IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

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In re:	: Chapter 11
	:
VERTIS HOLDINGS, INC., et al.,	Case No. 12-12821 (MFW)
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Debtors.[1]	: Joint Administration Requested
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DECLARATION OF JEFFREY PRITCHETT IN SUPPORT
OF THE DEBTORS' CHAPTER 11 PETITIONS AND FIRST DAY PLEADINGS

I, Jeffrey Pritchett, under penalty of perjury, hereby declare that the following is true to the best of my knowledge, information, and belief:

1. I am the Interim Chief Financial Officer of Vertis, Inc. ("Vertis"). I joined Vertis in 2007 as Vice President, Financial Planning & Analysis and Treasury, and have since held other senior managerial positions, including Senior Vice President, Finance and Treasurer and Chief Financial Officer of Operations. In April 2012, I was appointed to the position of Interim Chief Financial Officer. I am also a member of the board of directors of 5 Digit Plus, LLC.

2. Before joining Vertis, I was employed by Delphi Corporation, where I served as Manager of Strategic Planning from 2005 – 2007, Manager of Mergers, Acquisitions, Planning and New Markets from 2004 – 2005, and a Senior Financial Analyst in the Treasurer's Office from 2003 – 2004. I hold a Master's Degree in Business Administration from Purdue

[1] The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are Vertis Holdings, Inc. (1556); Vertis, Inc. (8322); ACG Holdings, Inc. (5968); Webcraft, LLC (6725); American Color Graphics, Inc. (3976); Vertis Newark, LLC (6726); Mail Efficiency, LLC (4382); and 5 Digit Plus, LLC (8690). The address of the Debtors' corporate headquarters is: 250 West Pratt Street, Baltimore, MD 21201.

University, which I received in 2003, and I hold a Bachelor's Degree in Business Administration from Walsh College, which I received in 1998.

3. On the date hereof (the "Petition Date"), Vertis, its immediate parent entity and holding company Vertis Holdings, Inc. ("Vertis Holdings"), together with Vertis' direct and indirect subsidiaries ACG Holdings, Inc. ("ACG Holdings"), Webcraft, LLC ("Webcraft"), American Color Graphics, Inc. ("ACG"), Vertis Newark, LLC ("Vertis Newark"), Mail Efficiency, LLC ("Mail Efficiency"), and 5 Digit Plus, LLC ("5 Digit" and, together with Vertis Holdings, Vertis, ACG Holdings, Webcraft, ACG, Vertis Newark, and Mail Efficiency, the "Debtors"), each filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Court").[2]

4. In my capacity as Interim Chief Financial Officer of Vertis, I am familiar with the Debtors' day-to-day operations, financial condition, business affairs, and books and records. I submit this declaration (the "Declaration") to assist the Court and other parties in interest in understanding the circumstances that compelled the commencement of these chapter 11 cases (the "Cases"), and in support of (i) the Debtors' voluntary petitions for relief under chapter 11 of the Bankruptcy Code and (ii) the relief, in the form of motions and other applications, that the Debtors have requested of the Court (the "First Day Pleadings").

5. Except as otherwise indicated, all facts set forth in this Declaration are based upon my personal knowledge, my discussions with other members of the Debtors' senior

[2] The only affiliates of Vertis that are not Debtors in these Cases (as defined below) are two dormant entities with no operations or creditors and de minimis assets. These two entities, both of which are direct subsidiaries of Vertis, are Laser Tech Color Mexico S.A. de. C.V, a Mexican company, and Vertis Digital Services Ltd. (UK), a U.K. company (collectively, the "Non-Debtors"). Both of these entities have been dormant for over two years, and Vertis Digital is in the process of being dissolved. A chart depicting the organizational structure of the Debtors and Non-Debtors is attached as Exhibit A.

management, my review of relevant documents, or my opinion based upon my experience and knowledge of the Debtors' operations and financial condition. If I were called to testify, I would testify competently to the facts set forth in this Declaration. I am authorized by each of the Debtors to submit this Declaration in support of the Debtors' chapter 11 petitions and the First Day Pleadings.

6. Part I of this Declaration provides a brief description of the Debtors' businesses, organizational structure, significant secured indebtedness, and capital structure. Part II describes the circumstances giving rise to the commencement of the Cases. Part III summarizes the First Day Pleadings, which the Debtors believe are critical to the administration of the Cases, and preserving and maximizing the value of the Debtors' estates.

I. DESCRIPTION OF THE DEBTORS

A. The Debtors' Businesses

7. Vertis is a marketing communications company that delivers inventive advertising, direct marketing, and interactive solutions to prominent brands across North America. Vertis broadly operates in two business segments: (i) advertising inserts ("Inserts"), which provides customers with print products that are delivered to consumers through various publications and standalone mailings, and repurposed to the web, and (ii) direct marketing ("Direct Marketing"), where Vertis works with customers to create sophisticated marketing programs targeted to specific consumer segments or individuals through Vertis' print and digital (online) capabilities and value-added marketing services. Additional detail regarding each of these business segments is provided below.

8. Vertis serves over 1,300 customers across a wide range of industries, including grocery stores, home improvement centers, financial services, insurance companies and auto manufacturers, many of which are large and well-known Fortune 1000 companies,

including, but not limited to, American Express, Kroger, Macy's, Mutual of Omaha, Safeway, and New York Life. Vertis has a nationwide footprint of 25 strategically located manufacturing and distribution facilities throughout North America.

