

Quad/Graphics, Inc.
Form 10-K
March 08, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2012

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class

Name of Each Exchange on Which Registered

Class A Common Stock, par value \$0.025 per share

The New York Stock Exchange, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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, 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
The aggregate market value of the class A common stock (based on the closing price of \$14.38 per share on the New York Stock Exchange, LLC) on June 30, 2012, the last business day of the registrant's most recently completed second fiscal quarter, held by non-affiliates was \$470,553,648. Neither of the registrant's class B common stock or class C common stock is listed on a national securities exchange or traded in an organized over-the-counter market, but each share of the registrant's class B common stock and class C common stock is convertible into one share of the registrant's class A common stock. In August 2012, all outstanding shares of class C common stock were converted into shares of class A common stock.

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 March 4, 2013
Class A Common Stock	33,364,542
Class B Common Stock	14,198,464
Class C Common Stock	—

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the registrant's 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

Table of Contents

QUAD/GRAPHICS, INC.

FORM 10-K INDEX

For the Year Ended December 31, 2012

	Page No.
<u>Forward-Looking Statements</u>	<u>1</u>
 <u>Part I</u>	
<u>Item 1. Business</u>	<u>2</u>
<u>Item 1A. Risk Factors</u>	<u>17</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>26</u>
<u>Item 2. Properties</u>	<u>27</u>
<u>Item 3. Legal Proceedings</u>	<u>28</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>28</u>
 <u>Part II</u>	
<u>Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>29</u>
<u>Item 6. Selected Financial Data</u>	<u>31</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>64</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>66</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>126</u>
<u>Item 9A. Controls and Procedures</u>	<u>126</u>
<u>Item 9B. Other Information</u>	<u>126</u>
 <u>Part III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>127</u>
<u>Item 11. Executive Compensation</u>	<u>127</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>128</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>128</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>128</u>
 <u>Part IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>129</u>
<u>Signatures</u>	<u>131</u>
<u>Exhibit Index</u>	<u>132</u>

Table of Contents

Forward-Looking Statements

To the extent any statements in this Annual Report on Form 10-K contain information that is not historical, these statements are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements relate to, among other things, the objectives, goals, strategies, beliefs, intentions, plans, estimates, prospects, projections and outlook of Quad/Graphics, Inc. (the "Company" or "Quad/Graphics"), and can generally be identified by the use of words such as "may", "will", "expect", "intend", "estimate", "anticipate", "plan", "foresee", "believe" or "continue" or the negatives of these terms, variations on them and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements.

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond the control of the Company. These risks, uncertainties and other factors could cause actual results to differ materially from those expressed or implied by those forward-looking statements. Among risks, uncertainties and other factors that may impact Quad/Graphics are those described in Item 1A, "Risk Factors," of this Annual Report on Form 10-K, as such may be amended or supplemented in Part II, Item 1A, "Risk Factors," of the Company's subsequently filed Quarterly Reports on Form 10-Q, and the following:

• The impact of significant overcapacity in the highly competitive commercial printing industry, which creates downward pricing pressure and fluctuating demand for printing services;

• The inability of the Company to reduce costs and improve operating efficiency rapidly enough to meet market conditions;

• The impact of electronic media and similar technological changes including digital substitution by consumers;

• The impact of changing future economic conditions;

• The failure to renew long-term contracts with clients on favorable terms or at all;

• The failure of clients to perform under long-term contracts due to financial or other reasons or due to client consolidation;

• Failure to successfully identify, manage, complete and integrate acquisitions and investments, including the integration of the operations of Vertis Holdings, Inc. ("Vertis");

• The impact of changes in postal rates, service levels or regulations;

• The impact of fluctuations in costs (including labor-related costs, energy costs, freight rates and raw materials) and the impact of fluctuations in the availability of raw materials;

• The impact of increased business complexity as a result of the Company's entry into additional markets;

• The impact of regulatory matters and legislative developments or changes in laws, including changes in privacy and environmental laws;

• Significant capital expenditures may be needed to maintain the Company's platform and processes and to remain technologically and economically competitive; and

The impact on Quad/Graphics class A common shareholders of a limited active market for Quad/Graphics common stock and the inability to independently elect directors or control decisions due to the class B common stock voting rights;

Quad/Graphics cautions that the foregoing list of risks, uncertainties and other factors is not exhaustive and you should carefully consider the other factors detailed from time to time in Quad/Graphics' filings with the United States Securities and Exchange Commission ("SEC") and other uncertainties and potential events when reviewing the Company's forward-looking statements.

Because forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. You are cautioned not to place undue reliance on such statements, which speak only as of the date of this Annual Report on Form 10-K. Except to the extent required by the federal securities laws, Quad/Graphics undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

PART I

Item 1. Business

Overview

Quad/Graphics is a leading global printer and media channel integrator founded in Pewaukee, Wisconsin, as a Wisconsin corporation, in 1971 by the late Harry V. Quadracci. As of December 31, 2012, the Company had approximately 21,400 employees in North America, Latin America, and Europe, and served a diverse base of approximately 6,700 clients from 117 facilities located in 21 countries. Following the January 16, 2013, acquisition of substantially all of the assets of Vertis, the Company had approximately 25,300 employees in North America, Latin America and Europe, and served a diverse base of approximately 7,900 clients from 153 facilities located in 21 countries.

The Company believes it is well-positioned to help its clients integrate new, emerging media with proven channels such as print as part of an overall multichannel marketing strategy. With consultative ideas, worldwide capabilities, leading-edge technology and single-source simplicity, the Company believes it has the resources and knowledge to help its clients maximize the revenue they derive from their marketing spend and minimize their total cost of print production and distribution. The Company's print and related products and services in North America, Latin America and Europe primarily include:

Print Solutions. Includes consumer magazines, catalogs, retail inserts, special interest publications, journals, direct mail, books, directories, in-store marketing, packaging and other commercial and specialty printed products.

Media Solutions. Includes marketing strategy, media planning and placement, data insights, creative services, videography, photography, workflow solutions, digital imaging, digital publishing, interactive print solutions and augmented reality triggered by image recognition, near field communication and response data analytics services.

Logistics Services. Includes mailing, distribution, logistics, and data optimization and hygiene services.

Quad/Graphics has contractual relationships with leading magazine publishers, including Condé Nast, Hearst Magazines, Meredith Corporation, The National Geographic Society, Rodale Inc., The Reader's Digest Association Ltd., Source Interlink Media, LLC, Time Inc., and Wenner Media LLC. Quad/Graphics prints retail newspaper inserts for major retailers such as Bass Pro Shops, The Bon-Ton Stores, Inc., J.C. Penney Company, Inc., Shopko Stores Operating Co., LLC, and Target Corporation; catalogs for industry-leading marketers such as Cabela's Incorporated, J.Crew Group, Inc., L.L. Bean, Limited Brands Inc. (Victoria's Secret), and Redcats USA; and direct mail products for companies such as Charter Communications, American Family Insurance, American Eagle Outfitters, Publishers Clearing House, Inc., and Weight Watchers International, Inc. Quad/Graphics prints books for publishers such as Harlequin Enterprises Limited, The McGraw Hill Companies, Inc. and Simon & Schuster, Inc.; and directories for publishers such as Yellow Book USA, Inc. and Yellow Pages Group Limited.

The Company remains focused on four primary strategic goals, which it believes will allow it to be successful despite ongoing economic and industry challenges. These goals are summarized as follows:

1. Transform the Industry

The Company believes it is well-positioned to transform the industry in the following three ways:

-

Maximize the revenue clients derive from their marketing spend through media channel integration. As a printer and media channel integrator, Quad/Graphics uses a client-centric approach to help marketers and publishers connect strategy and content with multiple media channels to create measurable client value.

Table of Contents

Through its full range of integrated solutions, Quad/Graphics' clients benefit from better end user engagement, improved response and increased revenue derived from multichannel marketing campaigns.

Minimize clients' total cost of production and distribution by utilizing an efficient, innovative and fully-integrated U.S. national distribution network to provide enhanced value to clients through increased efficiency and postal cost-savings.

Create opportunity through disciplined, value-driven industry consolidation that adds complementary capabilities, allowing the Company to provide an enhanced range of products and services, and create significant efficiencies in the overall print production and distribution processes.

2. Maximize Operational and Technological Excellence

Quad/Graphics utilizes a disciplined return on capital framework to make significant investments in its print manufacturing platform, research and development, technological innovation and data management capabilities, resulting in what it believes is one of the most integrated, automated, efficient and modern platforms in the industry.

3. Empower, Engage and Develop Employees

Quad/Graphics believes that its distinct corporate culture encourages an organization-wide entrepreneurial spirit and an opportunistic mentality, where employees embrace responsibility, take ownership of projects and are encouraged to create solutions that advance the Company's strategic goals.

4. Enhance Financial Strength

Given current economic and industry challenges, Quad/Graphics believes that its strategy to enhance financial strength will contribute to its long-term success. Key components of this strategy are centered on the Company's disciplined financial approach to maximize earnings and free cash flow; use of consistent financial policies to ensure it maintains a strong balance sheet and liquidity levels; and ability to retain the financial flexibility needed to strategically allocate and deploy capital.

Quad/Graphics believes that its four primary strategic goals are supported by a unique set of competitive advantages including its: commitment to an efficient, flexible and modern manufacturing platform; leading mailing and distribution capabilities; commitment to ongoing innovation, rapid adoption of technology and integration of new media; client-centric approach; disciplined and consistent financial approach; and distinct corporate culture. These strategies and competitive advantages have resulted in the Company being one of the most profitable commercial printing companies in the markets in which it competes, as measured by Adjusted EBITDA margin (defined as EBITDA before restructuring, impairment and transaction-related charges, loss on debt extinguishment, gain on disposal of discontinued operations and loss from discontinued operations as a percentage of net sales). EBITDA is defined as net earnings (loss) attributable to the Company's common shareholders plus interest expense, income tax expense (if applicable) and depreciation and amortization, and less income tax benefit (if applicable). EBITDA is a financial measure not prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") that is reconciled to net earnings (loss) in the Results of Operations for the Year Ended December 31, 2012, Compared to the Year Ended December 31, 2011, and for the Year Ended December 31, 2011, Compared to the Year Ended December 31, 2010, included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Annual Report on Form 10-K. EBITDA is an important measure by which the Company gauges the profitability and assesses the performance of its business. It should not be considered an alternative to net earnings (loss) as a measure of operating performance or to cash flows provided by operating activities as a measure of liquidity.

More information regarding Quad/Graphics is available on the Company's website at www.QG.com. Quad/Graphics is not including the information contained on or available through its website as part of, or incorporating such information by reference into, this Annual Report on Form 10-K. The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports are made available to the public at no charge through a link appearing on the Company's website. Quad/Graphics provides access to such

Table of Contents

materials through its website as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the SEC.

Industry

The global printing industry encompasses a wide range of sectors, including general commercial printing, newspapers and newspaper retail inserts, directories, books, direct mail, packaging, financial printing, business forms, greeting cards, and label and wrapper printing. Printing is one of the largest industries in the United States, with more than 950,000 employees and approximately 49,000 companies generating an estimated \$162 billion in annual sales, according to the Printing Industries of America/Graphic Arts Technical Foundation ("PIA/GATF") 2011 Print Market Atlas ("Print Market Atlas"). Quad/Graphics operates primarily in the commercial print portion of the printing industry. The PIA/GATF defines this portion to include advertising printing such as direct mail, circulars, brochures, displays, inserts / pamphlets, business cards, stationery, catalogs, directories, newspapers, magazines and books. According to the Print Market Atlas, the United States commercial printing sector, excluding newspapers, is estimated to generate approximately \$82 billion in sales annually. The commercial printing industry, excluding newspapers, is also highly fragmented and competitive, with the largest 400 printers representing less than 55% of the overall United States and Canadian market, based on the 2012 Printing Impressions PI400 and the Print Market Atlas.

Demand for printed products and related services is impacted by real gross domestic product growth, as economic activity and advertising spending are key drivers of customer demand. In times of global economic uncertainty, advertisers reduce spending. Magazine publishers, facing diminished advertising pages, reduce total page counts; catalog marketers reduce page counts, circulation and the frequency of print campaigns; retailers curb investments in store inventory and cut back advertising; and other advertisers reduce their direct mail campaigns, particularly in the banking, insurance, credit card, real estate and nonprofit industries. In addition, the Company believes the commercial print industry has moved toward shorter print runs and increased production efficiency of products with lower page counts and increasing complexity. This, combined with increases in postage expenses (which significantly outpaced inflation over the last 10 years) and the increased use of alternative marketing technologies have led many printing businesses to fail and the industry to undergo ongoing consolidation.

Competition in the highly fragmented printing industry remains intense. The industry has excess manufacturing capacity created by declines in industry volumes during the past recession, which in turn has created continued downward pricing pressures. In addition, digital delivery of documents and data, including the online distribution and hosting of media content and mobile technologies, offer alternatives to traditional delivery of printed documents. Increasing consumer acceptance of digital delivery of content has resulted in marketers and publishers allocating their marketing and advertising spend across the expanding selection of digital delivery options, which further reduces demand and contributes to industry overcapacity. In addition, the Company faces competition from print management firms, which look to streamline processes and reduce the overall print spend of the Company's clients, as well as from strategic marketing firms focused on helping businesses integrate multiple channels into their marketing campaigns.

Quad/Graphics believes that traditional business users of print and print-related services are focused on generating and tracking the highest returns on their marketing dollars. The Company believes that its clients receive the greatest return on their marketing and advertising dollars when they effectively utilize data to target the appropriate customers and combine digital alternatives with customized print products in a targeted, multichannel marketing campaign driven by an overall marketing strategy. Quad/Graphics believes it is well positioned as a printer to help its clients navigate through the changing media channels and connect and integrate new media with print.

Finally, the Company believes that successful commercial printing companies will invest in mailing and logistics capabilities because, for many clients, mailing and distribution represent their largest cost—typically two to three times the cost of their print expense. Therefore, Quad/Graphics believes a printer's ability to impact mailing and distribution

expenses through data hygiene and sophisticated, automated printing, finishing and distribution equipment creates value for clients by minimizing their total manufacturing and distribution cost.

Table of Contents

Seasonality

The Company is subject to seasonality in its quarterly results as net sales are typically higher in the third and fourth quarters of the calendar year as compared to the first and second quarters. Seasonality is driven by increased magazine advertising page counts, retail inserts, catalogs and books due primarily to back-to-school and holiday related advertising and promotions. Quad/Graphics expects the seasonality impact in future years to continue to track with historical patterns.

Strategy

Quad/Graphics remains focused on four primary strategic goals, which it believes will allow the Company to be successful despite ongoing economic and industry challenges. These four goals are as follows:

☛ Transform the Industry

☛ Maximize Operational and Technological Excellence

☛ Empower, Engage and Develop Employees

☛ Enhance Financial Strength

1. Transform the Industry

The Company believes it is well positioned to transform the industry in the following three ways:

☛ Maximize the Revenue Clients Derive From Their Marketing Spend Through Media Channel Integration.

☛ Minimize Clients' Total Cost of Production and Distribution.

☛ Pursue Value-Driven Industry Consolidation.

Maximize the Revenue Clients Derive From Their Marketing Spend Through Media Channel Integration.

Quad/Graphics understands that its clients are faced with an ever-changing media landscape and an increasingly demanding consumer. As a printer and media channel integrator, the Company believes that it is uniquely positioned to help clients navigate today's multichannel world by capitalizing on print's ability to complement and connect with other media channels. This has created an opportunity for Quad/Graphics to help maximize the revenue clients derive from their overall marketing spend. With its consultative ideas, worldwide capabilities, leading-edge technology and single-source simplicity, Quad/Graphics uses a client-centric approach to help marketers and publishers connect strategy and content with multiple media channels to create measurable client value. The Company's integrated solutions, which use data to leverage and connect all channels including print, email, tablet, mobile, video, social and web, help its clients engage consumers and readers, drive higher response rates, promote a consistent brand across channels and create returns for advertisers on their marketing dollars.

According to a 2012 study by InfoTrends, marketers report an average improvement of 45% for multichannel campaigns (using print, email, web landing pages and mobile technology) over print-only campaigns. In addition, more than 50% of marketers are utilizing three or more forms of media in their marketing campaigns, according to a 2012 InfoTrends study. Using a client-centric approach, the Company intends to continue to redefine print communications as the foundation of how it will integrate media channels by:

consulting with clients on marketing strategies to integrate personalized, targeted print communications with other media channels including video, mobile, social, email and Web-based media to drive higher response rates;

Table of Contents

leveraging its integrated data analytics, finishing technology and logistics operations, which allow clients to create and track customized and relevant communications across channels on a cost-effective basis, with the objective of delivering higher responses at a lower cost;

- improving the cost effectiveness of local advertising investments through an improved understanding of best customers' shopping behavior, messaging preferences and media consumption habits;

• developing workflow solutions to help clients streamline content management across multiple channels;

• deploying its interactive media capabilities, including planning, executing and monitoring interactive print campaigns, email, personalized URLs, mobile solutions and digital editions, and creating and maintaining microsites in support of effective, print-focused marketing campaigns; and

• investing in leading-edge technologies and capabilities to ensure it can provide the most desirable and effective multichannel solutions to marketers and publishers.

Minimize Clients' Total Cost of Production and Distribution. Quad/Graphics has made strategic capital expenditure and information technology ("IT") investments to build what it believes is one of the most efficient and innovative distribution networks in the commercial printing industry. The Company's goal, and an integral component of how Quad/Graphics creates client value, is to maintain and utilize a fully-integrated, national distribution network that includes:

• technology and data processes to reduce postage expenses for its U.S. clients, typically their largest expense, including an extensive distributive co-mail program that combines and drop ships numerous clients' mailpieces together to capture sorting and handling discounts from the United States Postal Service;

• unique software to merge mailstreams on a large scale and leverage the mailing platform to provide even greater co-mailing cost and efficiency benefits to its clients;

• advanced finishing capabilities that enable enhanced co-mailing efficiencies;

• in-house transportation and logistics services; and

• a robust national distribution network with the ability to deliver to more than 1,600 U.S. Postal Service processing facilities and thousands of local newspapers.

Pursue Value-Driven Industry Consolidation. Given the challenges in the printing industry, including overcapacity and some secular decline in certain product categories, Quad/Graphics' efficient manufacturing platform and financial strength provide the Company with the ability to select and execute on value-added consolidation acquisition opportunities. The Company believes this will create measurable value through the addition of complementary capabilities, allowing the Company to provide an enhanced range of products and services, and create significant efficiencies in the overall print production and distribution processes. Quad/Graphics uses a disciplined, value-driven approach to ensure that the following criteria are met before an opportunity is selected:

• The Company conducts a thorough review process to ensure a potential acquisition will be a good strategic fit. For example, with the Company's recent acquisition of Vertis (see Note 26, "Subsequent Events," to the consolidated financial statements in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K), complementary capabilities in retail advertising inserts, direct marketing and in-store marketing provides clients with an enhanced range of products and services, expanded vertical market expertise, allows a significant level of

consolidation onto the Company's most efficient production platforms and an extended geographic footprint, and provides new opportunities to realize mailing and distribution cost-savings.

Table of Contents

The Company follows a disciplined process to ensure that the economics make sense and will create value through an enhanced range of products and services, revenue-generating solutions and increased efficiencies. Key economics include the negotiated purchase price, targeted efficiencies from integrating the companies together and the necessary cost to achieve those synergies.

The Company makes certain that the integration plan is executable in a timely manner and without risk of significant client disruption. The Company has a holistic approach to integration and measures success with four key elements: financial metrics, client retention and satisfaction, employee integration, and IT and platform integration.

The Company ensures that post-acquisition, it retains the financial strength and flexibility it had prior to the acquisition.

2. Maximize Operational and Technological Excellence

Quad/Graphics utilizes a disciplined return on capital framework to make significant investments in its print manufacturing platform and data management capabilities, resulting in what it believes is one of the most integrated, automated, efficient and modern manufacturing platforms in the industry. The Company has built a platform that encompasses a combination of mega plants (facilities greater than 1.0 million square feet) that have a number of different product lines under one roof, mega zones where multiple facilities in close geographic proximity are managed as one large facility, and strategically located smaller facilities. In addition, a commitment to Lean Manufacturing, Lean Enterprise and a culture of continuous process improvement is a high priority throughout the Company and supports its goal of being the low-cost producer in its industry. For example, the Company's in-house research and development division has been instrumental in developing and deploying what the Company believes are industry-leading manufacturing solutions, which has allowed the Company to reduce its cost structure over the years. This includes closed-loop color systems, press controls, cut-off controls and register guidance systems.

