cover are two types of book binding, (iii) saddle stitch and perfect are two types of catalog and magazine binding, and (iv) binding and printing equipment are sometimes integrated into the same production line, but at other times are located in a different area of a print production facility or in a different production facility altogether.

Complaint Paragraph No. 10: *Distribution is the final step in the process that Quad and LSC provide their customers. For products that are delivered directly to consumers, such as catalogs and magazines, printers offer cost-saving postal distribution services. Postage is a significant expense that is typically much greater than the cost of printing a magazine or catalog itself. Printers can help their customers save on these expenses and receive postal discounts by taking over key tasks that the U.S. Postal Service ("USPS") would typically handle, including delivering pre-sorted mail—from a broad range of ZIP-codes down to the house-by-house order of a mail carrier's route—into the postal system. With sufficient volume and infrastructure, printers "co-mail" by bundling and pre-sorting across multiple customers to receive larger discounts than those magazines or catalogs could achieve independently. Additionally, printers deliver magazines and catalogs to central USPS distribution centers, or, for even more savings, to the individual post offices from which mail carriers leave with their deliveries. Although a few other printers offer similar distribution services to Quad and LSC, those smaller competitors are less effective and dismissed at times as "disorganized losers." For products that are distributed through other channels, such as books, the printer may warehouse the order at its own facility for the publisher, or deliver it to a retailer, wholesaler, or distribution center.*

Answer: LSC denies the allegations of Paragraph 10, which do not present a fair and complete description of the matters described therein, except (a) admits that (i) LSC offers postal distribution services for some products that are delivered directly to consumers, (ii) postage can be a significant expense and can be greater than the cost of printing a catalog or magazine, (iii) printers and third-party logistics providers can help certain of their customers receive postal discounts by delivering pre-sorted mail into the postal system, (iv) for certain customers, participating in a co-mail service allows the customers to receive larger postage discounts than those customers could achieve independently, while other customers can achieve the same discounts without using co-mail services, (v) a number of printers and third-party providers advertise and offer co-mail services to print customers, and (vi) a number of book printers offer warehousing services and/or distribution to customer facilities, retailers, wholesalers, or distribution centers, and (b) respectfully refers the Court to any unidentified documents quoted therein for a complete and accurate statement of their contents.

B. "Types of Printed Products Most Impacted by the Transaction"

Complaint Paragraph No. 11: Magazines. *Every year, over five billion magazines are printed and distributed to consumers through newsstands and mailboxes. Because readers and advertisers expect a high-quality product, and publishers need efficient delivery at low cost, magazines are typically printed on the web offset and rotogravure presses that are owned principally by Quad and LSC. Additionally, in order to save on costs, many publishers leverage co-mail services offered by the merging firms that bundle and distribute publications directly into the postal system.*

Answer: LSC denies the allegations of Paragraph 11, which do not present a fair and complete description of the matters described therein, except (a) admits that some publishers use co-mail services currently offered by, among other printers, Quad or LSC, and (b) lacks knowledge or information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 11 that relate to (i) the total number of magazines that are printed and distributed to consumers through newsstands and mailboxes, and (ii) the purported expectations of readers and advertisers.

Complaint Paragraph No. 12: Catalogs. *Catalogs are not only a means by which consumers can purchase goods, but also effective advertising tools to drive consumers to stores or websites after receiving the catalog in the mail. Catalogs are such an integral component of some businesses' sales channels that even brief interruptions in catalog distribution are met with material order reductions. Increasingly, retailers are also employing advanced personalization strategies where different versions of the same catalog are printed to cater to different customer profiles. Additionally, catalog publishers rely heavily on co-mail services offered by printers because nearly all are distributed to customers through the postal system.*

Answer: LSC denies the allegations of Paragraph 12, which do not present a fair and complete description of the matters described therein, except admits that (i) catalogs are a mechanism consumers can use to purchase goods, (ii) catalogs contain advertising that can drive consumers to stores or websites, (iii) some retailers employ personalization strategies to deliver different versions of the same catalog to different customer profiles, (iv) some catalog publishers use co-mail services, and (v) most catalogs are distributed through the postal system.