9. Vertis' Inserts segment provides offset print advertising, including advertising inserts, newspaper specialty sections, and print products delivered through magazines, newspapers and other publications. Examples include weekly advertisements from retailers and grocers that are inserted into newspapers, bundled and mailed to consumers' homes, delivered directly to stores and repurposed to the web. Inserts are one of the primary marketing tools used by retailers to communicate with consumers, and Vertis is one of the largest offset printers in North America and a leading provider of advertising inserts. In 2011, Vertis produced more than 34 billion advertising inserts and other products. For the year ended December 31, 2011, the Inserts segment generated revenue in the amount of $848.5 million, accounting for approximately 71.4% of Vertis' total revenue.

10. Vertis' Direct Marketing segment offers end-to-end, personalized marketing solutions for its customers through a data-driven marketing team with print and digital (online) capabilities and value-added services, including modeling, data management and analysis, target development and campaign strategy, sophisticated workflow technology systems, mail optimization and campaign effectiveness measurement. Vertis is one of North America's largest providers of personalized direct marketing programs, and the breadth of its Direct Marketing segment allows customers to cost-effectively produce any size, shape and type of campaign with the highest level of quality and service. Examples include customer loyalty programs that offer discount cards affixed to uniquely designed self-mailers as well as Vertis' all-inclusive automated New Movers Program, which allows customers to identify and market to

consumers that have recently moved into a new residence with relevant post card offers. For the year ended December 31, 2011, the Direct Marketing segment generated revenue in the amount of $284.8 million, which accounted for approximately 24.0% of Vertis' total revenue.[3]

B. Organizational Structure

11. Vertis, the entity through which the substantial majority of the Debtors' operations are performed, is a wholly-owned operating subsidiary of Vertis Holdings, the ultimate parent entity of the corporate family. Vertis Holdings does not own any assets (other than its ownership interest in Vertis), and does not conduct any operations. In turn, Vertis is the direct or indirect parent entity of each of the other Debtors.

12. Vertis operates the Inserts business segment along with the operating entity ACG. Vertis operates the Direct Marketing business segment primarily through the operating entity Webcraft, although certain operations pertaining to Direct Marketing are also conducted through Vertis.[4] In light of the integrated nature of the Debtors' business operations, the Debtors maintain consolidated books and records.

13. Each of the Debtors is incorporated or organized in Delaware, with the exception of ACG, which is incorporated in New York. Vertis' principal executive offices are located at 250 West Pratt Street, Baltimore, Maryland 21201, and its operations are located throughout North America, including a facility in Stevensville, Ontario, Canada (the

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[3] Vertis receives additional revenue from other business segments that is not included in the revenue figures set forth herein.

[4] In addition, during the fourth quarter of 2011, Vertis formed two subsidiaries, Mail Efficiency and 5 Digit, as part of a joint venture with Ray Clemmer. Mr. Clemmer serves as the CEO of 5 Digit and maintains a 19.9% ownership stake in that entity. Mail Efficiency, which is wholly owned and governed by Webcraft, owns 80.1% of the economic interests and 49.9% of the voting interests of 5 Digit, which is governed by a four-member board of directors, including Mr. Clemmer and three members from Vertis. Through this joint venture, Vertis is able to achieve higher volume requirements for direct mailings by commingling mail from multiple distributors. By doing so, Vertis and its customers benefit from lower rates on postage.

"Stevensville Facility").[5] As of the Petition Date, the Debtors employ approximately 4,423 employees across North America, including approximately 115 employees based in Canada at the Stevensville Facility.

14. For the year ended December 31, 2011, the Debtors had total revenue of approximately $1.2 billion. As of August 31, 2012, the Debtors' unaudited consolidated financial statements reflected assets of approximately $837.8 million and liabilities of approximately $814.0 million.

C. Significant Secured Indebtedness and Capital Structure

15. The Debtors are party to two prepetition secured credit facilities, which are cross-collateralized and cross-defaulted. Specifically, the Debtors are party to that certain Term Loan Credit Agreement, dated as of December 20, 2010, by and among Vertis, as borrower, Vertis Holdings and each of the other Debtors, as guarantors, Morgan Stanley Senior Funding, Inc., as administrative agent (the "Prepetition Term Loan Agent"), Morgan Stanley & Co. Incorporated, as collateral agent, and certain other lenders party thereto (as amended, the "Prepetition Term Loan Facility"). The Prepetition Term Loan Facility consists of a $425 million term loan, of which approximately $427.7 million, including accrued interest, was outstanding as of the Petition Date. The Prepetition Term Loan Facility matures on December 20, 2015, provides for quarterly principal and interest payments through the stated maturity, and is secured by a lien on substantially all of Vertis' assets and the assets of the guarantors, with a first priority lien on fixed assets, intellectual property, and capital stock (the "Term Loan Priority

[5] The Stevensville Facility is a manufacturing and distribution facility that services the Inserts business segment in both the United States and Canada, and is Vertis' only facility located outside of the United States. The Stevensville Facility accounted for approximately $23 million in revenue in 2011, and is owned and operated as a part of ACG.

Collateral") and a second priority lien on accounts receivable, inventory, maintenance parts, and cash and deposit accounts (the "Revolving Priority Collateral", and together with the Term Loan Priority Collateral, the "Prepetition Collateral").