3. Empower, Engage and Develop Employees

In keeping with its culture of employee empowerment, Quad/Graphics encourages all of its employees to act as entrepreneurs by taking ownership of their work and providing innovative solutions that advance the Company's strategic goals. The Company helps employees keep current on skills through education and training programs offered on the job and in the classroom. For example, the Company has a "Leading Within Quad" management training program to help all leaders develop a deeper understanding of the business, the industry and their leadership competencies. Much of this education is developed specifically for its workforce by its in-house education division, QuadEducation, in cooperation with its Continuous Improvement and Safety business units. The Company reinforces with employees the eight core values that drive all of its business decisions: Trust in Trust, Do the Right Thing, Innovate, Grow, Believe in People, Make Money, Have Fun, and Do Things for the Rose (i.e., the sake of excellence). The Company demonstrates its care for employees through innovative benefits such as QuadMed, which focuses on prevention and wellness delivered through onsite fitness centers and primary care clinics, and advanced telemedicine systems.

4. Enhance Financial Strength

Given current economic and industry challenges, the Company has taken a disciplined approach to maintaining and enhancing financial strength as a key strategic goal. This strategy is centered on the Company's ability to maximize free cash flow, earnings, operating margins and Adjusted EBITDA; maintain consistent financial policies to ensure a strong balance sheet and liquidity level is maintained; and retain the financial flexibility needed to strategically allocate and deploy capital as circumstances change. The priorities for capital allocation and deployment are adjusted based on prevailing circumstances and what the Company thinks is best for shareholder value creation at any particular point in time. Those priorities currently include:

deleveraging the Company's balance sheet through debt and pension reduction;

7

Table of Contents

making value creating investments that drive: profitable organic growth and productivity in the Company's current business; expansion into higher growth geographic markets; and the addition of new strategic competencies and capabilities; and

returning cash back to shareholders.

Competitive Advantages

Quad/Graphics believes its success has been fueled by a number of key competitive advantages that drive its four primary strategic goals, including: an efficient, flexible and modern manufacturing platform; leading mailing and distribution capabilities; a commitment to ongoing innovation, rapid adoption of technology and integration of new media; a client-centric approach; a disciplined and consistent financial approach; and a distinct corporate culture that empowers and engages employees to think and act like owners to drive business results.

Efficient, Flexible and Modern Manufacturing Platform

The Company has continuously invested in its manufacturing platform through modern equipment and automation that allow for more pages to be printed for each revolution of the press, reducing the amount of time that each individual printing job takes to complete. In addition, the Company's long-standing commitment to investing in manufacturing process improvements has led to increases in productivity, reductions in waste and smaller crew sizes. The Company's investment in its manufacturing platform has consistently been based on evaluating investment opportunities on the useful economic life of the underlying equipment rather than focusing on the potential mechanical life of the equipment. This discipline is critical in an industry in which technological change can create obsolescence well before the end of the mechanical life of equipment.

Another key aspect of the Company's modern manufacturing platform is the combination of its footprint of mega plants (facilities greater than 1.0 million square feet) that have a number of different products under one roof; mega zones where multiple facilities in close geographic proximity are managed as one large facility; and smaller strategically located facilities. The Company has continued to evolve its platform, equipping facilities to be product line agnostic, which enables the Company to maximize equipment utilization. Quad/Graphics believes that the large plant size of certain of its key printing facilities allows the Company to drive savings in certain product lines (such as magazines and catalogs) due to efficiencies of scale and from investments in automation and technology.

Complementing its mega plant and mega zone footprints are smaller facilities, strategically located nearer to final distribution points for expedited delivery. This allows clients greater deadline flexibility for adjusting content or marketing strategy, especially for commercial products, direct mail and retail inserts. Its platform provides the Company with the flexibility to meet complex customer service requirements, such as quick turns for time-sensitive material, or when weather patterns threaten production or delivery in a specific area of the country.

Quad/Graphics has also focused on investments in automation designed to reduce headcount and labor costs. Capital investments in advanced applications of robotics and automation and manufacturing process improvements have allowed the Company to lower personnel costs through attrition, reduction of overtime and temporary labor, and workforce reductions.

To be the low-cost producer, Quad/Graphics makes a concerted effort to treat all costs as variable and maintains a stringent focus on achieving productivity improvements and sustainable cost reductions through a variety of continuous improvement programs in both manufacturing and administrative areas. The Company believes it is making progress toward this goal by remaining focused on:

the implementation of sustainable reductions in non-labor and indirect labor spending areas;

• disciplined approach to improving capacity utilization and productivity across the entire platform; and

8

Table of Contents

a focused effort to take out direct costs through a variety of means, including the maximization of labor mix and the expansion of continuous improvement programs to reduce waste, eliminate redundancies and shorten cycle times.

Finally, Quad/Graphics has invested in vertically-integrated, non-print capabilities to assist it in delivering lower costs for its clients, enhancing customer service levels, increasing flexibility and providing more aggregated services to each client. Such capabilities include data management, imaging, logistics and distribution, ink manufacturing, and equipment research and design. This vertical integration allows substantial control over critical links in the overall print supply chain, such as the Company's ink manufacturing capabilities, that help it control the quality, cost and availability of a key input in the printing process.

Leading Mailing Distribution Capabilities

Quad/Graphics creates targeted and personalized printed materials for its clients, which increase consumer response rates, maximize return on print spending, and reduce overall costs. Quad/Graphics uses its in-house list services bureau to analyze mail list data, demographics data, consumer transaction data and other consumer-specific data to help its clients target consumers through personalized printed materials. Personalization and targeting create the opportunity to reach the right recipients with the right (or relevant) message at the right time. The Company believes that integrating its analysis of mail list data with its logistics services allows it to reduce client freight costs for shipments to newsstands and postal centers, while providing a high level of dependability and rapid response times that are crucial to the delivery of time-sensitive materials. Further, the Company uses a national consolidation network to combine like-destination freight to maximize cost-effectiveness.

Postal rates are a significant component of many clients' cost structures and Quad/Graphics believes that postal costs influence the number of pieces that its clients print and mail. The Company has invested significantly in its mail preparation and distribution capabilities to offset increasing postage costs, and help clients successfully navigate the ever-changing postal environment. Through its data analytics, finishing technology and logistics operations, the Company manages the mail preparation and distribution of most of its clients' products to maximize efficiency and reduce these costs. The Company helps its U.S. clients reduce their overall postage costs through what it believes, based on information published by or otherwise made available from its competitors, is the industry's largest co-mail program. The Company's co-mail program involves the sorting and bundling of printed products to be mailed to consumers, in order to facilitate better integration with the United States Postal Service. The United States Postal Service offers significant work-sharing discounts for this sorting, bundling and drop-shipping to postal processing centers as it reduces handling by the United States Postal Service. By combining the products of multiple clients in the mailstream, the Company leverages the volume from all of its clients, regardless of the production facility, to achieve greater savings. In 2012, Quad/Graphics co-mailed approximately 5 billion magazines and catalogs, earning significant discounts from the United States Postal Service on behalf of its clients.

Quad/Graphics is also able to leverage the volume of products running through its plants for further client distribution savings by coordinating and consolidating shipments from single mega plants or multiple plants that create a mega zone, and then routing those shipments directly to newspaper, U.S. Postal Service or other distribution facilities. In addition, each major United States metropolitan area is within one day's drive of at least one of the Company's strategically located facilities, providing its clients the flexibility to print closest to their end consumers.

Commitment to Ongoing Innovation, Rapid Adoption of Technology and Integration of New Media

Quad/Graphics has had a continued commitment to research and development, manufacturing process improvements, and the rapid adoption of technological innovations and integration of new media.

From a client-facing perspective, Quad/Graphics believes it is at the forefront of the printing industry with creating and/or rapidly adopting solutions that help marketers and publishers integrate print with new media to drive business results. The Company's Media Solutions group is dedicated to developing, testing and delivering these innovative solutions. Media Solutions' core services include marketing strategy, media planning and placement, data insights, creative services, videography, photography, workflow solutions, digital imaging, digital publishing, interactive

Table of Contents

print solutions such as image recognition, augmented reality and near field communication, and response data analytics. These services are seamlessly integrated to help clients optimize content, promote brand awareness and loyalty, and create experiences that connect with consumers and readers across multiple channels including print, online, mobile, email, e-book, tablet and in-store.

The Company's engineers, designers and systems engineers, working closely with its press and finishing operators, have developed a range of advancements that enhance the Company's manufacturing platform. The value of Quad/Graphics' innovations to the industry is supported by the fact that it generates revenue by supplying some of these technology solutions and consulting services to other printers. In particular, the Company believes it is an internationally known, leading manufacturer of electronic process control systems and maintains offices in the Netherlands, India, Singapore, Japan and China to sell and service these products to equipment manufacturers and other printers.

Another example of Quad/Graphics' innovative approach is the integration of its imaging, manufacturing and distribution networks into a singular platform using a networked IT infrastructure. This platform—named Smarttools®—provides seamless, real-time information flow across sales and estimating, production planning, scheduling, manufacturing, warehousing, logistics, invoicing, reporting and customer service.

Client-Centric Approach

Throughout its 40-plus-year history, the Company has put its clients at the center of its operations, creating solutions clients need to meet their business objectives. The Company uses a client-centric approach to help marketers and publishers take maximum advantage of the Company's full range of integrated multichannel solutions to help them better engage end users and drive improved response from print and print-related solutions. The Company's interactive print solutions, for example, connect print with mobile technologies such as Smartphones and tablets to create compelling calls to action that drive business results. Using QR codes, image recognition, augmented reality or near-field communication, the Company addresses clients' needs to extend content, encourage social sharing, facilitate shopping or subscription renewals, and more. Part of the interactive print solutions offering includes measurement and analytic tools so publishers and marketers can adjust their strategies and, since the destination content for interactive print solutions is cloud-based or Web-based, it can be changed nearly instantaneously as the client sees how consumers or readers are reacting. The Company will continue to evolve its offering as technologies and user preferences change.

Quad/Graphics' "high tech/high touch" approach has led to what the Company believes is an excellent client service reputation. The Company uses the latest technology and tools to better connect clients with employees and employees with each other. Its own brand of Smarttools® not only link the Company's people and equipment across its entire network of plants, but extend to the Company's clients as well, creating true, real-time communications integration. For example, the Company's Smarttools® provide clients with access to the very same up-to-the-minute information used by the Company's production, client service and sales representatives, allowing them to better manage current projects and plan future work.

Disciplined and Consistent Financial Approach

Quad/Graphics is a controlled public company with the Harry V. Quadracci family having voting control through ownership of high-vote stock. This structure provides consistency in ownership, leadership, strategy and financial policies and perpetuates a management culture of always striving to be “our own best investment.”

Quad/Graphics believes that its disciplined financial approach of focusing on maximizing earnings and free cash flow, and maintaining a strong balance sheet provides a competitive advantage. Continuous Improvement and Lean

Manufacturing methodologies are among the tools that Quad/Graphics uses to improve manufacturing productivity and to ultimately maximize operating margins. The Company applies these same methodologies to its selling, general and administrative functions to create a truly Lean Enterprise. Additionally, Quad/Graphics has a culture of continuous cost reduction, which includes minimizing waste, increasing efficiencies and throughput, and simplifying and streamlining processes. The Company has been working diligently to lower its cost structure by consolidating its manufacturing platform into its most efficient facilities, as well as realizing purchasing, mailing and logistics efficiencies by centralizing and consolidating print manufacturing volumes and eliminating redundancies in its administrative and corporate

Table of Contents

operations. Quad/Graphics believes that its focused efforts to be the low-cost producer generates increased free cash flow and allows the Company to focus on maintaining a strong balance sheet through debt and pension reductions. The Company's disciplined financial approach has resulted in strong credit metrics and has allowed the Company to structure its debt agreements to maintain high liquidity as well as to avoid refinancing risk, with the nearest significant maturity not until July 2017.

The Company takes a very disciplined approach to its capital allocation decisions. A key part of this discipline is a goal of having returns on investment exceed the cost of capital, whether the investments are related to purchasing the right equipment or investing in the right strategic growth initiatives. The Company balances the use of cash between compelling investment opportunities; deleveraging the balance sheet through debt reductions or pension liability paydowns; or returning cash back to shareholders through dividends.

Distinct Corporate Culture

Quad/Graphics believes that its distinct corporate culture, which evolved from a core set of values conceived by the late founder Harry V. Quadracci, drives thoughtful decision-making, especially with regard to how it manages operations and creates solutions that redefine print in a multichannel media landscape, and better positions the Company to prevail in the dynamic and competitive printing industry. The Company fosters an entrepreneurial environment by inspiring and empowering employees to own projects and enact solutions that advance the Company's goals. Employees in the United States who have been employed for at least one full calendar year also may have a beneficial ownership in the Company through Company stock held in an employee stock ownership plan, enhancing their sense of ownership. The Company believes that the empowerment, engagement and development of its employee owners fosters a strong partnership approach within the business that delivers results.

Quad/Graphics invests in its employees in a variety of ways by providing technical, safety and continuous improvement training, personal improvement classes, financial and retirement planning and comprehensive health and wellness benefits. Through its own network of QuadMed primary care clinics located at larger worksite locations, the Company provides high-quality primary medical care and specialty services to employees and their families at a low cost. The Company demonstrates its commitment to wellness through on-site fitness centers at a number of printing plant locations, as well as by offering smoking cessation, weight-management and nutrition classes among other wellness-related programs; providing employee assistance program counseling services; and developing its own programs with financial incentives for managing chronic conditions such as diabetes and asthma (known as Well You) and promoting healthy lifestyles (known as Lean You). QuadMed also sells this business model of healthcare services to third-party businesses.

Quad/Graphics is led by an experienced management team with a proven track record in the printing industry that is committed to preserving the Company's values-based culture. The senior management team includes individuals with long tenure with the Company augmented with seasoned industry talent realized through strategic hiring or recent acquisitions, further supported by managers and employees committed to advancing print solutions in coordination with the ever-evolving multichannel media landscape. The Company believes the experience and stability of senior management, paired with next-generation entrepreneurially minded employees, will contribute to its long-term success.

Segment Description

Quad/Graphics operates primarily in the commercial print portion of the printing industry, with related product and service offerings designed to offer clients complete solutions for communicating their message to target audiences. As a result of the divestiture of the Company's Canadian operations to Transcontinental, Inc. ("Transcontinental") on March 1, 2012, the former North America Print and Related Services segment is now referred to as the United States

Print and Related Services segment. All United States Print and Related Services segment amounts have been restated to exclude the Canadian discontinued operations. The Company's operating and reportable segments are aligned with how the chief operating decision maker of the Company currently manages the business. The Company has three operating and reportable segments: United States Print and Related Services, International, and Corporate.

Table of Contents

United States Print and Related Services

The United States Print and Related Services segment is predominantly comprised of the Company's United States printing operations and is managed as one integrated platform. This includes retail inserts, catalogs, consumer magazines, special interest publications, journals, direct mail, books, directories, in-store marketing, packaging and other commercial and specialty printed products, together with the related service offerings, including marketing strategy, media planning and placement, data insights, creative services, videography, photography, workflow solutions, digital imaging, digital publishing, interactive print solutions such as image recognition, augmented reality and near field communication, and response data analytics services, mailing, distribution, logistics, and data optimization and hygiene services. This segment also includes the design, development, manufacture and service of printing-related auxiliary equipment, as well as the manufacture of ink. The United States Print and Related Services segment accounted for approximately 88%, 88% and 89% of Quad/Graphics' consolidated net sales in 2012, 2011 and 2010, respectively.

International

The International segment consists of Quad/Graphics' printing operations in Europe and Latin America, including operations in Poland, Argentina, Brazil, Chile, Colombia, Mexico and Peru. This segment provides printed products and related services consistent with the United States Print and Related Services segment, with the exception of printing-related auxiliary equipment, which is included in the United States Print and Related Services segment. The International segment accounted for approximately 12%, 12% and 11% of the Company's consolidated net sales in 2012, 2011 and 2010, respectively.

Corporate

The Corporate segment consists of unallocated general and administrative activities and associated expenses including, in part, executive, legal, finance, information technology and human resources.

For additional financial information by segment and geographic area, see Note 24, "Segment Information," and Note 25, "Geographic Area and Product Information," to the consolidated financial statements, respectively, in Item 8 of this Annual Report on Form 10-K.

Competition

The printing industry, with approximately 49,000 companies in the United States, is highly fragmented and competitive. Although there has been industry consolidation, particularly in the past decade, the largest 400 printers in the printing industry (excluding newspaper printing) still represent less than 55% of the United States and Canadian market, according to the 2012 Printing Impressions PI400 and the 2011 Print Market Atlas. According to the December 2012 Printing Impressions PI400, Quad/Graphics was the second largest commercial printer in the United States as measured by revenue.

In addition to being in a highly fragmented industry, the Company also faces competition due to the increased accessibility and quality of digital alternatives to traditional delivery of printed documents through the online distribution and hosting of media content, and the digital distribution of documents and data. In addition, the Company faces competition from print management firms, which look to streamline processes and reduce the overall print spend of the Company's clients, as well as from strategic marketing firms focused on helping businesses integrate multiple channels into their marketing campaigns.

Across Quad/Graphics' range of products and services, competition is based on a number of factors, including the following:

total price of printing, materials and distribution;

quality;

Table of Contents

• range of services offered, including the ability to provide multichannel marketing campaigns;

• distribution capabilities;

• customer service;

• availability to schedule work on appropriate equipment;

• on-time production and delivery; and

• state-of-the-art technology to meet a client's business objectives.

Clients

Quad/Graphics enjoys long-standing relationships with a diverse base of clients, which includes both national and regional corporations in North America, Latin America and Europe. The Company's clients include industry - leading blue chip companies that operate in a wide range of industries and serve both businesses and consumers, including retailers, publishers and direct marketers. The Company's relationships with its largest clients average more than 18 years in duration and Quad/Graphics typically signs multi-year print agreements with these clients.

In 2012, Quad/Graphics served approximately 6,700 clients, and its 10 largest clients accounted for approximately 15% of consolidated sales, with none representing more than 5% individually. The Company believes that its large and diverse client base, broad geographic coverage and extensive range of printing and print-related capabilities are competitive strengths.

Patents, Trademarks and Trade Names

Quad/Graphics operates research and development facilities that support the development of new equipment, process improvements, raw materials and content management, and distribution technologies to better meet client needs and improve operating efficiencies. The Company continues to innovate within the printing and print-related industry and, as a result, has developed what it believes to be one of the most powerful patent portfolios in the print industry.

Quad/Graphics currently holds or has rights to commercialize a wide variety of worldwide patents and applications relating to its business. The Company intends to continue to file patent applications that it believes will help ensure the continued strength of the Company and its portfolio. Additionally, the Company markets products, services and capabilities under a number of trademarks and trade names. Quad/Graphics aggressively defends its intellectual property rights and intends to continue to do so in the future.

Raw Materials

The primary raw materials that Quad/Graphics uses in its print business are paper, ink and energy.

The majority of paper used by the Company is supplied directly by its clients. For those clients that do not directly supply their own paper, Quad/Graphics makes use of its purchasing efficiencies to supply paper by negotiating with leading paper suppliers, uses a wide variety of paper grades, weights and sizes, and does not rely on any one supplier. In addition, the Company generally includes price adjustment clauses in sales contracts for paper and other critical raw materials in the printing process. Although these clauses generally mitigate paper price risk, higher paper prices and tight paper supplies may have an impact on clients' demand for printed products. Quad/Graphics' working capital requirements, including the impact of seasonality, is partially mitigated through the direct purchasing of paper by the

majority of Quad/Graphics' clients.

Quad/Graphics produces the majority of ink used in its print production, allowing it to control the quality, cost and supply of key inputs. Raw materials for the ink manufacturing process are purchased externally from a variety of suppliers.

13

Table of Contents

Quad/Graphics generally cannot pass on to clients the impact of higher electric and natural gas energy prices on its manufacturing costs, and increases in energy prices result in higher manufacturing costs for certain of its operations. The Company mitigates its risk through natural gas hedges when appropriate. In its logistic operations, however, the Company is able to pass a substantial portion of any increase in fuel prices directly to its clients.

Environmental Stewardship

As the owner, lessee or operator of various real properties and facilities, Quad/Graphics is subject to various federal, state and local environmental laws and regulations, including those relating to air emissions; waste generation, handling, management, and disposal; and remediation of contaminated sites. Historically, compliance with these laws and regulations has not had a material adverse effect on the Company's results of operations, financial position or cash flows. Compliance with existing or new environmental laws and regulations may require the Company to make future expenditures.

Quad/Graphics strives to be the leader in the printing industry in adopting new technologies and processes to protect the environment. The Company believes it has long been known for its environmental stewardship. In the past decade alone, the Company has been awarded more than 25 major environmental achievement honors, both on a state and national level. Quad/Graphics' proactive approach to incorporate holistic practices has also positively impacted operating costs through the reduction of waste, energy use, emissions and labor, as well as through the implementation of water conservation solutions. The Company has also undertaken steps to reduce greenhouse gas emissions from its manufacturing processes and to improve fuel efficiency and reduce emissions in its fleet of Company-owned tractor trailers.