Complaint Paragraph No. 13: Books. *Book printing is another category in which Quad and LSC have a particularly strong presence. The broad category of general interest fiction and non-fiction black-and-white books that are typically found in bookstores are called "one-color trade books." These include a wide variety of books, from mystery novels to bestselling biographies. Quad and LSC also compete closely for printing "education books." Education books include both black-and-white and color books for K-12 and university students. Frequently both education and one-color trade books require long print runs, making the web offset presses owned by Defendants the most practical, cost-effective options in many cases. For many education and one-color trade books, overseas printers are not realistic alternatives to domestic trade and education book printers because of the need for quick turnarounds on print orders. Transportation expenses associated with shipping bulky printed materials may also outweigh any cost savings associated with overseas printing facilities.*

Answer: LSC denies the allegations of Paragraph 13, which do not present a fair and complete description of the matters described therein, except admits that (i) LSC and Quad offer book printing services, (ii) one-color trade books include general interest fiction and non-fiction black-and-white books, such as mystery novels and bestselling biographies; (iii) education books include both black-and-white and color books for K–12 and university students, and (iv) LSC competes with Quad, among many other competitors, to print education books.

Complaint Paragraph No. 14: *Publishers and their customers will continue to demand printed magazines, catalogs, and books in the future. A digital-only platform is not an effective substitute to print for many publishers and publications because consumers do not all want to consume magazines, catalogs, and books exclusively in digital formats, even though digital versions of some magazines, catalogs, and books are available and some publishers have chosen a digital-only format for some publications. Notably, the demand for book printing is actually increasing, contrary to industry expectations a few years ago that electronic books would largely supplant printed books. Because large consumer segments will continue to demand printed publications into the foreseeable future, publishers will continue to produce physical magazines, catalogs, and books.*

Answer: LSC denies the allegations of Paragraph 14, which do not present a fair and complete description of the matters described therein, except (a) admits that (i) digital versions of some magazines, catalogs, and books are available, and (ii) some publishers have chosen a digital-only format for certain of their publications, and (b) lacks knowledge or information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 14 that relate to (i) the purported preferences and future intentions of publishers or customers, or (ii) the future demand for book printing.

C. "Competition in the Printing Industry"

Complaint Paragraph No. 15: *Quad and LSC dominate the magazine, catalog, and book printing services markets, and each views the other as its primary, and often only, competitor. Publishers routinely play these two firms off the other to receive better prices, quality, and innovative offerings, resulting in rounds of fierce competition to secure multi-year printing contracts. The intensity of competition has concerned many at Quad, including one senior executive who remarked, "We've been in a price war with them for some time. Don't see that changing."*

Answer: LSC denies the allegations of Paragraph 15, which do not present a fair and complete description of the matters described therein, except (a) admits that LSC competes with Quad, among many other competitors, to win customers' business, (b) lacks knowledge or information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 15 that relate to (i) the purported actions or intentions of publishers, or (ii) the statements, actions, or beliefs of Quad, and (c) respectfully refers the Court to any unidentified documents quoted therein for a complete and accurate statement of their contents.

Complaint Paragraph No. 16: *Quad is LSC's "main competitor" in magazine printing services and, with "Quad and [LSC] control[ing] more than half of all publication printing" for magazines, the two frequently duel over accounts. In one such episode, LSC tried to win a magazine account away from incumbent Quad. On hearing of the potential loss to LSC, Quad's CEO responded personally by dropping Quad's price 25%. When the publisher returned to LSC and described the "Godfather deal" the Quad CEO had offered, LSC responded with even better terms, continuing a cycle of improved bids that resulted in around $6.5 million in immediate benefits to the publisher. Because of the strong LSC response to Quad's offer, the publisher moved the account to LSC. Competition like this has prompted many, including LSC's magazine head, to avoid any negative changes to customer accounts, such as altering freight or co-mail arrangements, out of fear of the customer going back into the market and LSC "get[ing] into a blood bath with Quad."*

Answer: LSC denies the allegations of Paragraph 16, which do not present a fair and complete description of the matters described therein, except (a) admits that LSC competes with Quad, among many other competitors, to win customers' business, (b) lacks knowledge or information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 16 that relate to the purported actions or intentions of publishers, and (c) respectfully refers the Court to any unidentified documents quoted therein for a complete and accurate statement of their contents.