16. The Debtors also are party to that certain Senior Secured Credit Agreement, dated as of December 20, 2010, by and among Vertis, as borrower, Vertis Holdings and each of the other Debtors, as guarantors, General Electric Capital Corporation, as agent (the "Prepetition Revolving Credit Agent"), and certain other lenders party thereto (as amended, the "Prepetition Revolving Credit Facility", and together with the Prepetition Term Loan Facility, the "Prepetition Credit Facilities").[6] The Prepetition Revolving Credit Facility provides for borrowings of up to the lesser of (i) $175 million and (ii) the borrowing base, which fluctuates daily based primarily on changes in eligible receivables and eligible inventory, subject to certain reserves. As of September 30, 2012, Vertis had drawn approximately $68.6 million under the Prepetition Revolving Credit Facility, with approximately $33.5 million of availability remaining for future borrowings. The Prepetition Revolving Credit Facility matures on November 19, 2014, and is secured by a lien on substantially all of Vertis' assets and the assets of the guarantors, with a first priority lien on the Revolving Priority Collateral and a second priority lien on the Term Loan Priority Collateral.[7]

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[6] This summary of the Prepetition Credit Facilities is provided for illustrative purposes only, and is qualified in its entirety by reference to the Prepetition Credit Facilities. Mail Efficiency and 5 Digit, formed on or about December 19, 2011, have each executed a joinder to, and guaranty of, each of the Prepetition Credit Facilities. The Non-Debtors are not obligors under the Prepetition Credit Facilities.

[7] As discussed in further detail below, the Prepetition Credit Facilities are subject to a forbearance arrangement in connection with which, among other things, the Prepetition Lenders have agreed to certain modifications of their respective collateral packages, as and to the extent set forth in the executed forbearance documents.

17. Pursuant to the Prepetition Term Loan Facility, failure to timely remit a quarterly principal and interest payment results in an immediate event of default.[8] Pursuant to the Prepetition Revolving Credit Facility, the occurrence of an event of default under the Prepetition Term Loan Facility on account of the non-payment of principal or interest when due thereunder (subject to a three (3) business day grace period with respect to the interest payment only) results in an immediate and automatic cross-default under the Prepetition Revolving Credit Facility.[9] Upon the occurrence of such an event of default under the Prepetition Revolving Credit Facility, the Debtors are unable to borrow further funds thereunder.[10]

18. The respective lien priorities of the lenders under the Prepetition Term Loan Facility (collectively, the "Term Loan Lenders") and the lenders under the Prepetition Revolving Credit Facility (collectively, the "Revolving Lenders", and together with the Term Loan Lenders, the "Prepetition Lenders") are governed by that certain Intercreditor Agreement, dated as of December 20, 2010, by and between Morgan Stanley & Co. Incorporated, as administrative agent and collateral agent for the Prepetition Term Loan Facility, and General Electric Capital Corporation, as administrative agent and collateral agent for the Prepetition Revolving Credit Facility.[11] Pursuant to the Intercreditor Agreement, among other things, the Term Loan Lenders' liens on the Term Loan Priority Collateral are senior to the liens of the Revolving Lenders on the Term Loan Priority Collateral, and conversely, the Revolving Lenders' liens on the Revolving Priority Collateral are senior to the liens of the Term Loan

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[8] See Prepetition Term Loan Facility, 7.01(b)-(c).

[9] See Prepetition Revolving Credit Facility, 7.1(b).

[10] See Prepetition Revolving Credit Facility, 2.2(b).

[11] This summary of the Intercreditor Agreement is provided for illustrative terms only, and is qualified in its entirety by reference to the Intercreditor Agreement.

Lenders on the Revolving Priority Collateral. Additionally, the Intercreditor Agreement limits the Prepetition Lenders' exercise of rights or remedies with respect to any Prepetition Collateral on which they hold a second lien, and imposes certain conditions and restrictions on the Prepetition Lenders' respective rights to seek adequate protection, consent to the use of their cash collateral, and provide debtor in possession financing to the Debtors.

19. Vertis Holdings, the ultimate parent entity within the Debtors' closely held organizational structure, is a private company. As of the date hereof, Vertis Holdings has issued approximately eighteen million (18,000,000) shares of common stock in two series, which shares appear to be widely held among approximately 300 persons or entities. Based upon the records of the Debtors' transfer agent, Computer Share, as of the Petition Date, the Debtors' largest stockholders include affiliates of Alden Global Capital, affiliates of Troob Capital Management, Citigroup Global Markets Inc., and Barclays Bank PLC (holding approximately 36.9%, 14.7%, 11.6%, and 8.2%, respectively, of Vertis Holdings' issued and outstanding shares of common stock).

20. As of the Petition Date, each of the boards of directors (the "Boards of Directors") of Vertis Holdings and Vertis is comprised of four (4) directors: (i) Eugene I. Davis of PIRINATE Consulting Group, LLC (Chairman); (ii) Michael Alexander of Moorgate Partners; (iii) Michael Allen, formerly of Leveler Protective Technology; and (iv) Martin Wade of Broadcaster Inc.

II. KEY EVENTS LEADING TO COMMENCEMENT OF THE CASES

A. Prior Chapter 11 Cases

21. The Debtors have commenced voluntary chapter 11 proceedings on two prior occasions, due to circumstances very different from those that have compelled the Debtors' commencement of these Cases. The Debtors' prior chapter 11 cases are closed.

22. Specifically, in July 2008, Vertis and certain of its affiliates commenced prepackaged chapter 11 cases in the United States Bankruptcy Court for the District of Delaware to effectuate a strategic merger with American Color Graphics, and to address Vertis' highly leveraged capital structure and the maturity of its then-outstanding credit agreements. However, despite the successful consummation of Vertis' prepackaged plan, the company emerged from bankruptcy amidst the capital markets crisis that ultimately precipitated the global economic downturn. This market turmoil significantly impaired the success of Vertis' reorganization plan, leaving the company overly leveraged and unable to service its restructured obligations.