Employees

As of December 31, 2012, Quad/Graphics had approximately 21,400 employees in North America, Latin America and Europe. Within the United States, there were approximately 16,600 employees of which approximately 900 were covered by a collective bargaining agreement. Outside of the United States, there were approximately 4,800 employees of which approximately 1,700 were either governed by agreements that apply industry-wide, by a collective bargaining agreement or through works councils or similar agreements. Following the January 16, 2013, acquisition of substantially all of the assets of Vertis, the Company added approximately 3,900 employees within the United States of which approximately 400 were covered by a collective bargaining agreement. Quad/Graphics believes that its employee relations are good and that the Company maintains an employee-centric culture.

Business Acquisitions

On October 10, 2012, the Company and Vertis, a leading provider of retail advertising inserts, direct marketing and in-store marketing solutions, announced the execution of an Asset Purchase Agreement (the "Asset Agreement"). Pursuant to the Asset Agreement, Quad/Graphics Marketing, LLC, a wholly owned subsidiary of the Company, agreed to acquire substantially all of the assets comprising Vertis' businesses. To facilitate the sale, Vertis, along with its subsidiaries, filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code and, at the same time, filed documents seeking the U.S. Bankruptcy Court's approval of the proposed Asset Agreement to the Company. The Asset Agreement with the Company comprised the initial stalking horse bid in the U.S. Bankruptcy Court-supervised auction process under Section 363 of the United States Bankruptcy Code. On November 26, 2012, Vertis filed a notice with the U.S. Bankruptcy Court naming Quad/Graphics as the successful bidder and on December 6, 2012, the U.S. Bankruptcy Court approved the transaction. The Company completed the acquisition of substantially all of the assets of Vertis on January 16, 2013.

On July 12, 2011, Quad/Graphics entered into a definitive agreement with Transcontinental whereby Quad/Graphics agreed to acquire Transcontinental's Mexican operations in exchange for the Quad/Graphics' Canadian operations (with the exception of the Company's Vancouver, British Columbia facility). The Company completed the acquisition of Transcontinental's Mexican operations on September 8, 2011, and the Company completed the sale of its Canadian operations to Transcontinental on March 1, 2012.

Table of Contents

Executive Officers of Quad/Graphics

The following table sets forth the names, ages (as of March 8, 2013) and positions of Quad/Graphics' executive officers.

Name	Age	Position
J. Joel Quadracci	44	Chairman, President and Chief Executive Officer
David A. Blais	50	Executive Vice President of Sales and Client Services
John C. Fowler	62	Executive Vice President and Chief Financial Officer
Thomas J. Frankowski	52	Executive Vice President of Manufacturing & Operations and President of Europe
Craig C. Faust	45	President of Commercial and Specialty
Steven D. Jaeger	48	President of Quad/Direct and Vice President of Information Systems & Infrastructure
David K. Riebe	51	President of Logistics & Distribution
Tony Scaringi	45	President and General Manager of Latin America
David J. Honan	44	Vice President, Controller & Chief Accounting Officer
Maura D. Packham	44	Vice President of Marketing & Communications
Andrew R. Schiesl	41	Vice President & General Counsel
Kelly A. Vanderboom	38	Vice President & Treasurer

Mr. Quadracci has been a director of Quad/Graphics since 2003, its President since January 2005, its President and Chief Executive Officer since July 2006, and its Chairman, President and Chief Executive Officer since January 2010. Mr. Quadracci joined Quad/Graphics in 1991 and, prior to becoming President and Chief Executive Officer, served in various capacities, including Sales Manager, Regional Sales Strategy Director, Vice President of Print Sales, Senior Vice President of Sales & Administration, and President and Chief Operating Officer. Mr. Quadracci also serves on the board of directors of the Wisconsin Manufacturers & Commerce, a trade organization. Mr. Quadracci received a Bachelor of Arts in Philosophy from Skidmore College in 1991. Mr. Quadracci is the son of Betty Ewens Quadracci, a director and employee of the Company, and the brother-in-law of Christopher B. Harned, a director of the Company. Quad/Graphics believes that Mr. Quadracci's experience in the printing industry and in leadership positions with the Company qualifies him for service as a director of the Company.

Mr. Blais has been Executive Vice President of Sales and Client Services since January 2012 and previously served as Executive Vice President and President of Magazines and Catalogs since July 2010. Mr. Blais was Senior Vice President of Sales & Administration from May 2005 to July 2010, Quad/Graphics' Vice President of Operations from 1999 to May 2005, and in various other capacities since he joined the Company in 1984.

Mr. Fowler joined Quad/Graphics in 1980 as its Vice President and Controller, which at the time was the Company's top financial position. Mr. Fowler was named Senior Vice President and Chief Financial Officer in May 2005, and became Executive Vice President and Chief Financial Officer in July 2010. Prior to joining Quad/Graphics, Mr. Fowler worked for Arthur Andersen LLP for six years.

Mr. Frankowski has been Executive Vice President of Manufacturing & Operations and President of Europe since July 2010. Mr. Frankowski was Senior Vice President of Manufacturing from 2004 to July 2010, President of Quad/Graphics Europe, Quad/Graphics' Polish subsidiary, from 2008 to July 2010, and he served in various other capacities since he joined Quad/Graphics in 1979.

Mr. Faust has been President of Commercial and Specialty since May 2011 and previously served as President and CEO of HGI Company since November 2010. Prior to joining Quad/Graphics, Mr. Faust was the President, Founder and CEO of HGI Company since 2003. Prior thereto, Mr. Faust was Divisions President of Consolidated Graphics.

Table of Contents

Mr. Jaeger has served as President of Quad/Direct since August 2007 and as Vice President of Information Systems & Infrastructure for Quad/Graphics since 2006. Prior thereto, Mr. Jaeger had been Quad/Graphics' Vice President of Information Systems from 1998 to 2006 and had worked in various other capacities since he joined the Company in 1994. Prior to joining Quad/Graphics, Mr. Jaeger worked for Andersen Consulting for eight years.

Mr. Riebe has served as Quad/Graphics' President of Logistics & Distribution since July 2010. Prior thereto, Mr. Riebe was Vice President of Distribution from 1999 to July 2010 and served as Corporate Director of Distribution from 1987 to 1999. He joined Quad/Graphics in 1984. Mr. Riebe serves on the board of directors of IDEAlliance, an industry organization.

Mr. Scaringi joined Quad/Graphics as its Chief Financial Officer of Latin America in July 2010 and became President & General Manager of Latin America in August 2011. Prior to joining Quad/Graphics, Mr. Scaringi served World Color Press Inc. ("World Color Press") as Vice President of Finance and Administration for Latin America from 2002 to 2010. Mr. Scaringi joined World Color Press in 1993 and held various positions in auditing until 1997 and then in Latin America since 1997.

Mr. Honan has served as Quad/Graphics' Controller since he joined the Company in May 2009. He became Vice President and Controller in December 2009 and was named Chief Accounting Officer in July 2010. Prior to joining Quad/Graphics, Mr. Honan served as Vice President, General Manager and Chief Financial Officer of Journal Community Publishing Group, a subsidiary of media conglomerate Journal Communications Inc., for five years. Before joining Journal Community Publishing Group, Mr. Honan worked in executive-level roles in investor relations and corporate development at Newell Rubbermaid, a global marketer of consumer and commercial products. Mr. Honan also worked at accounting firm Arthur Andersen LLP for 11 years.

Ms. Packham joined Quad/Graphics in July 2010 as its Vice President of Marketing & Communications. Prior to joining Quad/Graphics, Ms. Packham served as World Color Press' Vice President of Marketing for the Marketing Solutions Group from 2003 to 2009. In 2010, Ms. Packham was named World Color Press' Vice President of Marketing for North America. She joined World Color Press in 1995 as a senior financial analyst.

Mr. Schiesl has served as Quad/Graphics' Vice President & General Counsel since December 2006 and as its General Counsel since he joined the Company in August 2003. Prior to joining Quad/Graphics, Mr. Schiesl was Senior Counsel at Harley-Davidson, Inc., the parent company for the group of companies doing business as Harley-Davidson Motor Company and Harley-Davidson Financial Services, among others. Prior to joining Harley-Davidson, Inc., Mr. Schiesl practiced law at Foley & Lardner LLP, a Milwaukee-based law firm.

Mr. Vanderboom has served as Quad/Graphics' Treasurer since 2007 and as its Vice President & Treasurer since 2008. Prior to becoming Quad/Graphics' Vice President & Treasurer, Mr. Vanderboom served as Director of Treasury, Risk & Planning from 2006 until 2007, as Controller of Quad/Graphics' Distribution and Facilities departments from 2004 until 2006, and as Controller of Quad/Graphics' Parcel Direct subsidiary.

Executive officers of the Company are elected by and serve at the discretion of the Company's board of directors. Other than described above, there are no family relationships between any directors or executive officers of Quad/Graphics.

Table of Contents

Item 1A. Risk Factors

You should carefully consider each of the risks described below, together with all of the other information contained in this Annual Report on Form 10-K, before making an investment decision with respect to Quad/Graphics' securities. If any of the following risks develop into actual events, the Company's business, financial condition or results of operations could be materially and adversely affected and you may lose all or part of your investment.

Quad/Graphics operates in a highly competitive industry.

The industry in which the Company operates is highly competitive. The printing industry, with approximately 49,000 companies in the United States, is highly fragmented. Although there has been industry consolidation, particularly in the past decade, the largest 400 printers in the printing industry (excluding newspaper printing) still represent less than 55% of the United States and Canadian markets, according to the 2012 Printing Impressions PI400 and the PIA/GATF 2011 Print Market Atlas. The Company competes for commercial business not only with large and mid-sized printers, but also with smaller regional printers. In certain circumstances, due primarily to factors such as freight rates and client preference for local services, printers with better access to certain regions of a given country may be preferred by clients in such regions.

In recent years, the printing industry has experienced a reduction in demand for printed materials and overcapacity due to various factors including adverse economic conditions and competition from alternative sources of communication, including email, the Internet, electronic readers, interactive television and electronic retailing. The impacts of overcapacity and intense competition have led to continued downward pricing pressures. Printing industry revenues may continue to decrease in the future. Some of the industries that the Company services have been subject to consolidation efforts, leading to a smaller number of potential clients. Furthermore, if the smaller clients of Quad/Graphics are consolidated with larger companies using other printing companies, the Company could lose its clients to competing printing companies.

The printing industry is highly competitive and expected to remain so. Any failure on the part of the Company to compete effectively in the markets it serves could have a material adverse effect on its results of operations, financial condition or cash flows and could require changes to the way it conducts its business or require it to reassess strategic alternatives involving its operations.

Significant downward pricing pressure and fluctuating demand for printing services caused by factors outside of the Company's control may adversely affect the Company.

The Company has experienced significant downward pricing pressures for printing services in the past, and pricing for printing services has declined significantly in recent years. Such pricing may continue to decline from current levels. In addition, demand for printing services has fluctuated in recent years and may continue to fluctuate. Any increases in the supply of printing services or decreases in demand could cause prices to continue to decline, and prolonged periods of low prices, weak demand and/or excess supply could have a material adverse effect on the Company's business growth, results of operations and liquidity.

Quad/Graphics may not be able to reduce costs and improve its operating efficiency rapidly enough to meet market conditions.

Because the markets in which the Company competes are highly competitive, Quad/Graphics will need to continue to improve its operating efficiency in order to maintain or improve its profitability. There is no assurance that the Company will be able to do so in the future. In addition, the need to reduce ongoing operating costs have and, in the future, may continue to result in significant up-front costs to reduce workforce, close or consolidate facilities, or

upgrade equipment and technology.

Table of Contents

The impact of electronic media and similar technological changes including the substitution of printed products for digital content may continue to adversely affect the results of the Company's operations.

The media landscape is experiencing rapid change due to the impact of electronic media and digital content on printed products. Improvements in the accessibility and quality of digital media through the online distribution and hosting of media content, mobile technologies, e-reader technologies, electronic retailing and the digital distribution of documents and data has resulted and may continue to result in increased consumer substitution. Continued consumer acceptance of such digital media, as an alternative to print materials, is uncertain and difficult to predict and may decrease the demand for the Company's printed products, result in reduced pricing for its printing services and additional excess capacity in the printing industry and adversely affect the results of the Company's operations.

Future declines in economic conditions may adversely affect the Company's results of operations.

In general, demand for the Company's products and services is highly related to general economic conditions in the markets our clients serve. Declines in economic conditions in the U.S. or in other countries in which the Company operates may adversely impact the Company's financial results and these impacts may be material. Because such declines in demand are difficult to predict, the Company or the industry may have increased excess capacity as a result. An increase in excess capacity has resulted and may continue to result in declines in prices for the Company's products and services. In addition, a prolonged decline in the global economy and an uncertain economic outlook has and could further reduce the demand in the printing industry. Economic weakness and constrained advertising spending have resulted, and may in the future result, in decreased revenue, operating margin, earnings and growth rates and difficulty in managing inventory levels and collecting accounts receivable. The Company has experienced, and expects to experience in the future, excess capacity and lower demand due to economic factors affecting consumers' and businesses' spending behavior. Uncertainty about future economic conditions makes it difficult for the Company to predict results of operations, financial position and cash flows and to make strategic decisions regarding the allocation and deployment of capital.

A significant portion of Quad/Graphics' revenues are derived from long-term contracts with clients, which may not be renewed on similar terms and conditions, or may not be renewed at all. In addition, clients may not perform under such contracts for their duration due to financial or other reasons or due to client consolidation. The failure to renew such contracts on similar terms or at all or the failure of clients to perform under such contracts could materially adversely affect Quad/Graphics' results of operations, financial condition and cash flows.

The Company has historically derived a significant portion of its revenue from long-term contracts with significant clients. If the Company loses significant clients, is unable to renew such contracts on similar terms and conditions, or at all, or is not awarded new long-term contracts with important clients in the future, its results of operations, financial condition and cash flows may be adversely affected.

The Company is exposed to risks of loss in the event of nonperformance by its clients. Some of the Company's clients are highly leveraged or otherwise subject to their own operating and regulatory risks. Even if the Company's credit review and analysis mechanisms work properly, the Company may experience financial losses and loss of future business if its clients become bankrupt, insolvent or otherwise are unable to pay the Company for its work performed. Any increase in the nonpayment or nonperformance by clients could adversely affect the Company's results of operations and financial condition.

Certain of the industries in which the Company's clients operate are seeing consolidation. When client consolidation occurs, it is possible that the volume of work performed by the Company for a client after the consolidation will be less than it was before the consolidation or that the client's work will be completely moved to competitors. Any such reduction or loss of work could adversely affect the Company's results of operations and financial condition.

Table of Contents

If Quad/Graphics fails to identify, manage, complete and integrate acquisitions, investment opportunities or other significant transactions, it may adversely affect the Company's future results.

As part of Quad/Graphics growth strategy, the Company may pursue acquisitions of, investment opportunities in or other significant transactions with companies that are complementary to the Company's business. In order to pursue this strategy successfully, the Company must identify attractive acquisition or investment opportunities, successfully complete the transaction, some of which may be large and complex, and manage post-closing issues such as integration of the acquired company or employees. Quad/Graphics may not be able to identify or complete appealing acquisition or investment opportunities given the intense competition for these transactions. Even if the Company identifies and completes suitable corporate transactions, the Company may not be able to successfully address inherent risks in a timely manner, or at all. These inherent risks include, among other things: (1) failure to successfully integrate the purchased operations, technologies, products or services and maintain uniform standard controls, policies and procedures; (2) substantial unanticipated integration costs; (3) loss of key employees including those of the acquired business; (4) diversion of management's attention from other operations; (5) failure to retain the clients of the acquired business; (6) failure to achieve any projected synergies and performance targets; (7) additional debt and/or assumption of known or unknown liabilities; (8) potential dilutive issuances of equity securities; and (9) a write-off of goodwill, client lists, other intangibles and amortization of expenses. If the Company fails to successfully integrate an acquisition, the Company may not realize all or any of the anticipated benefits of the acquisition, and our future results of operations could be adversely affected. In addition, the diversion of management's attention from the Company's other operations due to these acquisitions and integration effort could adversely affect its business and have a negative financial impact.

For example, the success of the January 2013 acquisition of Vertis will depend, in part, on Quad/Graphics' ability to realize the synergies expected to be produced from integrating Vertis' businesses with Quad/Graphics' pre-acquisition business. In such integration, the Company may incur more costs than currently expected in order to realize the anticipated synergies. While management believes that certain synergies are achievable, the Company may be unable to realize all of the synergies within the time frame expected or at all.

Changes in postal rates, postal regulations and postal services may adversely impact demand for Quad/Graphics' products and services.

Postal costs are a significant component of the cost structures of many of the Company's clients, and potential clients, and postal rate changes can influence the number of pieces that these clients will be willing to mail. Any resulting decline in print volumes mailed could have an adverse effect on the Company's business. In addition, integrated distribution with the postal service is an important component of the Company's business. Any material change in the current service levels provided by the postal service could impact the demand that clients have for print services. The United States Postal Service has reported net losses in the last five fiscal years and has estimated a net loss for its current fiscal year and, as a result, may come under increased pressure to adjust its postal rates and service levels.

Quad/Graphics may be adversely affected by increases in its operating costs, including the cost and availability of raw materials, labor-related costs, fuel and other energy costs and freight rates.

Paper, ink and energy are the primary raw materials used by the Company in the operation of its business. The price of such raw materials has fluctuated over time and has caused fluctuations in the Company's net sales and cost of sales. This volatility may continue and Quad/Graphics may experience increases in the costs of its raw materials in the future as prices in the overall paper, ink and energy markets are expected to remain beyond its control.

In general, the Company has been able to pass along increases in the cost of paper to many of its clients. If the Company is unable to continue to pass along increases in the cost of paper to its clients, future increases in paper costs

would adversely affect its margins and profits. If Quad/Graphics passes along increases in the cost of paper and the price of the Company's products and services increases as a result, client demand could be adversely affected and thereby negatively impact Quad/Graphics' financial performance.

Due to the significance of paper in the Company's business, it is dependent on the availability of paper. In periods of high demand, certain paper grades have been in short supply, including grades used in the Company's

Table of Contents

business. In addition, during periods of tight supply, many paper producers allocate shipments of paper based upon historical purchase levels of customers. Although Quad/Graphics generally has not experienced significant difficulty in obtaining adequate quantities of paper, unforeseen developments in the overall paper markets could result in a decrease in the supply of paper and could adversely affect the Company's revenues or profits.

In addition, the Company may not be able to resell waste paper and other by-products or the prices received for their sale may decline substantially.

The Company has less frequently been able to pass along increases in the cost of ink and energy to its clients. If the Company is unable to pass along increases in the cost of ink and energy, future increases in these items would adversely affect its margins and profits. If Quad/Graphics is able to pass along increases in the costs of ink and energy and the price of the Company's products and services increases as a result, client demand could be adversely affected and thereby negatively impact Quad/Graphics' financial performance.

Labor represents a significant component of the cost structure of Quad/Graphics. Increases in wages, salaries and benefits, such as medical, dental, pension and other post-retirement benefits, may impact the Company's financial performance. Changes in interest rates, investment returns or the regulatory environment may impact the amounts the Company will be required to contribute to the pension plans that it sponsors and may affect the solvency of these pension plans.

Freight rates and fuel costs also represent a significant component of the Company's cost structure. In general, the Company has been able to pass along increases in the cost of freight and fuel to many of its clients. If the Company is not able to pass along a substantial portion of increases in freight rates or in the price of fuel, future increases in these items would adversely impact the Company's margin and profits. If Quad/Graphics passes along increases in the cost of freight and fuel and the price of the Company's products and services increases as a result, client demand could be adversely affected and thereby negatively impact Quad/Graphics' financial performance.

Quad/Graphics entry into additional markets increases the complexity of the Company's business, and if the Company is unable to successfully adapt its business processes as required by these new markets, the Company will be at a competitive disadvantage and its ability to grow will be adversely affected.

As the Company expands its product line to provide additional marketing and publishing channels, the overall complexity of the Company's business increases at an accelerated rate and the Company becomes subject to different market dynamics. The new markets into which Quad/Graphics is expanding, or may expand, may have different characteristics from the markets in which the Company currently competes. These different characteristics may include, among other things, demand volume requirements, demand seasonality, product generation development rates, client concentrations and performance and compatibility requirements. The Company's failure to make the necessary adaptations to its business model to address these different characteristics, complexities and new market dynamics could adversely affect the Company's operating results.

Quad/Graphics and its facilities are subject to various consumer protection and privacy laws and regulations, and will become subject to additional laws and regulations in the future, which may subject the Company to material liability, require it to incur material costs or otherwise adversely affect its results of operations.

Quad/Graphics and its clients may be subject to various United States and foreign consumer protection, information security, data privacy and "do not mail" requirements at the federal, states, provincial and local levels. Regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection and privacy. In addition, the interpretation and application of consumer and data protection laws in the U.S. and elsewhere are often fluid and uncertain. To the extent that the Company or its clients become subject to additional

or more stringent requirements, demand for the Company's services may decrease, which could adversely affect the Company's results of operations. In addition, such laws may be interpreted and applied in a manner inconsistent with our internal policies. If so, in addition to the possibility of fines, this could result in an order requiring that we change our data practices, which could have an adverse effect on our business and results of operations. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse

Table of Contents

to our business.