Complaint Paragraph No. 17: *Catalog printing services is a "two-horse race between LSC and Quad," with the two firms holding a combined 69% share of the market according to a Quad Board of Directors deck. Much like magazines, customers frequently play the two off one another for better contract terms. For example, Quad had been the incumbent for one catalog publisher for over twenty years. After multiple* *rounds of improving bids, however, LSC won the business with a superior offer that included a $1.4 million signing bonus. On informing Quad of its disappointment with the loss, the customer added that it was nevertheless "pleased with the outcome from a pricing standpoint." In another episode, after learning of an LSC offer that was "concerning on multiple levels," Quad's CEO proposed a "massive signing bonus" to keep a major customer. When the final offers were weighed, the customer informed Quad that LSC had won. Given the intensity of the competition, however, rather than accepting the loss Quad's CEO offered to improve the package and double the signing bonus to $10 million. Ultimately, LSC won the battle and secured what LSC's head described as "a great win." The cost of these competitive catalog episodes is not lost on Quad and LSC. On hearing of the merger, for example, one Quad executive reflected on a recent account battle between Quad and LSC and remarked, "I admit, in the case of [a large customer] I'm taking significant satisfaction in the news . . . . I'm sure it's a bitter pill to swallow for them including one source for gravure moving forward."*

Answer: LSC denies the allegations of Paragraph 17, which do not present a fair and complete description of the matters described therein, except (a) admits that LSC competes with Quad, among many other competitors, to win customers' business, (b) lacks knowledge or information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 17 that relate to (i) the purported actions, statements, or intentions of publishers, or (ii) the purported actions, statements, or intentions of Quad, and (c) respectfully refers the Court to any unidentified documents quoted therein for a complete and accurate statement of their contents.

Complaint Paragraph No. 18: *Quad and LSC are also aggressive competitors and key rivals in book printing. As Quad executives explained in an internal presentation, "we are the only printer other than LSC that can offer the largest Publishers a complete solution." This structure has resulted in substantial head-to-head competition between the two firms. For example, in one round of bidding for a major book publisher, four firms initially bid, but the publisher shortlisted Quad and LSC as the only bidders capable of handling the account. Quad came into the bid with an aggressive offer, alarming many at LSC. As one executive described it, "Quad is on fire, promising everything." As bidding intensified, the LSC executive exclaimed that bidding for the publisher is "the battleground. It's Gettysburg. We must win." When Quad submitted its final offer that would save the publisher $37 million over its current arrangement, however, it won the account. Quad and LSC executives have lamented the ease with which publishers play the two firms off one another, commenting in one such instance that a publisher was "exploiting the fact that LSC [and] Quad['s] CEO's want to beat* *each other into oblivion." Episodes like these demonstrate why LSC's CEO told investors that a merger with Quad could achieve "pricing stability" and eliminate such "battle[s]" between the companies.*

Answer: LSC denies the allegations of Paragraph 18, which do not present a fair and complete description of the matters described therein, except (a) admits that LSC competes with Quad, among many other competitors, to win customers' business, (b) lacks knowledge or information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 18 that relate to (i) the purported actions, statements, or intentions of publishers, or (ii) the purported actions, statements, or intentions of Quad, and (c) respectfully refers the Court to any unidentified documents quoted therein for a complete and accurate statement of their contents.

Complaint Paragraph No. 19: *Overall, publishers and consumers have benefitted from the lower prices and quality improvements that have resulted from the intense head-to-head competition between Quad and LSC for printing services. Quad's proposed acquisition of LSC would eliminate that competition.*

Answer: LSC denies the allegations of Paragraph 19, which do not present a fair and complete description of the matters described therein, except admits that (i) LSC competes with Quad, among many other competitors, to win customers' business, and (ii) after the proposed transaction is completed, LSC and Quad would not compete with one another, because the two companies would be merged into one company.