23. Accordingly, in late 2009 and continuing into 2010, the Debtors attempted a further de-leveraging of their capital structure, launching a series of exchange offers. The Debtors, however, were unable to obtain sufficient levels of participation in the exchange offers. Accordingly, after months of unsuccessful attempts to consummate the exchange offers, the Debtors refocused their efforts in the fall of 2010 on implementing a restructuring transaction, either in-court or out-of-court, by year end. These efforts culminated in the Debtors' second prepackaged chapter 11 cases, commenced in November 2010 in the United States Bankruptcy Court for the Southern District of New York.

24. Through the Debtors' second prepackaged plan, which became effective on December 20, 2010, the Debtors eliminated over $700 million of debt from their balance

sheet, and raised approximately $100 million from the sale of equity in the reorganized enterprise. In addition, pursuant to the prepackaged plan the Debtors entered into two secured credit exit facilities – which facilities are the Prepetition Revolving Credit Facility and the Prepetition Term Loan Facility in these Cases.

B. Recent Liquidity and Operational Concerns

25. Vertis' 2010 recapitalization and prepackaged bankruptcy provided the company with some flexibility to reinvest in its operations and focus on strategic growth opportunities. However, notwithstanding Vertis' successful completion of its 2010 restructuring, the company, like other industry participants, has faced strong headwinds since 2011 as trends in the marketing and communications sector and the economy at large have imposed greater constraints on profit margins. Vertis is not immune to these market forces. Indeed, rising raw material costs, persisting soft economic conditions, and intense pricing competition among Vertis' key competitors have yielded higher expenses and lower revenues than anticipated. Industry participants experienced significant ink, paper, and freight inflation costs, most of which could not be passed along to customers due to increased pricing competition in the market.

26. Additionally, broader economic challenges have continued to constrict customers' marketing budgets, resulting in excess capacity and fierce competition in the marketing and communications industry. Further, customers have continued to move away from print marketing to more measurable forms of media, exacerbating market overcapacity issues in the traditional print media space, where the majority of Vertis' revenues are derived. The cumulative effect of these pressures, in addition to tight leverage test covenants under the Prepetition Credit Facilities, has made it difficult for Vertis to perform within its current financial and capital structure, and, in fact, has resulted in a paradigmatic shift in the business

model upon which Vertis' capital structure assumptions were predicated, including significant adjustments to capital expenditures.

27. Compounding the problems presented by these difficult broader market conditions, and notwithstanding the dedicated efforts of Vertis' management and sales force, Vertis has suffered a handful of key customer losses throughout the last year, due to the sheer competitiveness and substantial overcapacity of Vertis' marketplace, as well as customer concerns about Vertis' financial stability. Specifically, in August 2011, one of Vertis' largest customers that had previously utilized Vertis for the vast majority of its outsourced advertising insert services decided to significantly diversify its supplier base, resulting in a substantial loss of revenue for 2012.[12] In addition, during the fourth quarter of 2011, Vertis suffered a handful of additional customer losses, particularly with respect to its Inserts customers, which although not widespread, resulted in further downward revenue forecasts. This sustained negative trend in revenue forecasts magnified Vertis' existing liquidity constraints, as Vertis' ability to borrow funds under the Prepetition Revolving Credit Facility is largely dependent upon the level of Vertis' actual revenues through customer receivables (*i.e.*, the borrowing base).

28. Further exacerbating Vertis' liquidity problems, certain of Vertis' vendors contracted trade terms in response to growing unease in the marketplace and unfortunate media reporting of highly sensitive information concerning Vertis' forecasts, outlook, and review of strategic alternatives. Vertis' projected 2012 EBITDA, adjusted for restructuring and transaction-related expenditures, is $53.4 million, down from $113.1 million in 2011 due to price reductions, commodity inflation in the Direct Marketing and Inserts businesses, and several customer losses.

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[12] Notably, many of Vertis' contracts do not contain volume commitments.

C. Restructuring Discussions and Forbearance Agreement

29. In light of the imminent first quarter principal and interest payment due under the Prepetition Term Loan Facility, as well as the rising swell of customer and vendor anxiety, in early 2012, Vertis approached the Prepetition Term Loan Agent to initiate discussions regarding a potential consensual restructuring of the Prepetition Term Loan Facility, and to request that the Term Loan Lenders organize a steering committee or other informal group through which to engage in direct restructuring negotiations with Vertis. Subsequently, Vertis was advised by the Prepetition Term Loan Agent that Term Loan Lenders collectively holding approximately 70% of the outstanding indebtedness under the Prepetition Term Loan Facility had organized and retained legal and financial advisors (the "Required Term Lenders").

30. Throughout February and the beginning of March 2012, Vertis' restructuring negotiations with the Required Term Lenders progressed. Simultaneously, Vertis commenced restructuring discussions with the Prepetition Revolving Credit Agent on behalf of the Revolving Lenders. In an effort to move restructuring discussions forward, on March 13, 2012, the Boards of Directors appointed a three-member restructuring committee (the "Restructuring Committee") to oversee Vertis' restructuring process. The Restructuring Committee is comprised of three members from the Boards of Directors, with Eugene Davis named as Chairman.

31. After a review of strategic alternatives and extensive, good faith, and arm's-length negotiations regarding a consensual path forward premised upon a long-term solution to Vertis' capital structure and liquidity challenges, Vertis, in consultation with the Required Term Lenders, the Prepetition Revolving Agent, and the Revolving Lenders,

determined that an orderly sale of Vertis' assets would likely provide the most effective and efficient means to maximize the value of Vertis for the benefit of all stakeholders.