If Quad/Graphics is not able to take advantage of technological developments in the printing industry on a timely basis, the Company may experience a decline in the demand for its services, be unable to implement its business strategy and experience reduced profits.

The printing industry is experiencing rapid change as new technologies are developed that offer clients an array of choices for their marketing and publication needs. In order to grow and remain competitive, the Company will need to adapt to future changes in technology, enhance the Company's existing offerings and introduce new offerings to address the changing demands of clients. If Quad/Graphics is unable to meet future challenges from competing technologies on a timely basis or at an acceptable cost, the Company could lose clients to competitors. In general, the development of new communication channels inside and outside the printing and media solutions industry requires the Company to anticipate and respond to the varied and continually changing demands of clients. The Company may not be able to accurately predict technological trends or the success of new services in the market.

Quad/Graphics may be required to make capital expenditures to maintain its platform and processes and to remain technologically and economically competitive, which may increase its costs or disrupt its operations.

The Company may need to make significant capital expenditures as it develops and continues to maintain its platform and processes. The Company also may be required to make capital expenditures to develop and integrate new technologies to remain technologically and economically competitive. In order to accomplish this effectively, the Company will need to deploy its resources efficiently, maintain effective cost controls and bear potentially significant market and raw material risks. If the Company's revenues decline, it may impact the Company's ability to expend the capital necessary to develop and implement new technology and be economically competitive. Debt or equity financing, or cash generated from operations, may not be available or sufficient for these requirements or for other corporate purposes or, if debt or equity financing is available, it may not be on terms favorable to the Company.

Currently, there is a limited active market for Quad/Graphics' class A common stock and, as a result, shareholders may be unable to sell their class A common stock without losing a significant portion of their investment.

The Company's class A common stock has been traded on The New York Stock Exchange, LLC ("NYSE") under the symbol "QUAD" since July 6, 2010. However, there is currently a limited active market for the class A common shares. The Company cannot predict the extent to which investor interest in the Company will lead to the development of an active trading market for its class A common stock on the NYSE or how liquid that market will become. If a more active trading market does not develop, shareholders may have difficulty selling any class A common stock without negatively affecting the stock price and thereby losing a significant portion of their investment.

Changes in the legal and regulatory environment could limit the Company's business activities, increase its operating costs, reduce demand for its products or result in litigation.

The conduct of the Company's businesses is subject to various laws and regulations administered by federal, state and local government agencies in the United States, as well as to foreign laws and regulations administered by government entities and agencies in markets in which the Company operates. These laws and regulations and interpretations thereof may change, sometimes dramatically, as a result of political, economic or social events. Such regulatory environment changes may include changes in environmental laws, requirements of United States and foreign occupational health and safety laws, accounting standards and taxation requirements. Changes in laws, regulations or governmental policy and the related interpretations may alter the environment in which Quad/Graphics does business and, therefore, may impact its results or increase its costs or liabilities.

In addition, the Company and its subsidiaries are party to a variety of legal and environmental remediation obligations arising in the normal course of business, as well as environmental remediation and related indemnification proceedings in connection with certain historical activities, former facilities and contractual obligations of acquired businesses. Permits are required for the operation of certain parts of the Company's business, and these permits are subject to renewal, modification and, in some circumstances, revocation. Due to regulatory complexities, uncertainties

Table of Contents

inherent in litigation and the risk of unidentified contaminants on current and former properties, the potential exists for remediation, liability and indemnification costs to differ materially from the costs the Company has estimated. Quad/Graphics cannot assure you that the Company's costs in relation to these matters will not exceed its established liabilities or otherwise have an adverse effect on its results of operations.

Various laws and regulations addressing climate change are being considered at the federal and state levels. Proposals under consideration include limitations on the amount of greenhouse gas that can be emitted (so-called "caps") together with systems of trading allowed emissions capacities. The impacts of such proposals could have a material adverse impact on the Company's financial condition and results of operations.

An other than temporary decline in operating results and enterprise value could lead to non-cash impairment charges due to the impairment of goodwill, other intangible assets and property, plant and equipment.

The Company has a material amount of goodwill, other intangible assets and property, plant and equipment on its balance sheet, due in part to acquisitions. As of December 31, 2012, the Company had the following long-lived assets on its December 31, 2012, balance sheet:

• Goodwill, representing the excess of the total purchase price for its acquisitions over the fair value of the net assets acquired, of \$768.6 million;

• Other intangible assets, primarily representing the fair value of customer relationships acquired, of \$229.9 million; and

• Property, plant and equipment of \$1,926.4 million.

As of December 31, 2012, these assets represented approximately 71% of the Company's total assets. The Company evaluates goodwill for impairment on an annual basis or more frequently if impairment indicators are present based on the estimated fair value of each reporting unit. The Company assesses impairment of other intangible assets and property, plant and equipment based upon the expected future cash flows of the respective assets. These valuations include management's estimates of sales, profitability, cash flow generation, capital structure, cost of debt, interest rates, capital expenditures and other assumptions. A decline in expected profitability, significant negative industry or economic trends, inability to effectively integrate acquired businesses, unexpected significant changes or planned changes in use of the assets or in entity structure, and divestitures may adversely impact the assumptions used in the valuations. As a result, the recoverability of these assets could be called into question and the Company could be required to write down or write off these assets. Such an occurrence could have a material adverse effect on the Company's results of operations and financial position and could result in the Company being in non-compliance with certain of its debt facility covenants (see "Quad/Graphics' debt facilities include various covenants imposing restrictions that may affect the Company's ability to operate its business" below).

The Company has significant liabilities with respect to defined benefit pension plans and other postretirement benefits that could grow in the future and cause the Company to incur additional costs.

As a result of the acquisition of World Color Press, the Company sponsors defined benefit pension plans for certain of its employees in the United States. The majority of the plans' assets are held in North American and global equities and fixed income or debt securities. The asset allocation as of December 31, 2012, was approximately 64% equities, 35% debt securities and 1% other.

As of December 31, 2012, the Company had underfunded pension and other postretirement benefit liabilities of approximately \$291 million for defined benefit plans and other postretirement benefits plans in the United States.

Under current United States pension law, pension funding deficits are generally required to be funded over a seven-year period. In 2013, under current pension law, the contributions required to such plans are expected to total approximately \$43 million (not including benefit payments). These pension deficits may increase or decrease depending on changes in the levels of interest rates, pension plan investment performance, pension legislation and other factors. Declines in global, and in particular North American, equity markets would increase the Company's potential pension funding

Table of Contents

obligations. Any significant increase in the Company's required contributions could have a material adverse impact on its business, financial condition, results of operations and cash flows.

In addition to the single employer defined benefit plans described above, the Company participates in multiemployer pension plans ("MEPPs") in the United States. Prior to the acquisition of World Color Press by Quad/Graphics, World Color Press received notice that certain plans in which it participated were in critical status, as defined in Section 432 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). As a result, the Company could have been subject to increased contribution rates associated with these plans or other MEPP's suffering from declines in their funding levels. Due to the significantly underfunded status of the United States multiemployer plans and the potential increased contribution rates, the Company withdrew from participation in these multiemployer plans and has replaced these pension benefits with a Company-sponsored "pay as you go" defined contribution plan, which is historically the form of retirement benefit provided to the Company's employees.

As of December 31, 2012, the Company estimates and has recorded in its financial statements a pre-tax withdrawal liability for all United States multiemployer plans of approximately \$87.4 million in the aggregate. Until discussions with the multiemployer plans' trustees are concluded, the exact amount of the withdrawal liability will not be known, and, as such, a difference from the recorded estimate could have an adverse effect on the Company's results of operations, financial position and cash flows. Further, if there was a mass withdrawal from any of the multiemployer plans over the next two years, the Company may be subject to additional withdrawal liabilities with respect to that plan under applicable law.

Quad/Graphics' debt facilities include various covenants imposing restrictions that may affect the Company's ability to operate its business.

On September 1, 1995, and as last amended on January 26, 2006, Quad/Graphics entered into a Senior Secured Note Agreement (the "Master Note and Security Agreement") pursuant to which the Company has issued over time senior notes in an aggregate principal amount of \$1.13 billion in various tranches. As of December 31, 2012, the borrowings outstanding under the Master Note and Security Agreement were \$553.9 million. On July 26, 2011, and as last amended on December 19, 2012, the Company entered into a \$1.5 billion debt financing agreement with certain lenders. The \$1.5 billion debt financing agreement includes three different loan facilities, a Term Loan A, a Term Loan B, and a revolving credit facility. The revolving credit facility in the amount of \$850.0 million and the Term Loan A in the aggregate amount of \$450.0 million each had an initial term of five years that was extended an additional year as part of the December 19, 2012 amendment to mature on July 25, 2017. The Term Loan B in the amount of \$200.0 million has a term of seven years and matures on July 25, 2018.

As of December 31, 2012, the Company's various lending arrangements included certain financial covenants. In addition to the financial covenants, the debt facilities also include certain limitations on acquisitions, indebtedness, liens, dividends and repurchases of capital stock. If the Company's total leverage ratio is greater than 3.00 to 1.00 (total leverage ratio as defined in the debt financing agreement), 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.

As of and for the twelve-month period ended December 31, 2012, the Company was in compliance with all financial covenants in its debt agreements. While the Company currently expects to be in compliance in future periods with all of the financial covenants, there can be no assurance that these covenants will continue to be met. The Company's failure to maintain compliance with the covenants could prevent the Company from borrowing additional amounts and could result in a default under any of the debt agreements. Such default could cause the outstanding indebtedness to become immediately due and payable, by virtue of cross-acceleration or cross-default provisions.

Quad/Graphics' revenue is subject to cyclical and seasonal variations.

The Company's business is seasonal, with Quad/Graphics recognizing the majority of its operating income in the third and fourth quarters of the financial year, primarily as a result of the increased magazine advertising page counts

Table of Contents

and retail inserts, catalogs and books from back-to-school and holiday promotions. Within any year, this seasonality could adversely affect the Company's cash flows and results of operations.

There are risks associated with the Company's operations outside of the United States.

Net sales from the Company's operations outside of the United States accounted for approximately 12%, 12% and 11% of its revenues from continuing operations for the years ended December 31, 2012, 2011 and 2010, respectively. As a result, the Company is subject to the risks inherent in conducting business outside of the United States, including the impact of economic and political instability and being subject to different legal and regulatory regimes that may preclude or make more costly certain initiatives or the implementation of certain elements of its business strategy.

Holders of class A common stock are not able to independently elect directors of Quad/Graphics or control any of the Company's management policies or business decisions or its decisions to issue additional shares, declare and pay dividends or enter into corporate transactions because the holders of class A common stock have substantially less voting power than the holders of the Company's class B common stock, all of which is owned by certain members of the Quadracci family, trusts for their benefit or other affiliates of Quad/Graphics, whose interests may be different from the holders of class A common stock.

The Company's stock is divided into three classes of common stock: class A common stock ("class A stock"), class B common stock ("class B stock") and class C common stock ("class C stock"). In August 2012, all outstanding shares of class C stock were converted into shares of class A stock. The class B stock has ten votes per share on all matters and the class A stock is entitled to one vote per share. As of March 4, 2013, the class B stock constitutes approximately 81% of Quad/Graphics' total voting power. As a result, holders of class B stock are able to exercise a controlling influence over the Company's business, have the power to elect its directors and indirectly control decisions such as whether to issue additional shares, declare and pay dividends or enter into corporate transactions. All of the class B stock is owned by certain members of the Quadracci family or trusts for their benefit, whose interests may differ from the interests of the holders of class A stock.

Approximately 88% of the outstanding class B stock is held of record by the Quad/Graphics Voting Trust, and that constitutes about 71% of the Company's total voting power. The trustees of the Quad/Graphics Voting Trust have the authority to vote the stock held by the Quad/Graphics Voting Trust. Accordingly, the trustees of the Quad/Graphics Voting Trust are able to exercise a controlling influence over the Company's business, have the power to elect its directors and indirectly control decisions such as whether to issue additional shares, declare and pay dividends or enter into corporate transactions.

Quad/Graphics is a controlled company within the meaning of the rules of the NYSE and, as a result, it relies on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.

Since the Quad/Graphics Voting Trust owns more than 50% of the total voting power of the Company's stock, the Company is considered a controlled company under the corporate governance listing standards of the NYSE. As a controlled company, an exception under the NYSE listing standards exempts the Company from the obligation to comply with certain of the NYSE's corporate governance requirements, including the requirements:

• that a majority of the Company's board of directors consist of independent directors, as defined under the rules of the NYSE;

• that the Company have a corporate governance and nominating committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and

that the Company have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities.

Table of Contents

Accordingly, for so long as Quad/Graphics is a controlled company, holders of class A stock will not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of the NYSE.

The Company is heavily dependent on its Chief Executive Officer, its management team and key personnel.

The Company's continued success depends, in part, on the retention, recruitment and continued contributions of key management, finance, sales and marketing personnel, some of whom could be difficult to replace. The Company's success is largely dependent upon its senior management team, led by its Chief Executive Officer and other key managers. The loss of any one or more of such persons could have an adverse effect on the Company's business and financial condition.

The Company may not be able to utilize deferred tax assets to offset future taxable income.

As of December 31, 2012, the Company had deferred tax assets, net of valuation allowances, of \$416.0 million on the consolidated balance sheet. The Company expects to utilize the deferred tax assets to reduce consolidated income tax liabilities over a period of time not to exceed 20 years. However, the Company may not be able to fully utilize the deferred tax assets if its future taxable income and related income tax liability is insufficient to permit their use. In addition, in the future, the Company may be required to record a valuation allowance against the deferred tax assets if the Company believes it is unable to utilize them, which would have an adverse effect on the Company's results of operations and financial position.

Quad/Graphics may be adversely affected by interest rates and foreign exchange rates.

As of December 31, 2012, 57% of the Company's borrowings were subject to variable interest rates. As a result, the Company is exposed to market risks associated with fluctuations in interest rates, and increases in interest rates could adversely affect the Company.

Because a portion of the Company's operations are outside of the United States, significant revenues and expenses are denominated in local currencies. Although operating in local currencies may limit the impact of currency rate fluctuations on the results of operations of the Company's non-U.S. subsidiaries and business units, fluctuations in such rates may affect the translation of these results into the Company's consolidated financial statements. To the extent revenues and expenses are not in the applicable local currency, the Company may enter into foreign exchange forward contracts to hedge the currency risk. There can be no assurance, however, that the Company's efforts at hedging will be successful. There is always a possibility that attempts to hedge currency risks will lead to greater losses than predicted.

Quad/Graphics may be adversely affected by strikes and other labor protests.

As of December 31, 2012, Quad/Graphics had a total of approximately 21,400 employees, of which approximately 2,600 were covered by a collective bargaining agreement. As of December 31, 2012, the Company had ten collective bargaining agreements in the United States and eight agreements outside of the United States that are either industry-wide individual collective bargaining agreements or works councils or similar arrangements.

While the Company believes its employee relations are good and that the Company maintains an employee-centric culture, and there has not been any material disruption in operations resulting from labor disputes, the Company cannot be certain that it will be able to maintain a productive and efficient labor environment. The Company cannot predict the outcome of any future negotiations relating to the renewal of the collective bargaining agreements, nor can there be any assurance that work stoppages, strikes or other forms of labor protests pending the outcome of any future

negotiations will not occur. A strike or other forms of labor protest affecting a series of major plants in the future could materially disrupt the Company's operations and result in a material adverse impact on its financial condition, results of operations and cash flows, which could force the Company to reassess its strategic alternatives involving certain of its operations.

Table of Contents

World Color Press' bankruptcy may have lingering negative effects.

In connection with the ongoing insolvency proceedings of Quebecor World (USA) Inc., Quebecor World, Inc. and certain of their affiliates, currently pending in the United States Bankruptcy Court for the Southern District of New York and the Quebec Superior Court, the Company, as successor in interest to the debtors, is currently engaged in resolving the claims filed in each of the insolvency proceedings. This ongoing claims resolution process and related legal issues may adversely affect the Company's financial condition. The debtors formulated plans of reorganization that were sanctioned by the Quebec Superior Court and confirmed by the U.S. Bankruptcy Court, respectively, and became effective on July 21, 2009. The holders of such claims are entitled to recovery based upon the type and classification of such claims. Most types of claims are subject to liability limitations pursuant to the plans of reorganization. However, some claims are entitled to a priority cash recovery and the Company has estimated that approximately \$9.3 million of such priority claims have yet to be paid as of December 31, 2012. These types of priority claims are not limited by the reorganization plans and may be significantly higher than \$9.3 million. In addition, certain other unsecured claims were to be paid under the reorganization plans by unsecured notes. In connection with the acquisition of World Color Press, such unsecured notes were defeased and then redeemed resulting in \$89.2 million deposited in 2010 with the indenture trustee. Upon the allowance of each claim, such creditors will receive cash in lieu of receiving a note. Through December 31, 2012, \$28.7 million was paid to Class 3 claim creditors, therefore \$60.5 million remains deposited as of December 31, 2012. The Company has estimated its liability under such claims to be \$23.8 million as of December 31, 2012, but this liability could be as high as the full remaining deposit. The Company retained responsibility for the Canadian insolvency proceedings after the sale of the Canadian operations to Transcontinental on March 1, 2012.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on the Company's business and stock price.

The Company is subject to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, and in order to ensure compliance with the various provisions of the Sarbanes-Oxley Act, Quad/Graphics has evaluated its internal controls over financial reporting to allow management to report on the internal controls systems. Among other things, Quad/Graphics may not be able to conclude on an ongoing basis that it has effective internal controls over financial reporting in accordance with Section 404. Any failure to comply with the various requirements of the Sarbanes-Oxley Act may require significant management time and expenses, and divert attention or resources away from the Company's core business.

Item 1B. Unresolved Staff Comments

The Company has no unresolved staff comments to report pursuant to this item.

Table of Contents

Item 2. Properties

Quad/Graphics' corporate office is located in owned office space in Sussex, Wisconsin. In addition, as of January 16, 2013, the day of the Vertis closing, the Company leased or owned 120 facilities in the United States, some of which have multiple buildings and warehouses, and these United States facilities encompassed approximately 26,150,000 square feet. As of January 16, 2013, the Company leased or owned 33 international facilities encompassing approximately 2,629,000 square feet in Canada, Latin America and Europe. Of the facilities, approximately 21,283,000 square feet of space is owned, while the remaining 7,496,000 square feet is leased. The following table lists, as of January 16, 2013, the Company's principal manufacturing facilities, all of which are owned except where noted:

Location	Size (Square Feet)
United States	
Lomira, Wisconsin, United States	2,173,000
Sussex, Wisconsin, United States	1,970,000
Martinsburg, Virginia, United States++	1,953,000
Hartford, Wisconsin, United States	1,571,000
Versailles, Kentucky, United States	1,066,000
Saratoga Springs, New York, United States	1,025,000
Oklahoma City, Oklahoma, United States	1,010,000
West Allis, Wisconsin, United States	911,000
The Rock, Georgia, United States	788,000
Evans, Georgia, United States	652,000
Franklin, Kentucky, United States	623,000
Effingham, Illinois, United States	579,000
Merced, California, United States	508,000
Taunton, Massachusetts, United States++	504,000
Atlanta, Georgia, United States+	433,000
Atglen, Pennsylvania, United States	427,000
Fernley, Nevada, United States	410,000
Fairfield, Pennsylvania, United States	337,000
Dickson, Tennessee, United States	318,000
Pewaukee, Wisconsin, United States	303,000
Chalfont, Pennsylvania, United States*	299,000
Dubuque, Iowa, United States+	278,000
Hazleton, Pennsylvania, United States	250,000
St. Cloud, Minnesota, United States	237,000
Dallas, Texas, United States	222,000
Midland, Michigan, United States	205,000
York, Pennsylvania, United States+*	203,000
Riverside, California, United States+	196,000
Lufkin, Texas, United States*	170,000
Shakopee, Minnesota, United States*	165,000
Pittsburg, California, United States+	162,000
Westampton, New Jersey, United States+*	160,000
East Longmeadow, Massachusetts, United States+*	159,000
Loveland, Colorado, United States+	150,000
Burlington, Wisconsin, United States+	145,000
Cranbury, New Jersey, United States*	145,000
Marengo, Iowa, United States*	145,000

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Pomona, California, United States*	145,000
Columbus, Ohio, United States*	141,000
Greenville, Michigan, United States*	138,000
Portland, Oregon, United States+*	125,000
Bristol, Pennsylvania, United States*	120,000
Waukee, Iowa, United States	118,000
Riverside, California, United States*	113,000
Manassas, Virginia, United States+*	108,000
Nashville, Tennessee, United States+	107,000
Charlotte, North Carolina, United States+*	106,000
Salt Lake City, Utah, United States+*	104,000

Table of Contents

Location	Size (Square Feet)
International	
Wyszkow, Poland	616,000
Buenos Aires, Argentina	270,000
Lima, Peru	207,000
Ipojuca (Recife), Brazil	173,000
Santiago, Chile	162,000
Xochimilco, Mexico	156,000
Pilar, Argentina	116,000
Bogota, Colombia+	114,000
Azcapotzalco, Mexico	106,000

+Leased facility

++Includes both owned and leased facilities

*Former Vertis location acquired by Quad/Graphics on January 16, 2013.