IV. "RELEVANT MARKETS"

Complaint Paragraph No. 20: Magazine Printing Services. *Printing services sold to U.S. publishers of magazines distributed in the U.S. constitute a relevant antitrust market and line of commerce under Section 7 of the Clayton Act. Printing services include the printing, binding, and distribution of magazines. A hypothetical monopolist of magazine printing services sold to U.S. publishers could profitably increase prices by at least a small but significant and non-transitory amount.*

Answer: Paragraph 20 consists of legal conclusions as to which no response is required. To the extent a response is required, LSC denies the allegations contained in Paragraph 20.

Complaint Paragraph No. 21: Catalog Printing Services. *Printing services sold to U.S. publishers of catalogs distributed in the U.S. constitute a relevant antitrust market and line of commerce under Section 7 of the Clayton Act. Printing services include the printing, binding, and distribution of catalogs. A hypothetical monopolist of catalog printing services sold to U.S. publishers could profitably increase prices by at least a small but significant and non-transitory amount.*

Answer: Paragraph 21 consists of legal conclusions as to which no response is required. To the extent a response is required, LSC denies the allegations contained in Paragraph 21.

Complaint Paragraph No. 22: One-Color Trade Book Printing Services. *Printing services sold to major U.S. publishers of one-color trade books distributed in the U.S. constitute a relevant antitrust market and line of commerce under Section 7 of the Clayton Act. One-color trade books include fiction and non-fiction general interest books printed in black and white. Printing services include the printing and binding of such books. Major trade book publishers that require capacity to print in high-volume print runs have different needs than small, independent publishers with limited sales. A hypothetical monopolist of one-color trade book printing services sold to major U.S. publishers could profitably increase prices by at least a small but significant and non-transitory amount.*

Answer: Paragraph 22 consists of legal conclusions as to which no response is required. To the extent a response is required, LSC denies the allegations contained in Paragraph 22.

Complaint Paragraph No. 23: *Education Book Printing Services. Printing services sold to major U.S. publishers of education books distributed in the U.S. constitute a relevant antitrust market and line of commerce under Section 7 of the Clayton Act. Education books include K-12 and college textbooks and workbooks printed in either black and white or color. Printing services include the printing and binding of such books. Major education book publishers that require high-volume print runs have different needs than small, independent publishers with limited sales. A hypothetical monopolist of education book printing services sold to major U.S. publishers could profitably increase prices by at least a small but significant and non-transitory amount.*

Answer: Paragraph 23 consists of legal conclusions as to which no response is required. To the extent a response is required, LSC denies the allegations contained in Paragraph 23.

Complaint Paragraph No. 24: *No reasonably interchangeable substitutes exist for magazine, catalog, education, or one-color trade book printing services. Customers would not sufficiently shift to digital platforms to make a small but significant non-transitory increase in the price of printing services unprofitable. Demand for digital or printed content is driven by the consumer and reflects the needs of the publisher and advertisers in those publications. Significant substitution between those two very different media would not occur in response to a small change in relative prices. As large customer segments continue to demand printed magazines, catalogs, and books, publishers must contract with printers to print such content.*

Answer: Paragraph 24 consists of legal conclusions as to which no response is required. To the extent a response is required, LSC denies the allegations contained in Paragraph 24.

V. "ANTICOMPETITIVE EFFECTS"

Complaint Paragraph No. 25: *The proposed acquisition would eliminate competition between Quad and LSC and significantly increase concentration in already concentrated markets. The proposed acquisition likely would lead Quad to, among other things, reduce printing capacity, reduce printing quality, and raise the prices of its printing services above those that would prevail absent the transaction. It would combine the two largest providers of magazine, catalog, and book printing services and prevent publishers from pitting Quad and LSC against each other in negotiations, raising publishers' costs. The proposed acquisition also likely would enable the merged firm to reduce capacity, limiting the availability or delaying the production of magazines, catalogs, and books.*

Answer: Paragraph 25 consists of legal conclusions as to which no response is required. To the extent a response is required, LSC denies the allegations contained in Paragraph 25, except admits that, after the proposed transaction is completed, LSC and Quad would not compete with one another, because the two companies would be merged into one company.