32. To that end, as of March 30, 2012, the Required Term Lenders entered into that certain Forbearance Agreement; Waiver; Consent; and Second Amendment to the Term Loan Credit Agreement (the "Term Forbearance"), and the Revolving Lenders entered into that certain Forbearance Agreement; Waiver; Consent; and Third Amendment to the Senior Secured Credit Agreement (the "Revolving Forbearance", and together with the Term Forbearance, as amended, the "Forbearance Agreements"). Pursuant to the Forbearance Agreements, the Required Term Lenders and the Revolving Lenders agreed to, among other things, forbear from exercising their default-related rights, remedies, powers, and privileges against Vertis and the other parties to the Prepetition Credit Facilities with respect to certain events of default, including, among others, Vertis' failure to make the principal payment due and payable under the Prepetition Credit Facilities on March 30, 2012 and the interest payment due and payable under the Prepetition Credit Facilities on April 2, 2012, subject to Vertis' (i) implementation of a marketing and sale process with respect to substantially all of its assets (the "Sale Process"); (ii) compliance with certain marketing and sale milestones; (iii) adherence to certain financial covenants; and (iv) provision of certain financial reporting to the Required Term Lenders and the Revolving Lenders. The Forbearance Agreements also required Vertis to appoint a chief restructuring officer who would report to the Restructuring Committee and the Board of Directors (the "CRO"). On April 2, 2012, the Debtors appointed Andrew Hede of Alvarez & Marsal North America, LLC as CRO; Mr. Hede continues to serve in this capacity.

D. Strategic Review and Sale Process[13]

33. In compliance with the milestones set forth in the Forbearance Agreements, the Debtors commenced the Sale Process in April 2012. At the same time, the Debtors continued to conduct an analysis of all potential strategic alternatives to maximize value to all stakeholders.

34. In the two-month period that followed, Vertis, through its investment banker and financial advisor Perella Weinberg Partners LP ("PWP"), solicited expressions of interest from in excess of 70 strategic and financial investors. This extensive effort resulted in the execution of over 15 nondisclosure agreements with potential bidders, many of which conducted due diligence with respect to Vertis' assets. Several of these interested parties submitted initial bids in June 2012 for substantially all of Vertis' assets, or specific pieces of Vertis' business. After a review of the initial bids, Vertis, in consultation with the Required Term Lenders, the Prepetition Revolving Agent and the Revolving Lenders, selected preferred bidders and continued the Sale Process by providing draft sale documents only to those selected preferred bidders. In July 2012, Vertis received second round bids from the selected bidders.

35. Ultimately, in consultation with the Required Term Lenders, the Prepetition Revolving Agent, and the Revolving Lenders, the Debtors determined that a sale of

[13] On the date hereof, the Debtors are filing the "Motion of the Debtors for Entry of (I) an Order (A) Authorizing and Approving Bidding Procedures in Connection with the Sale of Substantially all of the Debtors' Assets, (B) Authorizing and Approving Stalking Horse Protections, (C) Authorizing and Approving Procedures Related to the Assumption and Assignment of Executory Contracts and Unexpired Leases in Connection with the Sale, (D) Scheduling Auction and Sale Approval Hearing, (E) Approving the Form and Manner of the Notice of Sale Hearing, and (F) Granting Certain Related Relief, and (II) an Order (A) Approving the Sale of Substantially all of the Debtors' Assets, (B) Authorizing the Assumption and Assignment of Certain Executory Contracts and Unexpired Lease in Connection with the Sale, and (C) Granting Certain Related Relief" (the "Sale Motion"), which includes extensive discussion of the prepetition marketing and Sale Process. This summary of the marketing and Sale Process is qualified by reference to the Sale Motion.

substantially all their assets would be the most value-maximizing strategic alternative, and that Quad/Graphics Inc. ("Quad") had submitted the highest and best offer to purchase substantially all of the Debtors' assets. Subsequently, on August 14, 2012, Vertis and Quad executed that certain Exclusivity Agreement, pursuant to which Quad was afforded a 49-day period to conduct further due diligence, and the Debtors agreed not to solicit any competing bids during such period.

36. During this exclusive period, Quad completed its due diligence review of Vertis' businesses and those assets and liabilities of Vertis that Quad has determined to purchase (the "Acquired Assets and Liabilities"), and Quad and Vertis engaged in extensive negotiations regarding the terms and conditions of an asset purchase agreement (together with all exhibits and schedules thereto and as may be improved upon by Quad at any auction conducted in accordance with the sale-related filings, the "Stalking Horse Agreement") in respect of the sale of the Acquired Assets and Liabilities to Quad, as well as various related documents, so as to designate Quad as the "Stalking Horse Bidder" in connection with the sale of the Acquired Assets and Liabilities to Quad pursuant to a section 363 sale in these Cases.[14]

37. On October 10, 2012, the Debtors and Quad, with the consent of the Required Term Lenders and the Revolving Lenders, entered into the Stalking Horse Agreement. In addition, simultaneously, Vertis, certain of the Prepetition Lenders (the "Consenting Lenders"), and the Stalking Horse Bidder entered into a Sale Support Agreement (the "Sale Support Agreement"), which generally obligates each Consenting Lender to support the sale to

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[14] As a result of continuing negotiations with Quad, the milestones in the Forbearance Agreements related to the execution of definitive acquisition documentation and consummation of the sale have been extended with the consent of the Prepetition Lenders.

Quad and forego from taking certain actions that may interfere with such sale, subject in all respects to the terms and provisions of the Sale Support Agreement.

38. Pursuant to the Stalking Horse Agreement, Quad has agreed to purchase the Acquired Assets and Liabilities on the following terms, among others:[15]

- **Acquired Assets and Liabilities**: Quad will purchase substantially all of the Debtors' assets and assume the liabilities associated with those assets, with specific exclusions and limitations as set forth more fully in the Stalking Horse Agreement.