Item 3. Legal Proceedings

Quad/Graphics is subject to various legal actions, administrative proceedings and claims arising out of the ordinary course of business. Quad/Graphics believes that such unresolved legal actions, proceedings and claims will not materially adversely affect its results of operations, financial condition or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Capital Stock and Dividends

Quad/Graphics' authorized capital stock consists of 80.0 million shares of class A stock; 80.0 million shares of class B stock; 20.0 million shares of class C stock; and 0.5 million shares of preferred stock. The Company's outstanding capital stock as of December 31, 2012, consisted of 33.0 million shares of class A stock; 14.2 million shares of class B stock; no shares of class C stock; and no shares of preferred stock. As of March 4, 2013, there were 1,190 record holders of the class A stock, 24 record holders of the class B stock, and no record holders of the class C stock.

The Company's class A stock is listed on the NYSE under the symbol "QUAD". The class A stock is entitled to one vote per share.

The Company's class B stock is held by certain members of the Quadracci family or trusts for their benefit (and can only be voluntarily transferred to the Company or to a member of the Quadracci "family group," as defined in the Company's amended and restated articles of incorporation; and any transfer in violation of the Company's amended and restated articles of incorporation results in the automatic conversion of such class B stock into class A stock). The class B stock is entitled to ten votes per share. Each share of class B stock may, at the option of the holder, be converted at any time into one share of class A stock. There is no public trading market for the class B stock.

The Company's class C stock was held by the Quad/Graphics Employee Stock Ownership Plan ("ESOP") (and can only be owned by, or transferred to, a Company employee benefit plan which is intended to satisfy the qualification requirements of Section 401 of the Internal Revenue Code). In August 2012, all outstanding shares of class C stock were converted into shares of class A stock.

Pursuant to the Company's amended and restated articles of incorporation, each class of common stock has equal rights with respect to cash dividends. Pursuant to the Company's \$1.5 billion debt financing agreement, the Company is subject to limitations on dividends and repurchases of capital stock. If the Company's total leverage ratio (as defined in the Company's \$1.5 billion debt financing agreement) is greater than 3.00 to 1.00, 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. For the twelve months ended December 31, 2012, there were no such restrictions as the Company's leverage ratio was 2.37 to 1.00 under its most restrictive covenant.

The high and low closing sales prices of the Company's class A stock during each quarter and the quarterly dividends paid per share of each class of common stock then outstanding during the years ended December 31, 2012 and 2011, are contained in the chart below:

	Dividends Paid ⁽¹⁾		Class A Closing Stock Prices			
	2012	2011	2012 High	2012 Low	2011 High	2011 Low
First Quarter	\$0.25	N/A	\$16.22	\$11.75	\$45.12	\$41.75
Second Quarter	0.25	0.20	14.38	11.91	42.78	38.01
Third Quarter	0.25	0.20	19.89	14.55	39.10	18.00
Fourth Quarter	2.25	0.20	20.65	14.55	20.70	12.63

(1)

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Includes a special dividend of \$2.00 per share which was declared and paid in December 2012. Does not include aggregate tax distributions declared to Quad/Graphics' S corporation shareholders of \$2.7 million in 2011. There were no tax distributions declared to S corporation shareholders for the year ended December 31, 2012. See Note 15, "Income Taxes," to the consolidated financial statements in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K for a discussion of the Company's former S corporation status.

Table of Contents

Securities Authorized For Issuance Under Equity Compensation Plans

See Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters," of this Annual Report on Form 10-K for certain information regarding the Company's equity compensation plans.

Issuer Purchases of Equity Securities

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 stock. Under the authorization, share repurchases may be made at the Company's discretion, from time to time, in the open market and/or in privately negotiated transactions as permitted by federal securities laws and other legal requirements. The timing, manner, price and amount of any repurchase will depend on economic and market conditions, share price, trading volume, applicable legal requirements and other factors. The program may be suspended or discontinued at any time. There were no stock repurchases made during the year ended December 31, 2012. As of December 31, 2012, there were \$91.8 million of authorized repurchases remaining under the program.

Stock Performance Information

The following graph compares cumulative shareholder return on Quad/Graphics' class A stock since July 6, 2010, (the date on which Quad/Graphics' class A stock was first publicly traded) as compared to the Standard & Poor's MidCap 400 Index and Standard & Poor's 1500 Commercial Printing Index over the same period. The graph assumes a \$100.00 investment in our common stock at \$48.00, which was the closing market price per share on the first day of trading. It also assumes that all dividends are reinvested. The comparison in the graph below is based upon historical stock performance and should not be considered indicative of future stockholder returns.

Indexed Returns

	Base Period			
	7/6/2010	12/31/2010	12/31/2011	12/31/2012
Quad/Graphics, Inc.	\$100.00	\$85.96	\$30.69	\$51.13
S&P MidCap 400 Index	100.00	130.51	128.25	151.18
S&P 1500 Commercial Printing Index	100.00	116.67	108.04	97.66

Table of Contents

Item 6. Selected Financial Data

The selected consolidated statements of operations data for the years ended December 31, 2012, 2011 and 2010, and the selected consolidated balance sheets data at December 31, 2012 and 2011, are derived from the audited consolidated financial statements of the Company included in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K. The selected consolidated statements of operations data for the years ended December 31, 2009 and 2008, and the consolidated balance sheets data at December 31, 2010, 2009 and 2008, are derived from audited consolidated financial statements not included herein.

SELECTED FINANCIAL DATA

(In millions, except per share data)

	2012	2011	2010	2009	2008
Consolidated Statements of Operations Data:					
Net sales	\$4,094.0	\$4,324.6	\$3,185.8	\$1,788.5	\$2,266.7
Operating income ⁽¹⁾	106.5	156.9	61.6	112.4	174.3
Net earnings (loss) attributable to Quad/Graphics common shareholders:					
From continuing operations ⁽¹⁾	56.6	(8.3)	(245.5) ⁽²⁾	52.8	109.1
From discontinued operations ⁽⁴⁾	30.8	(38.6)	(4.6)	—	—
Net earnings (loss) ⁽¹⁾	\$87.4 ⁽¹⁾	\$(46.9)	\$(250.1) ⁽²⁾	\$52.8	\$109.1
Earnings (loss) per diluted share attributable to Quad/Graphics common shareholders:					
From continuing operations	\$1.13	\$(0.18)	\$(6.55)	\$1.81	\$3.67
From discontinued operations	0.65	(0.82)	(0.12)	—	—
Earnings (loss) per diluted share	\$1.78	\$(1.00)	\$(6.67)	\$1.81	\$3.67
Consolidated Balance Sheets Data:					
Total assets	\$4,098.9	\$4,735.2	\$4,947.0	\$2,109.2	\$2,326.4
Long-term debt and capital lease obligations (excluding current portion)	1,227.0	1,367.7	1,461.6	765.5	967.3
Other Financial Data:					
Dividends per share of common stock ⁽³⁾	\$3.00	\$0.60	\$0.50	\$0.50	\$0.50
Cash distributions per share of common stock in connection with the acquisition of World Color Press	—	—	4.98	—	—

Includes restructuring, impairment and transaction-related charges of \$118.3 million, \$114.0 million,

(1) \$147.5 million, \$11.2 million and \$10.8 million for the years ended December 31, 2012, 2011, 2010, 2009 and 2008, respectively.

In connection with the July 2, 2010, acquisition of World Color Press and the public registration of the Quad/Graphics class A stock, the Company changed the tax status of certain entities within the Quad/Graphics legal structure to C corporation status under the provisions of the Internal Revenue Code. From that point forward, these entities are subject to federal and state income taxes. The impact from the conversion to C corporation status (2) resulted in the recognition of net short-term deferred tax assets of \$23.6 million, net long-term deferred tax liabilities of \$223.3 million, an increase in accumulated other comprehensive loss due to the impact of foreign currency translation of \$0.8 million, and recognition of income tax expense for the year ended December 31, 2010 of \$200.5 million.

(3) Dividends per share of common stock in 2012 includes a special dividend of \$2.00 per share, which was declared and paid in December 2012. Excludes aggregate tax distributions declared to S corporation shareholders of \$2.7 million, \$5.2 million, \$18.0 million, and \$37.0 million for the years ended December 31, 2011, 2010, 2009

and 2008, respectively. There were no tax distributions declared to S corporation shareholders for the year ended December 31, 2012. Amounts also exclude the July 2, 2010 cash distribution of \$4.98 per share of class A stock, class B stock and class C stock to the pre-World Color Press acquisition shareholders of Quad/Graphics.

The results of operations of the Company's Canadian operations have been reported as discontinued operations for all periods presented. Loss from discontinued operations, net of tax, decreased \$35.4 million during the year ended December 31, 2012, to a \$3.2 million loss, which primarily reflects the sale of the Company's Canadian operations on March 1, 2012, and the effect of reporting two months of activity as opposed to twelve months for the year ended December 31, 2011. This \$3.2 million loss was offset by a gain on disposal of discontinued operations, net of tax, of \$34.0 million, resulting in a December 31, 2012, gain on discontinued operations of \$30.8 million.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the financial condition and results of operations of Quad/Graphics should be read together with the Quad/Graphics audited consolidated financial statements for each of the three years in the period ended December 31, 2012, including the notes thereto, included in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K. This discussion contains forward-looking statements that reflect the Company's plans, estimates and beliefs. The Company's actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed in "Forward-Looking Statements" and Item 1A, "Risk Factors," earlier within this Annual Report on Form 10-K.

Management's discussion and analysis of financial condition and results of operations is provided as a supplement to the Company's consolidated financial statements and accompanying notes to help provide an understanding of the Company's financial condition, the changes in the Company's financial condition and the Company's results of operations. This discussion and analysis is organized as follows:

Overview. This section includes a general description of the Company's business and segments, an overview of key performance metrics the Company's management measures and utilizes to evaluate business performance, and an overview of trends affecting the Company, including management's actions related to the trends.

Results of Operations. This section contains an analysis of the Company's results of operations by comparing the results for (1) the year ended December 31, 2012, to the year ended December 31, 2011, and (2) the year ended December 31, 2011, to the year ended December 31, 2010. The comparability of the Company's results of operations between periods was significantly impacted by acquisitions and dispositions. The results of operations for World Color Press are included in the Company's consolidated results prospectively from the date of acquisition, July 2, 2010. In addition, the Company entered into a definitive agreement with Transcontinental in 2011 to, among other things, acquire Transcontinental's Mexican operations in exchange for the Company's Canadian operations. The results of operations for Transcontinental's Mexican operations are included in the Company's consolidated results prospectively from the date of acquisition, September 8, 2011. The results of the Company's Canadian operations have been reported as discontinued operations for all periods presented. Forward-looking statements providing a general description of recent and projected industry and company developments that are important to understanding the Company's results of operations are included in this section. This section also provides a discussion of EBITDA and EBITDA margin, non-GAAP financial measures that the Company uses to assess the performance of its business.

Liquidity and Capital Resources. This section provides an analysis of the Company's capitalization, cash flows, a statement about off-balance sheet arrangements, and a discussion and table of outstanding debt and commitments. The cash flows of the Company's Canadian operations have not been reported as discontinued operations and thus are included in all cash flow analysis. Forward-looking statements important to understanding the Company's financial condition are also included in this section. This section also provides a discussion of Free Cash Flow, a non-GAAP financial measure the Company uses to assess liquidity and capital allocation and deployment.

Critical Accounting Policies and Estimates. This section contains a discussion of the accounting policies that the Company's management believes are important to the Company's financial condition and results of operations, as well as allowances and reserves that require significant judgment and estimates on the part of the Company's management. In addition, all of the Company's significant accounting policies, including critical accounting policies, are summarized in Note 1, "Basis of Presentation and Summary of Significant Accounting Policies," to the consolidated financial statements in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

Table of Contents

• **New Accounting Pronouncements.** This section provides a discussion of new accounting pronouncements and the anticipated impact of those accounting pronouncements to the Company's consolidated financial statements.

Overview

Business Overview

Quad/Graphics is a leading global printer and media channel integrator. The Company believes it is well-positioned to help its clients integrate new, emerging media with proven channels such as print as part of an overall multichannel marketing strategy. With consultative ideas, worldwide capabilities, leading-edge technology and single-source simplicity, the Company believes it has the resources and knowledge to help its clients maximize the revenue they derive from their marketing spend and minimize their total cost of print production and distribution. The Company's print and related products and services in North America, Latin America and Europe primarily include:

• **Print Solutions.** Includes consumer magazines, catalogs, retail inserts, special interest publications, journals, direct mail, books, directories, in-store marketing, packaging and other commercial and specialty printed products.

• **Media Solutions.** Includes marketing strategy, media planing and placement, data insights, creative services, videography, photography, workflow solutions, digital imaging, digital publishing, interactive print solutions and augmented reality triggered by image recognition, near field communication and response data analytics services.

• **Logistics Services.** Includes mailing, distribution, logistics and data optimization and hygiene services.

Quad/Graphics remains focused on four primary strategic goals, which it believes will allow the Company to be successful despite ongoing economic and industry challenges. These goals are as follows:

• **Transform the Industry.** The Company believes it is well-positioned to transform the industry in the following three ways: (1) Maximize the revenue clients derive from their marketing spend through media channel integration. As a printer and media channel integrator, Quad/Graphics uses a client-centric approach to help marketers and publishers connect strategy and content with multiple media channels to create measurable client value. Through its full range of integrated solutions, Quad/Graphics' clients benefit from better end user engagement, improved response and increased revenue derived from multichannel marketing campaigns. (2) Minimize clients' total cost of production and distribution by utilizing an efficient, innovative and fully-integrated U.S. national distribution network to provide enhanced value to clients through increased efficiency and postal cost-savings. (3) Create opportunity through disciplined, value-driven industry consolidation that adds complementary capabilities, allowing the Company to provide an enhanced range of products and services, and create significant efficiencies in the overall print production and distribution processes.

• **Maximize Operational and Technological Excellence.** Quad/Graphics utilizes a disciplined return on capital framework to make significant investments in its print manufacturing platform, research and development, technological innovation and data management capabilities, resulting in what it believes is one of the most integrated, automated, efficient and modern platforms in the industry.

• **Empower, Engage and Develop Employees.** Quad/Graphics believes that its distinct corporate culture encourages an organization-wide entrepreneurial spirit and an opportunistic mentality, where employees embrace responsibility, take ownership of projects and are encouraged to create solutions that advance the Company's strategic goals.

• **Enhance Financial Strength.** Given current economic and industry challenges, Quad/Graphics believes that its strategy to enhance financial strength will contribute to its long-term success. Key components of this

Table of Contents

strategy are centered on the Company's disciplined financial approach to maximize earnings and free cash flow; use of consistent financial policies to ensure it maintains a strong balance sheet and liquidity levels; and ability to retain the financial flexibility needed to strategically allocate and deploy capital.

As a result of the divestiture of the Company's Canadian operations to Transcontinental on March 1, 2012, the former North America Print and Related Services segment is now referred to as the United States Print and Related Services segment. All United States Print and Related Services segment amounts have been restated to exclude the Canadian discontinued operations. The Company's operating and reportable segments are aligned with how the chief operating decision maker of the Company currently manages the business. The Company has three reportable segments: United States Print and Related Services, International and Corporate.

The United States Print and Related Services segment is predominantly comprised of the Company's United States printing operations. This segment is managed as one integrated platform and includes all of the product and related service offerings described above. The United States Print and Related Services segment accounted for approximately 88% of the Company's consolidated net sales during the year ended December 31, 2012.

The International segment consists of the Company's printing operations in Europe and Latin America, including the acquired Transcontinental Mexican operations. This segment produces and delivers all of Quad/Graphics' product and service offerings in Europe and Latin America, with the exception of printing-related auxiliary equipment, which is included in the United States Print and Related Services segment. The International segment accounted for approximately 12% of the Company's consolidated net sales during the year ended December 31, 2012.

The Corporate segment consists of unallocated general and administrative activities and associated expenses including, in part, executive, legal, finance, information technology and human resources.

Key Performance Metrics Overview

The Company's management believes the ability to generate net sales growth, profit increases and positive cash flow are key indicators of the successful execution of the Company's business strategy and will increase shareholder value. The Company uses period over period net sales growth, EBITDA, EBITDA margin, net cash provided by operating activities and Free Cash Flow as metrics to measure operating performance, financial condition and liquidity. EBITDA, EBITDA margin and Free Cash Flow are non-GAAP financial measures (see the definitions of EBITDA, EBITDA margin and the reconciliation of net earnings (loss) attributable to Quad/Graphics common shareholders to EBITDA in the "Results of Operations" section below, and see the definition of Free Cash Flow and the reconciliation of net cash provided by operating activities to Free Cash Flow in the "Liquidity and Capital Resources" section below).

Net sales growth. The Company uses period over period net sales growth as a key performance metric. The Company's management assesses net sales growth based on the ability to generate increased net sales through increased sales to existing clients, sales to new clients, sales of new or expanded solutions to existing and new clients and opportunities to expand sales through strategic investments, including acquisitions.

EBITDA and EBITDA margin. The Company uses EBITDA and EBITDA margin as metrics to assess operating performance. The Company's management assesses EBITDA and EBITDA margin based on the ability to increase revenues while controlling variable expense growth.

Net cash provided by operating activities. The Company uses net cash provided by operating activities as a metric to assess liquidity. The Company's management assesses net cash provided by operating activities based on the ability to meet recurring cash obligations while increasing available cash to fund integration and restructuring requirements

related to the acquired Vertis and Transcontinental Mexican operations, as well as to fund capital expenditures, debt service requirements, World Color Press single employer pension plan contributions, World Color Press MEPP's withdrawal liabilities, acquisitions and other investments in future growth and shareholder dividends. Net cash provided by operating activities can be significantly impacted by the timing of non-recurring or infrequent receipts or expenditures.

Table of Contents

Free Cash Flow. The Company uses Free Cash Flow as a metric to assess liquidity and capital allocation and deployment. The Company's management assesses Free Cash Flow as a measure to quantify cash available for strategic capital allocation and deployment through investments in the business, including acquisitions, strengthening the balance sheet, including debt and pension repayment, and returning cash to the shareholders, including dividends and share repurchases. The priorities for capital allocation and deployment will change as circumstances dictate for the business, and Free Cash Flow can be significantly impacted by the Company's restructuring activities and other unusual items, such as payments related to completing the World Color Press bankruptcy process.

Overview of Trends Affecting Quad/Graphics

Competition in the highly fragmented printing industry remains intense as the industry is consolidating and has excess manufacturing capacity, causing the printing industry to face continued downward pricing pressures. In addition, digital delivery of documents and data, including the online distribution and hosting of media content and mobile technologies, offer alternatives to traditional delivery of printed documents. Increasing consumer acceptance of digital delivery of content has resulted in marketers and publishers allocating their marketing and advertising spend across the expanding selection of digital delivery options, which further reduces demand and contributes to industry overcapacity. In addition, the Company faces competition from print management firms, which look to streamline processes and reduce the overall print spend of the Company's clients, as well as from strategic marketing firms focused on helping businesses integrate multiple channels into their marketing campaigns.

The Company believes that a disciplined approach for capital management and a strong balance sheet are critical to be able to invest in profitable growth opportunities and technological advances, thereby providing the highest return for shareholders. Management currently is balancing the use of cash between deleveraging the Company's balance sheet through reduction in debt and pension and postretirement obligations, compelling investment opportunities, and returns to shareholders including a quarterly shareholder dividend of \$0.25 per share (increasing 20% to \$0.30 per share in 2013), a \$2.00 per share special dividend (totaling approximately \$93.5 million) paid in December 2012, and a share repurchase program approved in the third quarter of 2011 (there were no purchases under this program during the year ended December 31, 2012). The Company reduced consolidated debt and capital leases by \$120 million during the year ended December 31, 2012, and \$445 million since the July 2, 2010 World Color Press acquisition date, despite incurring significant costs related to acquisition integration and restructuring programs.

The Company has been working diligently to lower its cost structure by consolidating its manufacturing platform into its most efficient facilities, as well as realizing purchasing, mailing and logistics efficiencies by centralizing and consolidating print manufacturing volumes and eliminating redundancies in its administrative and corporate operations. These efforts include the deployment of the Company's Smarttools® platform to streamline workflows and improve data visibility across the consolidated platform. In addition, restructuring actions initiated by the Company beginning in 2010 through December 31, 2012 have resulted in the announcement of 16 plant closures and have reduced headcount by approximately 6,300.

The Company has substantially completed the World Color Press integration as of December 31, 2012. The Company achieved approximately \$285 million in annual synergy savings from the World Color Press integration, of which \$272 million was recognized through December 31, 2012, and \$13 million is expected to be recognized in 2013. Total costs incurred to achieve the \$285 million in synergy savings were approximately \$215 million. Total synergy savings of \$285 million exceeded the Company's original target of \$225 million by \$60 million, with costs to achieve such synergies staying within the original targeted range of \$195 million to \$240 million.