A. <u>"The Proposed Acquisition Would Significantly Increase the Concentration of Already Concentrated Markets"</u>

Complaint Paragraph No. 26: *The proposed acquisition would result in a single firm with a significant share of each of the relevant markets. Although there are competitors to Quad and LSC in the relevant markets, they lack significant capacity, capabilities, and scale necessary to service many accounts. For example, LSC dismissed the next largest catalog printer (behind Quad and LSC itself) as a niche firm that merely "lives off our scraps." Similarly, in book printing, when LSC sales staff learned that one of the next largest printers might bid on a major account, they described that competitor as a "band of bandits" and concluded, "it's all about [Q]uad, nobody else."*

Answer: Paragraph 26 consists of legal conclusions as to which no response is required. To the extent a response is required, LSC denies the allegations contained in Paragraph 26, except (a) admits that (i) the proposed transaction would combine Quad and LSC into a single company, and (ii) Quad and LSC have many competitors, and (b) respectfully refers the Court to any unidentified documents quoted therein for a complete and accurate statement of their contents.

Complaint Paragraph No. 27: *The proposed combination of Quad and LSC creates a presumption that the acquisition likely substantially lessens competition. The Supreme Court has held that mergers that significantly increase concentration in already concentrated markets are presumptively anticompetitive and therefore presumptively unlawful. To measure market concentration, courts often use the Herfindahl-Hirschman Index ("HHI"). HHIs range from 0 in markets with no concentration to 10,000 in markets where one firm has 100 percent market share. Courts have found that mergers that increase the HHI by more than 200 and result in an HHI above 2,500 in any market are presumed to be anticompetitive. Here, these criteria are met for each of the relevant markets. Quad's acquisition of LSC is therefore presumptively anticompetitive.*

Answer: Paragraph 27 consists of legal conclusions as to which no response is required. To the extent a response is required, LSC denies the allegations contained in Paragraph 27.

B. "The Proposed Acquisition Would Eliminate Competition Between Quad and LSC"

Complaint Paragraph No. 28: *The proposed acquisition would likely result in higher prices in the relevant markets than would exist absent the transaction. Printing services are critical for magazine, catalog, and book publishers, which resist substituting away from printing as large segments of readers and consumers demand such products. Quad and LSC frequently compete head to head for accounts, and engage in multiple rounds of bidding in which they repeatedly lower prices in response to the other. Moreover, because of the scale and the scope of their services, Quad and LSC are often the only two firms providing cost-effective printing services to many publishers. The combination of Defendants' superior scale, efficient high-volume equipment, and cost-saving co-mail distribution, results in the two firms being the only realistic option for many publishers. The transaction would likely leave many of those publishers facing a single firm with the incentive and ability to increase the prices of its printing services.*

Answer: Paragraph 28 consists of legal conclusions as to which no response is required. To the extent a response is required, LSC denies the allegations contained in Paragraph 28, except (a) admits that LSC competes with Quad, among many other competitors, to win customers' business, and (b) lacks knowledge or information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 28 that relate to the purported actions, beliefs, or intentions of publishers.

Complaint Paragraph No. 29: *The proposed acquisition is likely to reduce the quality of printing services, as well as innovation in the relevant markets. During negotiations, Quad and LSC offer better terms including improved delivery dates and printing schedules, printing at certain facilities on better equipment, or commitments to invest in equipment to handle publishers' specifications. In addition, during the execution of contracts, customers dissatisfied with the quality of printing services from Quad and LSC have threatened to switch their business from one to the other to enforce quality standards in their printing contracts. Absent the competitive threat that LSC serves, post-merger Quad would no longer have the incentive to make such quality commitments.*

Answer: Paragraph 29 consists of legal conclusions as to which no response is required. To the extent a response is required, LSC denies the allegations contained in Paragraph 29, except (a) admits that LSC competes with Quad, among many other competitors, to win customers' business, and (b) lacks knowledge or information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 29 that relate to (i) the terms offered by LSC's competitors to publishers or the (ii) the purported actions, beliefs, or intentions of customers.