- **Purchase Price.** The purchase price is an amount equal to the sum of (i) $258,500,000, and (ii) the amount of the Working Capital Adjustment (as defined and provided for in the Stalking Horse Agreement) (the "Purchase Price").

- **Agreements with Management.** Quad shall offer employment to those officers or employees of the Debtors whose duties relate primarily to the operation of the business and who are actively employed as of the date immediately prior to the closing date, and who are selected by Quad in its sole discretion, which offers shall be on the terms set forth in the Stalking Horse Agreement.

- **Closing and Other Deadlines.** The Debtors are required to (i) file the Sale Motion with the Court as promptly as practicable following execution of the Stalking Horse Agreement (but no later than three (3) business days after execution of the Stalking Horse Agreement), and use commercially reasonable efforts to have the Court enter the order approving the bidding procedures within twenty-five (25) days from the Petition Date, subject to the availability of the Court (and only to the extent permitted by the relevant provisions of the Bankruptcy Rules and the Local Rules), and (ii) use commercially reasonable efforts to obtain entry by the Court of an order approving the Sale Motion no later than sixty (60) days after the Petition Date (or as soon thereafter as the Court's schedule permits in the event that the Debtors timely moved the Court to enter the order approving the Sale Motion by the aforementioned deadline).

- **Good Faith Deposit**. On the date of execution of the Stalking Horse Agreement, Quad shall provide a good faith deposit in the amount $25,850,000, which equals 10% of the Purchase Price, by wire transfer of immediately available funds, which deposit shall be held by the escrow agent in trust and distributed to Quad in accordance with the terms of the Stalking Horse Agreement.

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[15] This summary is qualified in its entirety by reference to the Stalking Horse Agreement and the Sale Support Agreement.

- **Credit Bid**. Pursuant to the Sale Support Agreement, any Consenting Lender, or any Agent under the Prepetition Credit Facilities acting on behalf of or at the direction of such Consenting Lender, shall not be prohibited from (a) credit bidding or allowing all or any portion of its claim related to the Prepetition Credit Facilities to be part of a credit bid; provided, however, that no Consenting Lender, or any Agent under the Prepetition Credit Facilities acting on behalf of or at the direction of such Consenting Lender, shall be permitted to credit bid in connection with the sale or any alternative transaction if the Stalking Horse Agreement has not been (i) terminated in accordance with its terms or (ii) amended (except with respect to amendments to the Disclosures Schedules of the Stalking Horse Agreement that are required or expressly permitted pursuant to the terms and conditions thereof) in a manner that is adverse to the lenders under the Prepetition Term Loan Facility or the lenders under the Prepetition Revolving Credit Facility without the consent of the Consenting Lenders, it being agreed that the prohibition on credit bidding will survive the termination of the Sale Support Agreement as more specifically provided for in the Sale Support Agreement.

39. In conjunction with the filing of the Cases, and in compliance with the Stalking Horse Agreement, Vertis has filed the Sale Motion seeking, among other things, approval of bidding procedures that set the deadline and requirements for submitting a competing, qualified bid, the procedures for conducting an auction, if any, and the criteria for determining the highest and otherwise best qualified bid for the assets.

E. Continuing Liquidity Pressures Facing the Debtors

40. Throughout Vertis' prepetition restructuring efforts, Vertis has continued to face increased liquidity constraints and mounting pressures. Notwithstanding the concerted efforts of Vertis and its advisors to preserve and protect critical customer and vendor relationships, Vertis has experienced additional customer losses and trade credit contraction. As a result, and given the fact that sale negotiations had extended for a prolonged period, Vertis engaged the Required Term Lenders and the Revolving Lenders at the beginning of September 2012 to negotiate an amendment to the Forbearance Agreements – in order to ensure sufficient liquidity to complete negotiations with Quad, commence these Cases in an orderly fashion, and avoid the negative consequences of a "free fall" bankruptcy filing.

41. These negotiations culminated in the execution on September 14, 2012 of amendments to the Forbearance Agreements and Intercreditor Agreement, pursuant to which, among other things, (i) the Revolving Lenders received $25 million of Term Loan Priority Collateral; (ii) the Revolving Lenders and the Required Term Lenders consented to the sale of Vertis' prepress packaging equipment, data files, and certain related assets to SGS International, Inc. (which sale closed on September 17, 2012); and (iii) the Revolving Lenders and the Required Term Lenders have waived certain financial defaults under the Forbearance Agreements attributable to the liquidity problems encountered by Vertis.

42. As a result, the Debtors, with the support of the Required Terms Lenders and the Revolving Lenders, have successfully finalized the Stalking Horse Agreement prior to the commencement of these Cases, and have initiated these proceedings to implement the agreed-upon Sale Process, thereby maximizing value for the benefit of all economic stakeholders.

43. In anticipation of the finalization of the Stalking Horse Agreement and the attendant commencement of the Cases, Vertis consulted with PWP regarding postpetition financing, as Vertis' financial projections indicated that Vertis lacked the liquidity necessary to administer the Cases, fund ordinary course operations during the pendency of the Cases, and consummate the Sale Process in chapter 11. Accordingly, the Debtors and PWP identified the Prepetition Lenders as the most likely source of postpetition financing, given the Prepetition Lenders' liens on substantially all of Vertis' assets, their history with Vertis, and their support of the Sale Process, as memorialized in the Sale Support Agreement, and engaged in negotiations with respect to a proposed postpetition financing facility (the "DIP Facility") with General

Electric Capital Corporation as the DIP agent (the "DIP Agent").[16] After extensive negotiations with the DIP Agent, Vertis ultimately concluded that the proposed DIP Facility is the best postpetition financing option available to Vertis. Accordingly, on the date hereof, the Debtors have filed a motion seeking approval of the DIP Facility, which, subject to any budgets approved therewith, will provide sufficient liquidity to allow Vertis to implement the Sale Process, operate its businesses in the ordinary course, and fund the orderly administration of the Cases.