In addition to cost savings through acquisition-related synergies, the Company continues its focus on cost reductions through Lean Manufacturing and Continuous Improvement initiatives in order to achieve improved efficiencies, reduce waste, lower overall operating costs, enhance quality and timeliness and create a safer work environment for

the Company's employees.

In this increasingly multichannel marketplace, the Company believes that the printing industry will need to make capital investments in new technologies, such as those to deliver targeted and customized print solutions and to deploy multichannel marketing campaigns through the integration of new media. The Company believes its ongoing

35

Table of Contents

commitment to technology has been paramount in delivering high-quality and relevant offerings to its customers. The Company invested \$104 million in capital projects in 2012, and intends to invest \$150 million to \$175 million in new capital projects in 2013.

When making capital investment decisions, management undertakes a thorough process aimed at driving the strongest contribution to long-term profitability, whether those are fixed asset additions as discussed above, organic growth opportunities, acquisitions or divestitures. Some recent examples of the Company's acquisition and divestiture activity is as follows:

On March 1, 2012, the Company and Transcontinental completed a business exchange transaction pursuant to which Quad/Graphics acquired Transcontinental's Mexican operations in exchange for the Company's Canadian operations. As part of the Canadian transaction, Transcontinental assumed pension and post-retirement obligations pertaining to the Canadian employees. With the acquisition of Transcontinental's Mexican operations, the Company believes it will be able to create an industry-leading print platform in an economy with a higher growth rate than that of Canada, and also achieve beneficial synergy savings through operational consolidation. The Company completed the acquisition of Transcontinental's Mexican operations on September 8, 2011, and completed the sale of its Canadian operations to Transcontinental on March 1, 2012.

On March 28, 2012, the Company entered into a strategic partnership with India-based Manipal Technologies Limited ("ManipalTech") through the purchase of a minority equity ownership interest. ManipalTech is one of India's largest providers of printing services and supports clients' marketing, branding and communication needs through print services and technology solutions. The strategic investment expanded Quad/Graphics' geographic reach to Asia and broadened its product and service scope.

On January 16, 2013, the Company completed its acquisition of substantially all of the assets of Vertis, a provider of retail advertising inserts, direct marketing and in-store marketing solutions, for \$267.4 million, which includes the payment of \$97.4 million for current assets that are in excess of normalized working capital requirements, for a net purchase price of \$170.0 million. The Company believes the acquisition of Vertis will strengthen and expand its client offering with an enhanced range of products and services within its United States commercial printing segment and increased manufacturing flexibility and distribution efficiencies from an extended geographic footprint in the United States. For additional information regarding this acquisition, see Note 26, "Subsequent Events," to the consolidated financial statements in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

The Company is subject to seasonality in its quarterly results as net sales and operating income are typically higher in the third and fourth quarters of the calendar year as compared to the first and second quarters. Seasonality is driven by increased magazine advertising page counts, retail advertising inserts, catalogs and books primarily due to back-to-school and holiday related advertising and promotions. The Company's 2012 net sales followed the typical industry seasonality, and management anticipates this same impact of seasonality in 2013.

The Company's market capitalization can be affected by, among other things, changes in industry or market conditions, changes in results of operations and changes in forecasts or market expectations related to future results. The Company's management believes continued weak macroeconomic conditions globally and in the print industry contributed to volatility in the Company's market capitalization over the last 12 months. However, the Company believes that volatility in the Company's market capitalization may not necessarily reflect the Company's actual operating performance, cash flows, financial condition and/or liquidity. The Company's market capitalization remained below the Company's carrying value of its equity for approximately one year, which is considered by the Company to be a sustained period of time. As a result, the Company conducted an interim goodwill impairment assessment during the third quarter of 2012 for the United States and Latin American reporting units which included comparing the carrying amount of net assets, including goodwill, of each reporting unit to its respective fair value as

of July 31, 2012, the date of the interim assessment. The European reporting unit does not have goodwill associated with it. Management concluded that no impairment existed as of July 31, 2012, because the estimated fair value of each of the Company's United States and Latin American reporting units exceeded the respective carrying amounts. In addition to an interim goodwill

Table of Contents

impairment assessment, the Company performed its required annual assessment of goodwill impairment as of October 31, 2012. Management concluded, similar to the interim goodwill impairment assessment, that no impairment existed as of October 31, 2012. No additional indicators of impairment have been identified between the date of the annual assessment and December 31, 2012.

Table of Contents

Results of Operations for the Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

Summary Results

The Company's operating income from continuing operations, operating margin, net earnings (loss) attributable to Quad/Graphics common shareholders and diluted earnings (loss) per share attributable to Quad/Graphics common shareholders for the year ended December 31, 2012, changed from the year ended December 31, 2011, as follows (dollars in millions, except per share data):

	Operating Income from Continuing Operations	Operating Margin	Net Earnings (Loss) Attributable to Quad/Graphics Common Shareholders	Earnings (Loss) Per Share Attributable to Quad/Graphics Common Shareholders—Diluted
For the Year Ended December 31, 2011	\$ 156.9	3.6	% \$(46.9)	) \$ (1.00)
2012 Restructuring, Impairment and Transaction-Related Charges ⁽¹⁾	(118.3)	) (2.9)	)% (71.0)	) (1.50)
2011 Restructuring, Impairment and Transaction-Related Charges ⁽²⁾	114.0	2.6	% 68.4	1.45
Decrease in Interest Expense ⁽³⁾	N/A	N/A	14.4	0.31
Loss on Debt Extinguishment in 2011 ⁽⁴⁾	N/A	N/A	20.4	0.43
Decrease in Income Tax Expense ⁽⁵⁾	N/A	N/A	57.5	1.22
Decrease in Loss from Discontinued Operations, net of tax ⁽⁶⁾	N/A	N/A	35.4	0.75
Gain on Disposal of Discontinued Operations in 2012, net of tax ⁽⁷⁾	N/A	N/A	34.0	0.72
Decrease in Operating Income ⁽⁸⁾	(46.1)	) (0.7)	)% (24.8)	) (0.60)
For the Year Ended December 31, 2012	\$ 106.5	2.6	% \$87.4	\$ 1.78

(1) Restructuring, impairment and transaction-related charges of \$118.3 million incurred during the year ended December 31, 2012 included:

a. \$27.2 million of employee termination charges related to workforce reductions through facility consolidations and involuntary separation programs;

b. \$23.0 million of impairment charges for certain buildings and equipment no longer being utilized in production as a result of facility consolidations;

c. \$4.1 million of transaction-related charges consisting of professional service fees related to business acquisition and divestiture activities;

d. \$44.6 million of acquisition-related integration costs; and

e. \$19.4 million of various other restructuring charges, including costs to maintain and exit closed facilities, as well as lease exit charges, presented net of a \$12.8 million curtailment gain as a result of the amendment to postretirement

medical benefit plans and a \$2.4 million gain on the collection of a note receivable related to a settlement of a disputed pre-acquisition World Color Press note receivable.

The Company expects to incur additional restructuring and integration costs in future reporting periods in connection with the restructuring program that began in 2010 related to eliminating excess manufacturing capacity and properly aligning its cost structure as part of the integration of the July 2, 2010 World Color Press acquisition, the September 8, 2011 Transcontinental Mexico acquisition, the January 16, 2013 Vertis acquisition and other cost reduction programs.

Table of Contents

(2) Restructuring, impairment and transaction-related charges of \$114.0 million incurred during the year ended December 31, 2011 included:

a. \$29.5 million of employee termination charges related to workforce reductions through facility consolidations and involuntary separation programs;

b. \$13.8 million of impairment charges for certain buildings and equipment no longer being utilized in production as a result of facility consolidations;

c. \$2.9 million of transaction-related charges incurred primarily in connection with the Transcontinental transaction;

d. \$45.7 million of acquisition-related integration costs, net of a \$15.6 million gain on the collection of a note receivable for the June 2008 sale of World Color Press' European operations; and

e. \$22.1 million of various other restructuring charges including costs to maintain and exit closed facilities, as well as lease exit charges.

(3) Interest expense decreased \$24.0 million (\$14.4 million net of tax) during the year ended December 31, 2012, to \$84.0 million. This change was due to a reduction in debt in 2012 and lower interest rates as a result of the \$1.5 billion debt financing agreement entered into on July 26, 2011.

(4) A non-recurring \$34.0 million loss on debt extinguishment (\$20.4 million net of tax) was recognized as part of the \$1.5 billion debt financing agreement entered into on July 26, 2011. The \$34.0 million loss represents certain debt issuance costs that were expensed.

(5) Income tax expense decreased \$57.5 million due primarily to the reversal of \$43.5 million of income tax provisions related to a \$30 million settlement of a IRS audit of pre-acquisition tax years for World Color Press and \$13.5 million in reserves that are no longer required due to lapses of applicable statutes of limitations. See Note 15, "Income Taxes," to the consolidated financial statements in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K for additional information.

(6) Loss on discontinued operations, net of tax, decreased \$35.4 million during the year ended December 31, 2012, to a \$3.2 million loss primarily due to 10 fewer months of results from Canadian operations in 2012, as the Canadian discontinued operations were sold on March 1, 2012.

(7) Gain on disposal of discontinued operations, net of tax, was \$34.0 million during the year ended December 31, 2012, due to the completion of the sale of the Company's Canadian operations to Transcontinental on March 1, 2012.

(8) Operating income decreased \$46.1 million primarily due to the margin impact of a \$230.6 million, or 5.3%, decline in net sales, partially offset by \$76 million in incremental synergy savings from the integration of World Color Press' operations, \$59.9 million in reduced selling, general and administrative costs and \$6.0 million in reduced depreciation and amortization expense. The following discussion provides additional details.

Table of Contents

Operating Results from Continuing Operations

The following table sets forth certain information from the Company's consolidated statements of operations on an absolute dollar basis and as a relative percentage of total net sales for each noted period, together with the relative percentage change in such information between the periods set forth below:

	Year Ended December 31,				\$ Change	% Change	
	2012	2011	Amount	% of Sales			
	(dollars in millions)		Amount	% of Sales			
Net Sales:							
Products	\$3,638.6	88.9	% \$3,825.6	88.5	% \$(187.0)	(4.9)%	
Services	455.4	11.1	% 499.0	11.5	% (43.6)	(8.7)%	
Total Net Sales	4,094.0	100.0	% 4,324.6	100.0	% (230.6)	(5.3)%	
Cost of Sales:							
Products	2,848.3	69.6	% 2,921.7	67.6	% (73.4)	(2.5)%	
Services	335.2	8.2	% 380.4	8.8	% (45.2)	(11.9)%	
Total Cost of Sales	3,183.5	77.8	% 3,302.1	76.4	% (118.6)	(3.6)%	
Selling, General & Administrative Expenses	347.1	8.4	% 407.0	9.4	% (59.9)	(14.7)%	
Restructuring, Impairment and Transaction-Related Charges	118.3	2.9	% 114.0	2.6	% 4.3	3.8 %	
Depreciation and Amortization	338.6	8.3	% 344.6	8.0	% (6.0)	(1.7)%	
Total Operating Expenses	3,987.5	97.4	% 4,167.7	96.4	% (180.2)	(4.3)%	
Operating Income From Continuing Operations	\$106.5	2.6	% \$156.9	3.6	% \$(50.4)	(32.1)%	

Net Sales

Product sales decreased \$187.0 million, or 4.9%, for the year ended December 31, 2012, compared to the year ended December 31, 2011, primarily due to a 4% reduction in sales from the combination of lower print volumes and lower pricing as a result of continued pricing pressure from excess manufacturing capacity in the printing industry and a 1% reduction in sales from lower paper and byproduct sales.

Service sales, which primarily consist of imaging, logistics and distribution services, decreased \$43.6 million, or 8.7%, for the year ended December 31, 2012, compared to the year ended December 31, 2011, primarily due to lower sales on logistics and distribution services and media solutions due primarily due to lower related print volumes.

Cost of Sales

Cost of product sales decreased \$73.4 million for the year ended December 31, 2012, compared with the year ended December 31, 2011, primarily due to decreased print volumes and synergy savings related to labor, purchasing and other manufacturing expenses as a result of the Company's World Color Press integration restructuring programs.

Cost of product sales as a percentage of net sales increased from 67.6% for the year ended December 31, 2011, to 69.6% for the year ended December 31, 2012, primarily due to lower print pricing as a result of continued pricing pressure from excess manufacturing capacity in the printing industry and lower pricing on byproduct recoveries. The increase in cost of product sales as a percentage of net sales was partially offset by synergy cost savings related to the

World Color Press integration.

Cost of service sales decreased \$45.2 million for the year ended December 31, 2012, compared with the year ended December 31, 2011, primarily due to lower sales on logistics and distribution services and media solutions.

40

Table of Contents

Cost of service sales as a percentage of net sales decreased from 8.8% for the year ended December 31, 2011, to 8.2% for the year ended December 31, 2012, primarily due to lower labor costs related to cost reduction activities.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased \$59.9 million for the year ended December 31, 2012, compared with the year ended December 31, 2011, primarily due to \$11 million in synergy savings from the World Color Press integration, \$11 million in lower employee related costs associated with non-integration cost reduction activities, \$10 million in lower bad debt expense (mostly related to a change in payment terms for an existing customer), a \$8 million decrease in legal and environmental reserves (primarily related to the sale of vacant facilities), \$4 million in lower information technology related expenses and \$3 million in lower professional fee expense and other net miscellaneous spending reductions. Selling, general and administrative expenses as a percentage of net sales decreased from 9.4% to 8.4% between years due to the items discussed in the preceding sentence.

Restructuring, Impairment and Transaction-Related Charges

Restructuring, impairment and transaction-related charges increased \$4.3 million for the year ended December 31, 2012, compared with the year ended December 31, 2011, primarily due to a \$9.2 million increase in impairment charges and a \$1.2 million increase in transaction-related charges, partially offset by a \$2.7 million decrease in other restructuring charges, a \$2.3 million decrease in employee termination charges and \$1.1 million decrease in acquisition-related integration costs.

Restructuring, impairment and transaction-related charges of \$118.3 million incurred in the year ended December 31, 2012, included: (1) \$27.2 million of employee termination charges related to workforce reductions through facility consolidations and involuntary separation programs, (2) \$23.0 million of impairment charges for certain buildings and equipment no longer being utilized in production as a result of facility consolidations, (3) \$4.1 million of transaction-related charges incurred consisting of professional service fees related to business acquisition and divestiture activities, (4) \$44.6 million of integration costs primarily related to preparing existing facilities to meet new production requirements resulting from work transferring from closed plants, as well as other costs related to the integration of the acquired companies, and (5) \$19.4 million of various other restructuring charges, including costs to maintain and exit closed facilities, as well as lease exit charges, presented net of a \$12.8 million curtailment gain resulting from an amendment to the postretirement medical benefit plan and a \$2.4 million gain on the collection of a note receivable related to a settlement of a disputed pre-acquisition World Color Press note receivable.

Restructuring, impairment and transaction-related charges of \$114.0 million incurred in the year ended December 31, 2011, included: (1) \$29.5 million of employee termination charges related to workforce reductions through facility consolidations and involuntary separation programs, (2) \$13.8 million of impairment charges related to machinery and equipment, (3) \$2.9 million of transaction-related charges incurred primarily in connection with the Transcontinental transaction, (4) \$45.7 million of acquisition-related integration costs, net of a \$15.6 million gain on the collection of a note receivable for the June 2008 sale of World Color Press' European operations and (5) \$22.1 million of various other restructuring charges, including costs to maintain and exit closed facilities, as well as lease exit charges.

Depreciation and Amortization

Depreciation and amortization decreased \$6.0 million, or 1.7%, for the year ended December 31, 2012, compared with the year ended December 31, 2011, primarily due to decreased capital expenditures for property, plant and equipment, and the impact of the Company's restructuring activities.

Table of Contents

EBITDA and EBITDA Margin—Consolidated

EBITDA and EBITDA margin for the year ended December 31, 2012, compared to the year ended December 31, 2011, were as follows:

	Year Ended December 31,		2011		
	2012	% of Net Sales	Amount	% of Net Sales	
	(dollars in millions)				
EBITDA and EBITDA margin	\$478.5	11.7	% \$431.7	10.0	%

EBITDA increased \$46.8 million for the year ended December 31, 2012, primarily due to: (1) \$76.0 million in incremental synergy savings from integrating World Color Press' operations, (2) \$59.9 million of decreased selling, general and administrative expenses, (3) a \$34.0 million gain on the disposal of the Canadian discontinued operations recorded on March 1, 2012, (4) a \$34.0 million loss on debt extinguishment recorded in 2011 related to the \$1.5 billion debt financing agreement that did not recur in 2012 and (5) a \$35.4 million reduction in loss from discontinued operations due to the sale of the Canadian operations to Transcontinental on March 1, 2012. These impacts were partially offset by margin impact of a \$230.6 million, or 5.3%, decline in net sales and \$4.3 million of increased restructuring, impairment and transaction-related charges. The results of these impacts also increased EBITDA margin to 11.7% for the year ended December 31, 2012, compared to 10.0% for the year ended December 31, 2011.

EBITDA represents net earnings (loss) attributable to Quad/Graphics common shareholders, plus (i) interest expense, (ii) income tax expense (if applicable) and (iii) depreciation and amortization, and less income tax benefit (if applicable). EBITDA margin represents EBITDA as a percentage of net sales. EBITDA and EBITDA margin are presented to provide additional information regarding Quad/Graphics' performance and because both are important measures by which Quad/Graphics gauges the profitability and assesses the performance of its business. EBITDA and EBITDA margin are not measures of financial performance in accordance with GAAP. EBITDA and EBITDA margin should not be considered alternatives to net earnings (loss) as a measure of operating performance or to cash flows provided by operating activities as a measure of liquidity. Quad/Graphics' calculation of EBITDA and EBITDA margin may be different from the calculations used by other companies and therefore comparability may be limited. A reconciliation of EBITDA to net earnings (loss) attributable to Quad/Graphics common shareholders follows:

	Year Ended December 31,	
	2012	2011
	(dollars in millions)	
Net Earnings (Loss) Attributable to Quad/Graphics Common Shareholders ⁽¹⁾	\$87.4	\$(46.9)
Interest Expense	84.0	108.0
Income Tax Expense (Benefit)	(31.5)	) 26.0
Depreciation and Amortization	338.6	344.6
EBITDA	\$478.5	\$431.7

(1) Net earnings (loss) attributable to Quad/Graphics common shareholders includes the effects of:

- a. Restructuring, impairment and transaction-related charges of \$118.3 million and \$114.0 million for the years ended December 31, 2012 and 2011, respectively;
- b. Loss on debt extinguishment of \$34.0 million for the year ended December 31, 2011;
- c. Loss from discontinued operations, net of tax, was \$3.2 million and \$38.6 million for the years ended December 31, 2012 and 2011, respectively. EBITDA from discontinued operations was \$(3.2) million and \$(25.6) million for the years ended December 31, 2012 and 2011, respectively, and include restructuring, impairment and

transaction-related charges of \$1.7 million and \$45.1 million for the years ended December 31, 2012 and 2011, respectively; and
d. Gain on disposal of discontinued operations, net of tax of \$34.0 million for the year ended December 31, 2012.

Table of Contents

United States Print and Related Services

The following table summarizes net sales, operating income, operating margin and certain items impacting comparability within the United States Print and Related Services segment:

	Year Ended December 31,		\$ Change	% Change	
	2012	2011			
	(dollars in millions)				
	Amount	Amount			
Net Sales:					
Products	\$3,151.3	\$3,338.1	\$(186.8)	(5.6))%
Services	446.6	488.0	(41.4)	(8.5))%
Operating Income (including Restructuring, Impairment and Transaction-Related Charges)	216.5	271.6	(55.1)	(20.3))%
Operating Margin	6.0	% 7.1	% N/A	N/A	
Restructuring, Impairment and Transaction-Related Charges	48.5	55.3	(6.8)	(12.3))%

Net Sales

Product sales for the United States Print and Related Services segment decreased \$186.8 million, or 5.6%, for the year ended December 31, 2012, compared to the year ended December 31, 2011, primarily due to 4% reduction in sales from the combination of lower print volumes and lower pricing as a result of continued pricing pressure from excess manufacturing capacity in the printing industry and a 1% net reduction in sales from lower paper and byproduct sales.

Service sales for the United States Print and Related Services segment decreased \$41.4 million, or 8.5%, for the year ended December 31, 2012, compared to the year ended December 31, 2011, primarily due to lower sales on logistics and distribution services and media solutions due primarily due to lower related print volumes.

Operating Income

Operating income for the United States Print and Related Services segment decreased \$55.1 million for the year ended December 31, 2012, compared to the year ended December 31, 2011, primarily due to the margin impact of the \$228.2 million decrease in net sales, partially offset by \$76 million in synergy savings from the World Color Press integration, \$50.2 million in lower Selling, General and Administrative expenses and \$6.8 million decrease in Restructuring, Impairment and Transaction-Related Charges.