Complaint Paragraph No. 30: *Defendants also have plans to reduce the merged firm's printing capacity by closing printing facilities around the country. As the printing industry has consolidated in recent years, printing capacity has been taken offline, leading to capacity shortages for publishers during peak times of the year. In bidding episodes, Quad and LSC have offered to make investments in additional equipment to assuage concerns about capacity and win the bid. The capacity reductions that would result from the transaction would exacerbate existing capacity issues in parts of the market. Although small competitors have the capacity to take on limited volume, this would not be sufficient to counteract a price increase by the merged firm.*

Answer: LSC denies the allegations of Paragraph 30, which do not present a fair and complete description of the matters described therein, except (a) admits that (i) in the fall of 2018, the industry experienced a temporary shortage of capacity for the case-binding of certain kinds of books during a period of peak demand, (ii) LSC understands that Quad intends to reduce the merged firm's printing capacity because both companies need to close plants to lower their costs, and (iii) LSC has, at times, offered to make investments in additional equipment to win customer work, and (b) lacks knowledge or information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 30 that relate to (i) the available capacity of its competitors, and (ii) instances in which Quad or another competitor has offered to make investments in additional equipment to win a customer's work.

Complaint Paragraph No. 31: *Overall, head-to-head competition between Quad and LSC has spurred quality improvements and lower prices for magazine, catalog, and book printing services. The proposed acquisition would eliminate this important competitive pressure and allow Quad to limit capacity, reduce quality, and increase price of printing without the constraints of significant market competition.*

Answer: LSC denies the allegations of Paragraph 31.

VI. "LACK OF COUNTERVAILING FACTORS"

Complaint Paragraph No. 32: *Barriers to economically meaningful entry or expansion in the magazine, catalog, and education and one-color trade book printing services markets are high, and thus new entry or expansion by existing competitors is unlikely to prevent or counteract the proposed acquisition's likely anticompetitive effects. Quad and LSC have built rival networks of printing facilities across the country that they each integrate into sophisticated distribution systems. Building a new printing facility, or even introducing new printing equipment to an existing facility, can take years to complete. Other firms seeking to enter the market or expand would need to spend a significant amount of time and money to acquire expensive printing equipment from one of a limited number of remaining sources for such equipment, build new facilities and accompanying infrastructure, and hire skilled workers from a limited employment pool. Even after taking on this costly and time-consuming investment, without the scale of orders needed to operate efficiently, the firm would not be able offer the same cost-effective postal distribution and other solutions as Quad and LSC do today.*

Answer: LSC denies the allegations of Paragraph 32.

Complaint Paragraph No. 33: *Although Defendants allege that the proposed acquisition will generate synergies by combining the operations of the two largest printers in the country, those may actually harm competition by reducing available capacity, most are unlikely to be passed through to customers, and collectively they are far outweighed by the proposed acquisition's likely anticompetitive effects.*

Answer: LSC denies the allegations of Paragraph 33, except admits that (i) the merger of Quad and LSC will generate substantial recurring annual synergies and create a lower-cost print platform, and (ii) the combined company would have the incentive to pass those savings on to customers to help keep print relevant in an increasingly digital world.

VII. "VIOLATION ALLEGED"

Complaint Paragraph No. 34: *The United States brings this action under Section 15 of the Clayton Act, 15 U.S.C. § 25, to prevent and restrain the Defendants from violating Section 7 of the Clayton Act, 15 U.S.C. § 18. This Court has subject matter jurisdiction over this action under Section 15 of the Clayton Act, 15 U.S.C. § 25.*

Answer: Paragraph 34 consists of legal conclusions as to which no response is required. To the extent a response is required, LSC denies the allegations contained in Paragraph 34, except admits that (i) Plaintiff has filed its Complaint pursuant to

Section 15 of the Clayton Act, (ii) Plaintiff purports to seek to prevent and restrain Defendants from violating Section 7 of the Clayton Act, and (iii) this Court has subject matter jurisdiction over this action.

Complaint Paragraph No. 35: *Defendants Quad and LSC are engaged in interstate commerce and in activities substantially affecting interstate commerce. Quad and LSC sell magazine, catalog, and book printing services throughout the United States. They are engaged in a regular, continuous, and substantial flow of interstate commerce, and their printing services sales have had a substantial effect on interstate commerce.*

Answer: LSC admits the allegations of Paragraph 35.