III. SUMMARY OF THE FIRST DAY PLEADINGS

44. Concurrently with the filing of their chapter 11 petitions, the Debtors have filed a number of First Day Pleadings, which the Debtors believe are necessary to enable them to operate in chapter 11 with a minimum of disruption and loss of productivity in order to preserve and maximize the value of the Debtors' estates while the Debtors and their advisors conduct the Sale Process. The Debtors respectfully request that the Court grant the relief requested in the First Day Pleadings as this relief is critical in stabilizing and facilitating the Debtors' operations during the pendency of the Cases. A description of the relief requested and the facts supporting each of the First Day Pleadings is set forth below. Any capitalized term not expressly defined in this Part III shall have the meaning ascribed to that term in the relevant First Day Pleading.

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[16] At the same time, to ensure that any postpetition financing provided Vertis with the most favorable terms available in the market (taking into account all relevant factors including, but not limited to, the Debtors' ability to obtain approval of the proposed postpetition financing on a consensual basis and avoid any distraction or unnecessary administrative cost in connection with the approval process), PWP, at Vertis' request, commenced a process to survey the market for other potential sources for postpetition financing, including unrelated third parties that could potentially have an interest in providing such financing to Vertis, as described in more detail in the motion filed simultaneously herewith seeking approval of the DIP Facility.

A. Motion of Debtors for Entry of an Order Directing Joint Administration of Chapter 11 Cases (the "Joint Administration Motion")

45. By the Joint Administration Motion, the Debtors seek joint administration of their Cases for procedural purposes only. Most, if not all, of the motions, applications and other pleadings that will be filed in the Cases will relate to relief sought jointly by all of the Debtors. Joint administration will allow the Cases to be administered as a single case, rather than multiple independent cases. Joint administration will also eliminate the need for duplicative notices, motions, applications, orders, and other pleadings, thereby saving considerable time and expense for the Debtors and their estates, as well as creditors and other parties in interest. The Court will also be relieved of the administrative burden of entering duplicative orders and maintaining duplicative files and dockets. Moreover, joint administration will protect parties in interest by ensuring that they will be apprised of the various motions before the Court with respect to each of the Cases, and simplify the supervision of the administrative aspects of the Cases by the United States Trustee (the "U.S. Trustee").

46. Joint administration will not adversely affect the rights of the Debtors' respective creditors because the Joint Administration Motion requests only the administrative consolidation of the Debtors' estates and as such, each creditor may still assert a claim against a particular estate. In fact, creditors' rights will be enhanced by the reduction in costs resulting from joint administration.

47. Accordingly, I believe that joint administration of the Cases is in the best interests of the Debtors, their estates and creditors, and all parties in interest.

B. Application of Debtors for Entry of an Order Appointing Kurtzman Carson Consultants LLC as Claims and Noticing Agent *Nunc Pro Tunc* to the Petition Date (the "KCC Application")

48. By the KCC Application, pursuant to 28 U.S.C. § 156(c), the Debtors request entry of an order appointing Kurtzman Carson Consultants LLC ("KCC") as claims and noticing agent of the Court nunc pro tunc to the Petition Date. The Debtors have hundreds of potential creditors and other parties in interest in their chapter 11 cases. Although the office of the Clerk of the United States Bankruptcy Court for the District of Delaware (the "Clerk's Office") ordinarily would serve notices on the Debtors' creditors and other parties in interest and administer claims against the Debtors, the Clerk's Office may not have the resources to undertake such tasks, especially in light of the size of the Debtors' creditor body and the expedited timelines that frequently arise in chapter 11 cases. KCC is a nationally recognized specialist in chapter 11 administration and has vast experience in noticing and claims administration in other chapter 11 cases of this size and complexity.

49. I believe that the appointment of KCC as claims and noticing agent in the Debtors' cases will expedite service of notices, streamline the claims administration process, and permit the Debtors to focus on their reorganization efforts. Accordingly, I propose to appoint KCC to act as the claims and noticing agent in these cases.

C. Motion of Debtors for Entry of an Order (I) Extending Time for Debtors to File Schedules and Statements and (II) Waiving the Requirement to File Financial Reports Pursuant to Bankruptcy Rule 2015.3 (the "Schedules Motion")

50. By the Schedules Motion, the Debtors seek entry of an order (i) extending the time by which the Debtors must file their schedules of assets and liabilities, schedules of current income and current expenditures, schedules of executory contracts and unexpired leases, and statements of financial affairs pursuant to section 521 of the Bankruptcy Code and

Bankruptcy Rule 1007 (collectively, the "Schedules and Statements") through and including December 10, 2012, and (ii) waiving the requirement to file periodic reports of financial information with respect to certain entities in which the Debtors' estates hold a controlling or substantial interest pursuant to Bankruptcy Rule 2015.3 (collectively, the "2015.3 Reports").

51. Completing the Schedules and Statements will require the Debtors and their employees and advisors to collect, review, and assemble copious amounts of information. I believe that given the amount of work entailed in completing their Schedules and Statements, and the competing demands upon the Debtors' personnel to address critical operational matters during the initial postpetition period, the Debtors will not be in a position to properly and accurately complete the Schedules and Statements within the required 30-day period. Nevertheless, recognizing the importance of the Schedules and Statements in these chapter 11 cases, the Debtors intend to complete the Schedules and Statements as quickly as possible under the circumstances, and request that the Court extend the deadline by when the Debtors must file their Schedules and Statements through and including December 10, 2012.