Operating margin for the United States Print and Related Services segment decreased from 7.1% for the year ended December 31, 2011, to 6.0% for the year ended December 31, 2012, primarily due to the reasons discussed in the preceding paragraph.

Restructuring, Impairment and Transaction-Related Charges

Restructuring, impairment and transaction-related charges for the United States Print and Related Services segment for the year ended December 31, 2012, were \$48.5 million, consisting of: (1) \$20.2 million of employee termination charges related to workforce reductions through facility consolidations and involuntary separation programs, (2) \$11.9 million of impairment charges for certain buildings and equipment no longer being utilized in production as a result of facility consolidations and (3) \$16.4 million of various other restructuring charges, including costs to maintain and exit closed facilities, as well as lease exit charges, presented net of a \$12.8 million curtailment gain

resulting from an amendment to the postretirement medical benefit plan and a \$2.4 million gain on the collection of a note receivable related to a settlement of a disputed pre-acquisition World Color Press note receivable.

Restructuring, impairment and transaction-related charges for the United States Print and Related Services segment for the year ended December 31, 2011, were \$55.3 million, consisting of: (1) \$23.0 million of employee termination charges related to workforce reductions through facility consolidations and involuntary separation programs, (2) \$12.7 million of impairment charges for machinery and equipment, (3) \$0.8 million of acquisition-related integration costs and (4) \$18.8 million of various other restructuring charges including costs to maintain and exit closed facilities, as well as lease exit charges.

International

The following table summarizes net sales, operating loss, operating margin, certain items impacting comparability and equity in earnings of unconsolidated entities within the International segment:

	Year Ended December 31,		\$ Change	% Change	
	2012	2011			
	(dollars in millions)				
	Amount	Amount			
Net Sales:					
Products	\$487.3	\$487.5	\$(0.2)	—	%
Services	8.8	11.0	(2.2)	(20.0))%
Operating Loss (including Restructuring, Impairment and Transaction-Related Charges)	(24.8)	(19.4)	(5.4)	(27.8))%
Operating Margin	(5.0)	(3.9)	N/A	N/A	
Restructuring, Impairment and Transaction-Related Charges	26.3	7.3	19.0	260.3	%
Equity in Earnings of Unconsolidated Entities	2.3	3.1	(0.8)	(25.8))%

Net Sales

Product sales for the International segment decreased \$0.2 million for the year ended December 31, 2012, compared to the year ended December 31, 2011, primarily due to a \$22 million increase in net sales in Mexico as a result of the acquisition of the Transcontinental Mexico operations, partially offset by a \$22 million, or 5%, negative impact from foreign exchange.

Operating Loss

Operating loss for the International segment increased \$5.4 million for the year ended December 31, 2012, compared to the year ended December 31, 2011, primarily due to a \$19.0 million increase in restructuring, impairment and integration expenses primarily related to the Transcontinental Mexico acquisition, partially offset by margin improvement in Poland as a result of the restructuring actions.

Restructuring, Impairment and Transaction-Related Charges

Restructuring, impairment and transaction-related charges for the International segment for the year ended December 31, 2012, were \$26.3 million, consisting of: (1) \$7.0 million of employee termination charges related to workforce reductions through facility consolidations and involuntary separation programs, (2) \$11.1 million of impairment charges for certain buildings and equipment no longer being utilized in production as a result of facility consolidations, (3) \$5.6 million of integration costs primarily related to the integration of the acquired companies and

(4) \$2.6 million of other restructuring charges.

Restructuring, impairment and transaction-related charges for the International segment for the year ended December 31, 2011, were \$7.3 million, consisting of: (1) \$3.1 million of employee termination costs related to various workforce reduction initiatives, (2) \$1.1 million of impairment charges for machinery and equipment and (3) \$3.1 million of other restructuring charges.

Equity in Earnings of Unconsolidated Entities

Investments in entities where Quad/Graphics has the ability to exert significant influence but not control are accounted for using the equity method of accounting. The Company holds a 49% ownership interest in Plural Editora e Grafica ("Plural"), a commercial printer based in São Paulo, Brazil, as well as a 50% interest in a joint venture in Chile that was acquired as part of the World Color Press acquisition. The equity in earnings of unconsolidated entities in the International segment decreased \$0.8 million for the year ended December 31, 2012, primarily due to lower earnings at Plural due to a decline in volumes related to economic slowdown in Brazil.

Corporate

The following table summarizes unallocated operating expenses presented as Corporate:

	Year Ended December 31,	
	2012	2011
	(dollars in millions)	
Operating Expenses (including Restructuring, Impairment and Transaction-Related Charges)	\$85.2	\$95.3
Restructuring, Impairment and Transaction-Related Charges	43.5	51.4

Corporate operating expenses decreased \$10.1 million for the year ended December 31, 2012, compared with the year ended December 31, 2011, primarily due to a \$7.9 million decrease in restructuring, impairment and transaction-related charges, and cost reduction activities which resulted lower in lower labor and professional service costs.

Corporate restructuring, impairment and transaction-related charges for the year ended December 31, 2012, were \$43.5 million, consisting of: (1) \$4.1 million of transaction-related charges consisting of professional service fees related to business acquisition and divestiture activities, (2) \$39.0 million of acquisition-related integration costs and (3) \$0.4 million of various other restructuring charges.

Corporate restructuring, impairment and transaction-related charges for the year ended December 31, 2011, were \$51.4 million, consisting of: (1) \$3.4 million of employee termination costs related to workforce reduction initiatives, (2) \$2.9 million of transaction-related charges incurred primarily in connection with the Transcontinental transaction, (3) \$44.9 million of acquisition-related integration costs, net of a \$15.6 million gain on the collection of a note receivable for the June 2008 sale of World Color Press' European operations and (4) \$0.2 million of various other restructuring charges.

Table of Contents

Results of Operations for the Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

Summary Results

The Company's operating income from continuing operations, operating margin, net earnings (loss) attributable to Quad/Graphics common shareholders and diluted earnings (loss) per share attributable to Quad/Graphics common shareholders for the year ended December 31, 2011, changed from the year ended December 31, 2010, as follows (dollars in millions, except per share data):

	Operating Income from Continuing Operations	Operating Margin	Net Earnings (Loss) Attributable to Quad/Graphics Common Shareholders	Earnings (Loss) Per Share Attributable to Quad/Graphics Common Shareholders—Diluted
For the Year Ended December 31, 2010	\$61.6	1.9	% \$(250.1)	\$ (6.67)
2011 Restructuring, Impairment and Transaction-Related Charges ⁽¹⁾	(114.0)	(2.6)	% (68.3)	(1.45)
2010 Restructuring, Impairment and Transaction- Related Charges ⁽²⁾	147.5	4.6	% 90.0	2.40
Increase in Interest Expense ⁽³⁾	N/A	N/A	(8.0)	(0.17)
Decrease in Income Tax Expense ⁽⁴⁾	N/A	N/A	200.5	5.35
Loss on Debt Extinguishment ⁽⁵⁾	N/A	N/A	(20.3)	(0.43)
Increase in Loss from Discontinued Operations, net of tax ⁽⁶⁾	N/A	N/A	(34.0)	(0.72)
Increase in Operating Income ⁽⁷⁾	61.8	(0.3)	% 43.3	0.69
For the Year Ended December 31, 2011	\$156.9	3.6	% \$(46.9)	\$ (1.00)

(1) Restructuring, impairment and transaction-related charges of \$114.0 million incurred during the year ended December 31, 2011, included:

- a. \$29.5 million of employee termination charges for plant closures and other workforce reductions initiatives;
- b. \$13.8 million of impairment charges related to the closure of the Stillwater, Oklahoma plant as well as for machinery and equipment at other facilities;
- c. \$2.9 million of transaction-related charges incurred primarily in connection with the Transcontinental transaction;
- d. \$45.7 million of World Color Press integration costs net of a \$15.6 million gain on the collection of a note receivable for the June 2008 sale of World Color Press' European operations; and
- e. \$22.1 million of various other restructuring charges including costs to maintain and exit closed facilities, as well as lease exit charges.

In connection with the integration of World Color Press' operations and Transcontinental's Mexican operations into Quad/Graphics, the Company expects to incur additional restructuring and integration costs in future reporting periods.

(2) Restructuring, impairment and transaction-related charges of \$147.5 million incurred during the year ended December 31, 2010, included:

a. \$26.7 million of employee termination charges related to plant closures and other various workforce reduction initiatives;

b. \$32.9 million of impairment charges on assets primarily related to the Pila, Poland, Fredericksburg, Virginia and Reno, Nevada plant closures;

Table of Contents

c. \$41.0 million of transaction-related charges incurred primarily in connection with the acquisition of World Color Press (and to a much lesser extent the 2010 acquisition of HGI Company, LLC ("HGI"));

d. \$27.8 million of World Color Press acquisition integration costs; and

e. \$19.1 million of various other restructuring charges including costs to maintain and exit closed facilities, as well as lease exit charges.

(3) Interest expense increased \$15.1 million (\$8.0 million net of tax) during the year ended December 31, 2011, to \$108.0 million. This change was due to the increased average debt levels following the World Color Press acquisition on July 2, 2010, partially offset by lower interest rates as a result of the \$1.5 billion debt financing agreement entered into on July 26, 2011.

(4) Income tax expense decreased due to the Company's change to C corporation status in July 2010, pursuant to which the Company recognized income tax expense of \$200.5 million. In connection with the July 2, 2010, acquisition of World Color Press and the public registration of the Quad/Graphics class A stock, the Company changed the tax status of certain entities within the Quad/Graphics legal structure to C corporation status under the provisions of the Internal Revenue Code. From that point forward, these entities will be subject to federal and state income taxes.

(5) The Company recognized a \$34.0 million loss on debt extinguishment in July 2011 (\$20.3 million net of tax), as part of the \$1.5 billion debt financing agreement. The \$34.0 million loss represents certain debt issuance costs associated with the new and refinanced debt that were expensed.

(6) Loss on discontinued operations, net of tax, increased \$34.0 million during the year ended December 31, 2011, to a \$38.6 million loss primarily due to a \$30.1 million increase in restructuring, impairment and transaction-related charges recognized during 2011. The 2011 restructuring, impairment and transaction-related expenses included a \$17.9 million charge to recognize a pension curtailment loss and a \$13.9 million goodwill impairment charge in the third quarter of 2011 for the pending sale of the Canadian discontinued operations due to the carrying value of the Canadian net assets exceeding the estimated fair value of the Mexican net assets acquired from Transcontinental.

(7) Operating income increased \$61.8 million primarily due to the acquisition of World Color Press and the synergy savings from the integration of World Color Press. While operating income increased, operating margin decreased due to lower operating margins in the acquired World Color Press business than that of the Company's pre-acquisition business. As part of the integration of World Color Press, the Company implemented a significant two-year restructuring program to reduce the operating and administrative cost structure of the combined company. The following discussion provides additional details.

Table of Contents

Operating Results from Continuing Operations

The following table sets forth certain information from the Company's consolidated statements of operations on an absolute dollar basis and as a relative percentage of total net sales for each noted period, together with the relative percentage change in such information between the periods set forth below:

	Year Ended December 31,				\$ Change	% Change	
	2011	2010	Amount	% of Sales			
	(dollars in millions)		Amount	% of Sales			
Net Sales:							
Products	\$3,825.6	88.5	% \$2,813.7	88.3	% \$1,011.9	36.0	%
Services	499.0	11.5	% 372.1	11.7	% 126.9	34.1	%
Total Net Sales	4,324.6	100.0	% 3,185.8	100.0	% 1,138.8	35.7	%
Cost of Sales:							
Products	2,921.7	67.6	% 2,131.1	66.9	% 790.6	37.1	%
Services	380.4	8.8	% 275.2	8.6	% 105.2	38.2	%
Total Cost of Sales	3,302.1	76.4	% 2,406.3	75.5	% 895.8	37.2	%
Selling, General & Administrative Expenses	407.0	9.4	% 303.0	9.5	% 104.0	34.3	%
Restructuring, Impairment and Transaction-Related Charges	114.0	2.6	% 147.5	4.7	% (33.5)	(22.7)	%
Depreciation and Amortization	344.6	8.0	% 267.4	8.4	% 77.2	28.9	%
Total Operating Expenses	4,167.7	96.4	% 3,124.2	98.1	% 1,043.5	33.4	%
Operating Income From Continuing Operations	\$156.9	3.6	% \$61.6	1.9	% \$95.3	154.7	%

Net Sales

Product sales increased \$1,011.9 million, or 36.0%, for the year ended December 31, 2011, compared to the year ended December 31, 2010, primarily due to \$1,061 million in additional net sales related to the World Color Press acquisition, and higher paper and byproduct sales. Partially offsetting these increases were \$49 million in net decreases primarily related to: (1) lower pricing due to continued pricing pressure from excess manufacturing capacity in the printing industry and (2) lower volumes.

Service sales, which primarily consist of imaging, logistics and distribution services, increased \$126.9 million, or 34.1%, for the year ended December 31, 2011, compared to the year ended December 31, 2010, primarily due to \$118 million in additional net sales related to the World Color Press acquisition and \$9 million in higher sales on imaging and logistics and distribution services.

Cost of Sales

Cost of product sales increased \$790.6 million for the year ended December 31, 2011, compared with the year ended December 31, 2010, primarily due to the World Color Press acquisition and increased material and freight costs. These cost increases were partially offset by acquisition synergy savings related to purchasing efficiencies realized, as well as labor cost reductions as a result of plant closures.

Cost of product sales as a percentage of product sales increased from 66.9% for the year ended December 31, 2010, to 67.6% for the year ended December 31, 2011, primarily due to increased paper sales, which are generally billed to

customers at pass-through rates, and thus represent minimal margin, and increased labor costs. Partially offsetting these increases was higher pricing on byproduct recoveries and synergy cost savings related to the World Color Press acquisition integration.

Table of Contents

Cost of service sales increased \$105.2 million for the year ended December 31, 2011, compared with the year ended December 31, 2010, primarily due to the World Color Press acquisition and higher freight and fuel costs on logistics services.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$104.0 million for the year ended December 31, 2011, compared with the year ended December 31, 2010, primarily due to the World Color Press acquisition, including the compliance and support costs associated with the Company's status as a publicly reporting entity starting on May 27, 2010. In addition, a \$9.6 million increase in provisions for doubtful accounts was recorded related to increased accounts receivable write-offs, and a \$7.1 million insurance gain recognized in 2010 that did not recur in 2011. These increases were partially offset by synergy savings from the integration of World Color Press. Selling, general and administrative expenses as a percentage of net sales decreased from 9.5% to 9.4% between years due to synergy savings from the integration of World Color Press.

Restructuring, Impairment and Transaction-Related Charges

Restructuring, impairment and transaction-related charges decreased \$33.5 million for the year ended December 31, 2011, compared with the year ended December 31, 2010, primarily due to a \$38.1 million decrease in transaction-related charges related to the acquisition of World Color Press, and a \$19.1 million decrease in impairment charges related to plant closures, partially offset by a \$17.9 million increase in World Color Press integration costs, a \$3.0 million increase in other restructuring charges and a \$2.8 million increase in employee termination charges.

Restructuring, impairment and transaction-related charges of \$114.0 million incurred in the year ended December 31, 2011, included: (1) \$29.5 million of employee termination charges for plant closures and other workforce reduction initiatives, (2) \$13.8 million of impairment charges related to the closure of the Stillwater, Oklahoma plant as well as for machinery and equipment at other facilities, (3) \$2.9 million of transaction-related charges incurred primarily in connection with the Transcontinental transaction, (4) \$45.7 million of World Color Press integration costs (net of a \$15.6 million gain on the collection of a note receivable for the June 2008 sale of World Color Press' European operations), and (5) \$22.1 million of various other restructuring charges including costs to maintain and exit closed facilities, as well as lease exit charges.

Restructuring, impairment and transaction-related charges of \$147.5 million incurred in the year ended December 31, 2010, included: (1) \$26.7 million of employee termination charges for plant closures and other workforce reduction initiatives, (2) \$32.9 million of impairment charges on assets related to the Pila, Poland, Fredericksburg, Virginia and Reno, Nevada plant closures, (3) \$41.0 million of transaction-related charges incurred primarily in connection with the acquisition of World Color Press, (4) \$27.8 million of World Color Press integration costs and (5) \$19.1 million of various other restructuring charges including costs to maintain and exit closed facilities, as well as lease exit charges.

Depreciation and Amortization

Depreciation and amortization increased \$77.2 million for the year ended December 31, 2011, compared with the year ended December 31, 2010, due to the World Color Press acquisition and increased capital expenditures related primarily to the integration of World Color Press.

Table of Contents

EBITDA and EBITDA Margin—Consolidated

EBITDA and EBITDA margin for the year ended December 31, 2011, compared to the year ended December 31, 2010, were as follows:

	Year Ended December 31,		2010		
	2011	% of Net Sales	Amount	% of Net Sales	
	(dollars in millions)				
EBITDA and EBITDA margin	\$431.7	10.0	% \$333.4	10.5	%

EBITDA increased \$98.3 million for the year ended December 31, 2011, primarily due to the World Color Press acquisition and the related synergy savings from integrating World Color Press' operations. These increases were partially offset by continued pricing pressure. EBITDA margin decreased for the year ended December 31, 2011, compared with the year ended December 31, 2010, primarily due to lower relative operating margins at the acquired World Color Press business as compared to the pre-acquisition Quad/Graphics business.

EBITDA represents net loss attributable to Quad/Graphics common shareholders, plus (i) interest expense, (ii) income tax expense and (iii) depreciation and amortization. EBITDA margin represents EBITDA as a percentage of net sales. EBITDA and EBITDA margin are presented to provide additional information regarding Quad/Graphics' performance and because both are important measures by which Quad/Graphics gauges the profitability and assesses the performance of its business. EBITDA and EBITDA margin are not measures of financial performance in accordance with GAAP. EBITDA and EBITDA margin should not be considered alternatives to net loss as a measure of operating performance or to cash flows provided by operating activities as a measure of liquidity. Quad/Graphics' calculation of EBITDA and EBITDA margin may be different from the calculations used by other companies and therefore comparability may be limited. A reconciliation of EBITDA to net loss attributable to Quad/Graphics common shareholders follows:

	Year Ended December 31,	
	2011	2010
	(dollars in millions)	
Net Loss Attributable to Quad/Graphics Common Shareholders ⁽¹⁾	\$(46.9	) \$(250.1
Interest Expense	108.0	92.9
Income Tax Expense	26.0	223.2
Depreciation and Amortization	344.6	267.4
EBITDA	\$431.7	\$333.4

(1) Net loss attributable to Quad/Graphics common shareholders includes the effects of:

- a. Restructuring, impairment and transaction-related charges of \$114.0 million and \$147.5 million for the years ended December 31, 2011 and 2010, respectively;
- b. Loss on debt extinguishment of \$34.0 million for the year ended December 31, 2011; and
Loss from discontinued operations, net of tax, was \$38.6 million and \$4.6 million for the years ended December 31, 2011 and 2010, respectively. EBITDA from discontinued operations was \$(25.6) million and \$2.4 million for the
- c. years ended December 31, 2011, and 2010, respectively, and includes restructuring, impairment and transaction-related charges of \$45.1 million and \$15.0 million for the years ended December 31, 2011 and 2010, respectively.

Table of Contents

United States Print and Related Services

The following table summarizes net sales, operating income, operating margin and certain items impacting comparability within the United States Print and Related Services segment:

	Year Ended December 31,		\$ Change	% Change	
	2011	2010			
	(dollars in millions)				
	Amount	Amount			
Net Sales:					
Products	\$3,338.1	\$2,470.5	\$867.6	35.1	%
Services	488.0	361.0	127.0	35.2	%
Operating Income (including Restructuring, Impairment and Transaction-Related Charges)	271.6	205.1	66.5	32.4	%
Operating Margin	7.1	% 7.2	% N/A	N/A	
Restructuring, Impairment and Transaction-Related Charges	55.3	55.8	(0.5	) (0.9)%

Net Sales

Product sales for the United States Print and Related Services segment increased \$867.6 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, primarily due to \$927 million in net sales related to the World Color Press acquisition and increased paper and byproduct sales. Partially offsetting these increases were \$59 million in net decreases primarily related to: (1) continued pricing pressure from excess manufacturing capacity in the printing industry, and (2) lower volumes.

Service sales for the United States Print and Related Services segment increased \$127.0 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, primarily due to \$118 million in net sales related to the World Color Press acquisition, and \$9 million in higher sales on imaging and logistics and distribution services.

Operating Income

Operating income for the United States Print and Related Services segment increased \$66.5 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, primarily due to the World Color Press acquisition and synergy savings from the integration of World Color Press (from restructuring activities described below). This increase was partially offset by increased material and freight costs, and increased selling, general and administrative costs related to the larger post-World Color Press acquisition company, compliance and support costs associated with the Company's public company status (the Company became a publicly reporting company on May 27, 2010). In addition, \$9.6 million increase in provisions for doubtful accounts was recorded related to an increase in accounts receivable write-offs, and a \$7.1 million insurance gain recognized in 2010 that did not recur in 2011.