Complaint Paragraph No. 36: *This Court has personal jurisdiction over each Defendant. Both Quad and LSC are corporations that transact business within this district through, among other things, their sales of printing services.*

Answer: LSC admits the allegations of Paragraph 36.

Complaint Paragraph No. 37: *Venue is proper in this district under Section 12 of the Clayton Act, 15 U.S.C. § 22.*

Answer: LSC admits the allegations of Paragraph 37.

Complaint Paragraph No. 38: *If allowed to proceed, Quad's proposed acquisition of LSC would likely lessen competition substantially in the markets for magazine, catalog, one-color trade book, and education book printing services in the United States in violation of Section 7 of the Clayton Act, 15 U.S.C. § 18.*

Answer: Paragraph 38 consists of legal conclusions as to which no response is required. To the extent a response is required, LSC denies the allegations contained in Paragraph 38.

Complaint Paragraph No. 39: *Among other things, the transaction would: (a) eliminate significant head-to-head competition between Quad and LSC in the markets for magazine, catalog, and education and one-color trade book printing services; (b) likely cause prices of magazine, catalog, and education and one-color trade book printing services to be higher than they would be otherwise;(c) likely cause the quality of magazine, catalog, and education and one-color trade book printing services to decrease; and (d) likely reduce capacity for and output of printed magazines, catalogs, and education and one-color trade books.*

Answer: LSC denies the allegations of Paragraph 39.

VIII. "REQUEST FOR RELIEF"

Complaint Paragraph No. 40: *The United States requests: (a) that Quad's proposed acquisition of LSC be adjudged to violate Section 7 of the Clayton Act, 15 U.S.C. § 18; (b) that the Defendants be permanently enjoined and restrained from carrying out the proposed acquisition of LSC by Quad or any other transaction that would combine the two companies;(c) that the United States be awarded costs of this action; and (d) that the United States be awarded such other relief as the Court may deem just and proper.*

Answer: LSC denies that Plaintiff is entitled to any of the relief requested in Paragraph 40. LSC requests that it be awarded the costs incurred in defending this action, as well as any and all other relief this Court may deem just and proper.

DEFENSES

LSC asserts the following defenses, without assuming the burden of proof on such defenses that would otherwise rest with Plaintiff:

FIRST DEFENSE

The Complaint fails to state a claim upon which relief may be granted.

SECOND DEFENSE

The injunctive relief that Plaintiff seeks is contrary to the public interest.

THIRD DEFENSE

Plaintiff has failed to adequately allege any relevant product markets or relevant geographic markets.

FOURTH DEFENSE

The proposed merger is procompetitive and will result in substantial acquisition-specific and cognizable efficiencies and other procompetitive effects that will directly benefit consumers. These benefits greatly outweigh any alleged anticompetitive effects.

FIFTH DEFENSE

Quad and LSC have proposed a remedy that addresses any alleged anticompetitive effects and ensures that there will be no harm to competition or consumers.

SIXTH DEFENSE

The Plaintiff has assumed that competition between Quad and LSC in the past is indicative of competition in the future. On the contrary, as print volume declines, Quad and LSC are likely to become increasingly weaker competitors relative to other printers.

SEVENTH DEFENSE

Quad's and LSC's largest customers are highly sophisticated, and have the ability to protect themselves from any post-merger price increase by threatening to switch part or all of their print work to one or more competitors, sponsoring a competitor's expansion or repositioning, integrating vertically, or moving all or part of their content and/or advertising to alternative channels, such as digital.

RESERVATION OF RIGHTS TO ASSERT ADDITIONAL DEFENSES

LSC has not knowingly or intentionally waived any applicable defenses, and reserves the right to assert and rely upon other applicable defenses that may become available or apparent during discovery in this matter. LSC therefore reserves the right to seek to amend this Answer.

Dated: July 17, 2019

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on July 17, 2019, I caused a true and correct copy of the foregoing *Defendant LSC Communication, Inc.'s Answer and Defenses to Plaintiff's Complaint* to be electronically filed with the Clerk of the Court and served upon counsel of record through the Court's ECF filing system.

/s/ Steven L. Holley

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