Operating margin for the United States Print and Related Services segment decreased from 7.2% for the year ended December 31, 2010, to 7.1% for the year ended December 31, 2011, primarily due to the reasons discussed in the preceding paragraph.

Restructuring, Impairment and Transaction-Related Charges

Restructuring, impairment and transaction-related charges for the United States Print and Related Services segment for the year ended December 31, 2011, were \$55.3 million, consisting of: (1) \$23.0 million of employee termination charges for plant closures and other workforce reduction initiatives, (2) \$12.7 million of impairment charges related to the closure of the Stillwater, Oklahoma plant as well as for machinery and equipment at other facilities,

Table of Contents

(3) \$0.8 million of World Color Press integration-related charges and (4) \$18.8 million of various other restructuring charges including costs to maintain and exit closed facilities, as well as lease exit charges.

Restructuring, impairment and transaction-related charges for the United States Print and Related Services segment for the year ended December 31, 2010, were \$55.8 million, consisting of: (1) \$20.8 million of employee termination charges for plant closures and various workforce reduction initiatives, (2) \$8.5 million of impairment charges primarily related to the closures of the Reno, Nevada and Fredericksburg, Virginia plants, (3) \$10.5 million of World Color Press integration-related charges and (4) \$16.0 million of various other restructuring charges including costs to maintain and exit closed facilities, as well as lease exit charges.

International

The following table summarizes net sales, operating loss, operating margin, certain items impacting comparability and equity in earnings of unconsolidated entities within the International segment:

	Year Ended December 31,		\$ Change	% Change	
	2011	2010			
	(dollars in millions)				
	Amount	Amount			
Net Sales:					
Products	\$487.5	\$343.2	\$144.3	42.0	%
Services	11.0	11.1	(0.1)	(0.9))%
Operating Loss (including Restructuring, Impairment and Transaction-Related Charges)	(19.4)	(53.2)	33.8	63.5	%
Operating Margin	(3.9)	(15.0)	N/A	N/A	
Restructuring, Impairment and Transaction-Related Charges	7.3	33.3	(26.0)	(78.1))%
Equity in Earnings of Unconsolidated Entities	3.1	8.6	(5.5)	(64.0))%

Net Sales

Product sales for the International segment increased \$144.3 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, primarily due to \$134 million in net sales related to the World Color Press acquisition and \$14 million in net sales related to the Transcontinental Mexican acquisition.

Operating Loss

Operating loss for the International segment decreased \$33.8 million for the year ended December 31, 2011, compared to the year ended December 31, 2010, primarily due to a \$26.0 million decrease in restructuring, impairment and integration expenses and cost reductions in Poland as a result of the 2010 restructuring actions.

Restructuring, Impairment and Transaction-Related Charges

Restructuring, impairment and transaction-related charges for the International segment for the year ended December 31, 2011, were \$7.3 million, consisting of: (1) \$3.1 million of employee termination charges related to various workforce reduction initiatives, (2) \$1.1 million of impairment charges for machinery and equipment and (3) \$3.1 million of other restructuring charges.

Restructuring, impairment and transaction-related charges for the International segment for the year ended December 31, 2010, were \$33.3 million, consisting of: (1) \$3.3 million of employee termination charges related to the Pila, Poland plant closure, (2) \$24.4 million of impairment charges related to the closure of the Pila, Poland plant, (3) \$3.9 million of integration costs and (4) \$1.7 million of other restructuring charges.

Table of Contents

Equity in Earnings of Unconsolidated Entities

Investments in entities where Quad/Graphics has both the ability to exert significant influence but not control and has an ownership interest of 50% or less but more than 20% are accounted for using the equity method of accounting. The Company holds a 49% ownership interest in Plural, a commercial printer based in São Paulo, Brazil, as well as a 50% interest in a joint venture in Chile that was acquired as part of the World Color Press acquisition. The equity in earnings of unconsolidated entities in the International segment decreased \$5.5 million for the year ended December 31, 2011, primarily due to lower earnings at Plural largely attributed to start up activities associated with recently added press capacity to meet growing demand.

Corporate

The following table summarizes unallocated operating expenses presented as Corporate:

	Year Ended December 31,	
	2011	2010
	(dollars in millions)	
Operating Expenses (including Restructuring, Impairment and Transaction-Related Charges)	\$95.3	\$90.3
Restructuring, Impairment and Transaction-Related Charges	51.4	58.4

Corporate operating expenses increased \$5.0 million for the year ended December 31, 2011, compared with the year ended December 31, 2010, primarily due to the World Color Press acquisition, partially offset by a \$7.0 million decrease in restructuring, impairment and transaction-related charges. Additional corporate expenses were incurred in 2011 due to the compliance and support costs associated with the Company's new status as a publicly traded entity, which includes increased levels of administrative staff (information technology, finance, legal, human resources, treasury, internal audit and other administrative labor).

Corporate restructuring, impairment and transaction-related charges for the year ended December 31, 2011, were \$51.4 million, consisting of: (1) \$3.4 million of employee termination charges for workforce reduction initiatives, (2) \$2.9 million of transaction-related charges incurred primarily in connection with the Transcontinental transaction, (3) \$44.9 million of World Color Press integration costs (net of a \$15.6 million gain on the collection of a note receivable for the June 2008 sale of World Color Press' European operations) and (4) \$0.2 million of various other restructuring charges.

Corporate restructuring, impairment and transaction-related charges for the year ended December 31, 2010, were \$58.4 million, consisting of: (1) \$2.6 million of employee termination charges for workforce reduction initiatives, (2) \$41.0 million of transaction-related charges related primarily to the acquisition of World Color Press, (3) \$13.4 million of World Color Press integration costs and (4) \$1.4 million of various other restructuring charges.

Liquidity and Capital Resources

The Company utilizes cash flows from operating activities and borrowings under its credit facilities to satisfy its liquidity and capital requirements. The Company believes its expected future cash flows from operating activities and unused available capacity under its revolving credit facilities, net of issued letters of credit, of \$754.7 million as of December 31, 2012, provide sufficient resources to fund the \$267.4 million purchase price for the acquisition of Vertis, ongoing operating requirements and the integration and restructuring requirements related to the acquired Vertis and Transcontinental Mexican operations, as well as future capital expenditures, debt service requirements,

World Color Press single employer pension plan contributions, World Color Press MEPPs withdrawal payments, investments in future growth to create value for its shareholders and shareholder dividends. Borrowings under the \$850.0 million revolving credit facility were \$50.0 million as of December 31, 2012, and peak borrowings were \$104.9 million during the year ended December 31, 2012. The Company's borrowing capacity increased, and its ongoing cost of borrowings reduced

Table of Contents

with the execution of a \$1.5 billion debt financing agreement on July 26, 2011 (see "Description of Significant Outstanding Debt Obligations as of December 31, 2012" below).

Net Cash Provided by Operating Activities

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Net cash provided by operating activities was \$354.2 million for the year ended December 31, 2012, compared to \$371.1 million for the year ended December 31, 2011, resulting in a \$16.9 million decrease in cash provided by operating activities. The decrease was primarily due to a decrease in cash flows from the discontinued Canadian operations, which were sold on March 1, 2012, partially offset by lower working capital of \$11 million.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Net cash provided by operating activities was \$371.1 million for the year ended December 31, 2011, compared to \$152.8 million for the year ended December 31, 2010, resulting in a \$218.3 million increase. The increase in net cash provided by operating activities was primarily due to a \$203.4 million decrease in net loss and lower working capital uses of cash.

Net Cash Used in Investing Activities

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Net cash used in investing activities was \$70.1 million for the year ended December 31, 2012, compared to \$184.3 million for the year ended December 31, 2011, resulting in a \$114.2 million decrease in cash used in investing activities. The decrease was primarily due to the \$50.0 million deposit related to the Transcontinental Mexico acquisition (as further discussed in Note 3 to the consolidated financial statements). As the deposit was made in 2011 and was refunded back to the Company in 2012, the impact to cash used in investing activities was a \$100.8 million improvement. In addition, there was a \$64.8 million decrease in capital expenditures related primarily to the integration of World Color Press operations. These decreased uses of cash were partially offset by the \$18.1 million ManipalTech cost method investment entered into on March 28, 2012 and the \$25.9 million deposit made in 2012 related to the Vertis agreement to be held in escrow and applied to the purchase price upon closure of the deal.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Net cash used in investing activities was \$184.3 million for the year ended December 31, 2011, compared to \$118.1 million for the year ended December 31, 2010, resulting in a \$66.2 million increase. The increase in net cash used in investing activities was primarily due to a \$50.8 million deposit made in 2011 on the Transcontinental Mexico acquisition (as further discussed in Note 3 to the consolidated financial statements), a \$55.7 million increase in capital expenditures related primarily to the integration of World Color Press operations and a \$15.8 million increase in cash used for acquisitions. These impacts were partially offset by a \$63.1 million benefit generated from reducing restricted cash balances.

Net Cash Used in Financing Activities

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Net cash used in financing activities was \$285.6 million for the year ended December 31, 2012, compared to \$173.5 million for the year ended December 31, 2011, resulting in a \$112.1 million increase in cash used in financing

activities. The increase was primarily due to \$123.6 million increase in dividend payments due primarily to a \$93.5 million, or \$2.00 per share special dividend paid in December 2012. In addition, debt payments in 2012 increased by \$11.5 million versus 2011, as part of the Company's effort to reduce debt in 2012 (reduced total debt by \$120 million in 2012). These increases in net cash used in financing activities were partially offset by reduced debt issuance costs of

Table of Contents

\$9.4 million associated with the Company's \$1.5 billion debt financing agreement completed on July 26, 2011 and \$8.2 million in reduced purchases of class A stock under the Company's \$100 million share repurchase program.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Net cash used in financing activities was \$173.5 million for the year ended December 31, 2011, compared to \$30.1 million for the year ended December 31, 2010, resulting in a \$143.4 million increase. The increase in net cash used in financing activities was due primarily to \$109.5 million in net debt repayments in 2011, as compared to \$178.6 million in net cash borrowings in 2010, resulting in a \$288.1 million increase in net cash used in financing activities between years. Also, net cash used in financing activities increased due to a \$13.8 million reduction in the liability for unsecured notes to be issued in connection with the World Color Press bankruptcy. These increases in net cash used in financing activities were partially offset by reduced shareholder cash distributions of \$131.0 million and \$34.3 million in lower debt issuance cost payments. Shareholder cash distributions decreased in 2011 due to a \$140.0 million cash distribution made in 2010 to the Company's pre-acquisition common shareholders as part of the World Color press acquisition.

Free Cash Flow

Free Cash Flow is defined as cash flows provided by operating activities less purchases of property, plant and equipment.

The Company's management assesses Free Cash Flow as a measure to quantify cash available for (1) strategic capital allocation and deployment through investments in the business, including acquisitions, (2) strengthening the balance sheet, including debt and pension repayment, and (3) returning value to the shareholders, including dividends and share repurchases. The priorities for capital allocation and deployment will change as circumstances dictate for the business, and Free Cash Flow can be significantly impacted by the Company's restructuring activities and other unusual items, such as payments related to completing the World Color Press bankruptcy process. Free Cash Flow is a non-GAAP measure. Free Cash Flow should not be considered an alternative to cash flows provided by operating activities as a measure of liquidity. Quad/Graphics' calculation of Free Cash Flow may be different from similar calculations used by other companies and, therefore, comparability may be limited.

Free Cash Flow for the year ended December 31, 2012, compared to the year ended December 31, 2011, was as follows:

	Year Ended December 31,	
	2012	2011
	(dollars in millions)	
Net Cash Provided by Operating Activities ⁽¹⁾	\$354.2	\$371.1
Less: Purchases of Property, Plant and Equipment	(103.5	) (168.3
Free Cash Flow	\$250.7	\$202.8

(1) Net cash provided by operating activities includes:

Net restructuring payments of \$113.4 million and \$125.2 million for the years ended December 31, 2012 and 2011, respectively. Net restructuring payments include total restructuring payments, less restructuring cash receipts of ^a \$14.7 million and \$15.6 million related to collections of disputed pre-acquisition World Color Press notes receivable for the years ended December 31, 2012 and 2011, respectively.

b.

Bankruptcy payments of \$10.4 million and \$12.4 million for the years ended December 31, 2012 and 2011, respectively.

Free Cash Flow increased \$47.9 million for the year ended December 31, 2012, compared to the year ended December 31, 2011, primarily due to a \$64.8 million decrease in capital expenditures, partially offset by a \$16.9 million

Table of Contents

decrease in cash flows provided by operating activities. See the Net Cash Provided by Operating Activities section above for further explanations of the decrease in operating cash flows.

Description of Significant Outstanding Debt Obligations as of December 31, 2012

As of December 31, 2012, the Company utilized a combination of debt instruments to fund cash requirements, including:

\$1.5 Billion Debt Financing Agreement discussed further below which includes:

\$850.0 million revolving credit facility (\$50.0 million outstanding as of December 31, 2012);

\$450.0 million Term Loan A (\$444.4 million outstanding as of December 31, 2012); and

\$200.0 million Term Loan B (\$196.7 million outstanding as of December 31, 2012);

Master Note and Security Agreement (\$553.9 million outstanding as of December 31, 2012); and

Facilities Agreement – a \$91.3 million foreign currency denominated facilities agreement including both term loan and revolving credit facility components (total of \$70.1 million outstanding as of December 31, 2012).

\$1.5 Billion Debt Financing Agreement

On July 26, 2011, and as last amended on December 19, 2012, the Company entered into a \$1.5 billion debt financing agreement with certain lenders to reduce the Company's borrowing costs with lower interest rates and to create more flexibility with a higher revolving credit capacity and improvement in financial terms. The \$1.5 billion debt financing agreement includes three different loan facilities, a Term Loan A, a Term Loan B, and a revolving credit facility.

The revolving credit facility in the amount of \$850.0 million and the Term Loan A in the aggregate amount of \$450.0 million each had an initial term of five years that was extended an additional year as part of the December 19, 2012 amendment to mature on July 25, 2017. The Term Loan B in the amount of \$200.0 million has a term of seven years maturing on July 25, 2018, subject to certain required amortization. At any time when the Company's total leverage is 3.00 to 1.00 or greater, the Company is obligated to prepay the two term loan facilities from the net proceeds of asset sales, casualty losses, and certain indebtedness for borrowed money, or from a portion of its excess cash flow, subject to certain exceptions.

Borrowings under the revolving facility and Term Loan A loans made under the \$1.5 billion debt financing agreement bear interest at London Interbank Offered Rate ("LIBOR") plus 2.25%, or 1.25% in excess of an alternate base rate, and Term Loan B loans bear interest at 3.00% in excess of LIBOR, with a LIBOR floor of 1.00%, or 2.00% in excess of an alternative base rate at the Company's option.

The proceeds from the Term Loan A, Term Loan B and revolving credit facility were used to repay all outstanding balances and terminate the Company's previous \$1.23 billion debt financing agreement (which included the \$700.0 million term loan and the \$530.0 million revolving credit facility), as well as to pay the \$11.5 million of debt issuance costs incurred for the refinancing.

The \$1.5 billion debt financing agreement is secured by substantially all of the unencumbered assets of the Company. The \$1.5 billion debt financing agreement also requires the Company to provide additional collateral to the lenders in certain limited circumstances.

Table of Contents

Master Note and Security Agreement (sometimes referred to as senior notes)

On September 1, 1995, and as last amended on January 26, 2006, the Company entered into the Master Note and Security Agreement pursuant to which the Company has issued over time senior notes in an aggregate principal amount of \$1.13 billion in various tranches. These senior notes have a weighted-average interest rate of 7.49% at December 31, 2012, which is fixed to maturity, and interest is payable semiannually. Principal payments commenced September 1997 and extend through April 2036. The notes are collateralized by certain United States land, buildings and press and finishing equipment under the terms of the Master Note and Security Agreement. At December 31, 2012, the borrowings outstanding were \$553.9 million.

Facilities Agreement

On December 16, 2008, Quad/Winkowski Sp. z o.o. ("Quad/Winkowski") entered into a secured facilities agreement (the "Facilities Agreement"). The Facilities Agreement includes a Euro denominated term loan of \$75.1 million that expires on December 16, 2015 (which was used to refinance Quad/Winkowski's then existing indebtedness) and a multicurrency revolving credit facility for \$16.2 million that was renewed in 2012 and will expire on December 13, 2013, (which is used for Quad/Winkowski's working capital and general business needs). At December 31, 2012, the borrowings outstanding on the Euro denominated term loan were \$63.3 million. At December 31, 2012, the borrowings outstanding on the multicurrency revolving credit facility were \$6.8 million, leaving \$9.4 million available for future borrowings. The terms of the Facilities Agreement include a guarantee by Quad/Graphics and a security agreement that includes collateralizing substantially all of the Quad/Winkowski assets. The facilities bear interest at the aggregate of the Euro Interbank Offered Rate ("EURIBOR") or the Warsaw Interbank Offered Rate ("WIBOR") and margin. The weighted-average interest rate of the Euro denominated term loan was 2.61% at December 31, 2012. The weighted-average interest rate of the multicurrency revolving credit facility was 4.37% at December 31, 2012.

Covenants and Compliance

As of December 31, 2012, the Company's various lending arrangements included certain financial covenants (all financial terms, numbers and ratios in this Covenants and Compliance section are as defined in the Company's debt agreements). Among these covenants, the Company was required to maintain the following as of December 31, 2012 (for each covenant, the most restrictive measurement has been included below):

On a rolling twelve-month basis, the total leverage ratio, defined as total consolidated debt to consolidated EBITDA (as defined in the debt financing agreement), shall not exceed 3.50 to 1.00 (for the twelve months ended December 31, 2012, the Company's leverage ratio was 2.37 to 1.00).

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 December 31, 2012, the Company's interest coverage ratio was 7.27 to 1.00).

On a rolling twelve-month basis, the fixed charge coverage ratio, defined as consolidated EBITDA and rent expense to interest and rent expense, shall not be less than 1.50 to 1.00 (for the twelve months ended December 31, 2012, the Company's fixed charge coverage ratio was 4.35 to 1.00).

Consolidated net worth of at least \$745.8 million plus 40% of positive consolidated net income cumulatively for each year (as of December 31, 2012, the Company's consolidated net worth under the most restrictive covenant per the various debt agreements was \$1.16 billion).

In addition to those covenants, the \$1.5 billion debt financing agreement also includes certain limitations on acquisitions, indebtedness, liens, dividends and repurchases of capital stock. If the Company's total leverage ratio is greater than 3.00 to 1.00 (total leverage ratio as defined in the debt financing agreement), 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.

Table of Contents

As of and for the twelve-month period ended December 31, 2012, the Company was in compliance with all financial covenants in its debt agreements. While the Company currently expects to be in compliance in future periods with all of the financial covenants, there can be no assurance that these covenants will continue to be met. The Company's failure to maintain compliance with the covenants could prevent the Company from borrowing additional amounts and could result in a default under any of the debt agreements. Such default could cause the outstanding indebtedness to become immediately due and payable, by virtue of cross-acceleration or cross-default provisions.

Pension and Postretirement Benefit Obligations

The pension, postretirement and MEPPs benefit obligations were \$377.9 million and \$407.0 million at December 31, 2012 and 2011, respectively. The Company is focused on reducing its benefit obligation by making cash contributions to these plans, and, in 2012, made cash contributions to the pension and postretirement plans of \$51.1 million and required monthly payments to the MEPPs of \$11.2 million. The Company also announced the elimination of life insurance coverage for all current and future retirees in all locations and elimination of postretirement medical benefit coverage for all future retirees who will retire after December 31, 2012, which resulted in a reduction in postretirement benefit obligations of \$22.6 million. Partially offsetting these items was a \$51.1 million increase in unfunded liabilities due to the December 31, 2012 valuation (as a result of a decrease in the liability discount rate, net of actual 2012 asset returns).

Share Repurchase Program

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 stock. Under the authorization, share repurchases may be made at the Company's discretion, from time to time, in the open market and/or in privately negotiated transactions as permitted by federal securities laws and other legal requirements. The timing, manner, price and amount of any repurchase will depend on economic and market conditions, share price, trading volume, applicable legal requirements and other factors. The program may be suspended or discontinued at any time. There were no stock repurchases made during the year ended December 31, 2012. As of December 31, 2012, there were \$91.8 million of authorized repurchases remaining under the program.

Risk Management

For a discussion of the Company's exposure to market risks and management of those market risks, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of this Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

Except as set forth below in the Contractual Obligations and Other Commitments table and in Note 17, "Lease Obligations," to the consolidated financial statements in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K (including operating leases and future interest on debt and capital leases to be incurred), the Company has no off-balance sheet arrangements, financings or special purpose entities that the Company expects to have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources or significant components of sales or expenses.

Table of Contents

Contractual Obligations and Other Commitments