52. Furthermore, cause exists to waive the requirement that the Debtors file 2015.3 Reports. There are only two entities in which the Debtors have a substantial or controlling interest for purposes of Bankruptcy Rule 2015.3 that are not publicly traded corporations and are not debtors under the Bankruptcy Code – Vertis Digital Services Ltd. and Laser Tech Color Mexico S.A. de C.V. Both of these entities have been dormant for over two years, and Vertis Digital Services Ltd. is in the process of being dissolved. These entities also have no operations, employees, creditors, or assets, except for two bank accounts in Mexico with de minimis balances. I believe that requiring the Debtors to prepare and submit 2015.3 Reports for these two entities is an unnecessary burden on their limited resources.

53. Accordingly, I believe that the relief requested in the Schedules Motion is in the best interests of the Debtors, their estates and creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption.

D. Motion of Debtors for Entry of an Order Enforcing Protections of Sections 362, 365(e)(1), and 525 of the United States Bankruptcy Code (the "Enforcement Motion")

54. By the Enforcement Motion, the Debtors seek entry of an order articulating and confirming (i) the automatic stay imposed by section 362 of the Bankruptcy Code, (ii) the anti-termination and anti-modification provisions of section 365(e)(1) of the Bankruptcy Code, and (iii) the protections against discriminatory treatment contained in section 525 of the Bankruptcy Code.

55. The Debtors operate in various locations across North America, including the United States and Canada, and have domestic and foreign vendors, suppliers, and customers. Currently, the Debtors operate a Stevensville Facility in Ontario, Canada. Consequently, numerous customers, suppliers, creditors, and other stakeholders reside outside of the United States and may not be familiar with U.S. bankruptcy law. I believe that the relief requested in the Enforcement Motion will help alleviate confusion regarding the effect of these Cases on the Debtors and their foreign and domestic operations and will maximize the protections afforded by sections 362, 365, and 525 of the Bankruptcy Code, particularly because the automatic and self-executing nature of the these protections may not be recognized by foreign creditors or tribunals unless embodied by an order of this Court.

56. Accordingly, I believe that the relief requested in the Enforcement Motion is in the best interests of the Debtors, their estates and creditors, and all other parties in interest.[17]

E. Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing Continued Use of Existing Cash Management System and Bank Accounts and (II) Granting Waiver of Certain U.S. Trustee Requirements (the "Cash Management Motion")

57. By the Cash Management Motion, the Debtors seek entry of (i) an interim order (a) authorizing the Debtors to continue to operate their centralized cash management system (the "Cash Management System") and bank accounts (the "Bank Accounts") located at various banks (the "Banks") or modify the Cash Management System and/or Bank Accounts if and when directed by the Banks, (b) granting the Debtors a waiver of certain bank account and related requirements of the Office of the United States Trustee, and (c) authorizing the Debtors to continue their existing deposit practices under the Cash Management System (subject to any reasonable changes to the cash management system that the Debtors may implement), and (ii) entry of a final order granting this relief on a final basis.

58. As part of the relief requested in the Cash Management Motion, and to ensure that their transition into chapter 11 is as smooth as possible, the Debtors seek entry of orders authorizing the Debtors to, among other things, (i) maintain and continue to use the Bank Accounts in the same manner and with the same account numbers, styles, and document forms as are currently employed, (ii) deposit funds in, and withdraw funds from, the Bank Accounts by all usual means, including checks, wire transfers, ACH transfers, drafts, electronic fund transfers, or other items presented, issued, or drawn on the Bank Accounts, (iii) pay ordinary course bank fees

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[17] In the event of disruption to the Debtors' Canadian business following the Petition Date, the Debtors may seek appropriate relief in Canada in the form of, among other things, a proceeding pursuant to Part IV of the Companies' Creditors Arrangement Act, for recognition in Canada of orders entered in these Cases.

in connection with the Bank Accounts, (iv) perform their obligations under the documents and agreements governing the Bank Accounts, and (v) treat the Bank Accounts for all purposes as accounts of the Debtors in their capacities as debtors in possession, and deeming the Bank Accounts to be "debtor in possession" accounts.

59. Further, the Debtors are seeking a 60 day extension of the time to comply with section 345(b) of the Bankruptcy Code to the extent the Bank Accounts do not already comply with section 345(b) of the Bankruptcy Code. The Debtors believe that "cause" exists pursuant to section 345(b) of the Bankruptcy Code to extend the time to comply with the requirements of the statute because it is unclear whether compliance with section 345(b) is necessary in these Cases. During the 60-day period, the Debtors will engage the U.S. Trustee in discussions to determine if further compliance with section 345(b) is necessary.

60. The continued use of the Cash Management System and the Bank Accounts during the pendency of these Cases is essential to the Debtors' business operation. The Debtors employ the Cash Management System and Bank Accounts to maximize efficiencies and the value of their businesses, and to collect, transfer, and disburse the funds generated by their collective operations. Through the use of the Cash Management System and Bank Accounts, the Debtors are able to collect and transfer cash efficiently to satisfy their financial obligations. The Cash Management System and Bank Accounts facilitate the Debtors' cash forecasting and reporting and enable the Debtors to monitor the collection and disbursement of funds and maintain control over the administration of their accounts at the Banks. As a practical matter, it would be extremely burdensome and expensive to establish and maintain a different cash management system and bank accounts. Accordingly, the Debtors request to continue the Cash Management System and the Bank Accounts without disruption.

61. Without the relief requested, I believe the Debtors would be unable to effectively and efficiently maintain their financial operations. Such result would cause significant harm to the Debtors' businesses and the value of their estates. Accordingly, I believe that the relief requested is in the best interests of the Debtors, their estates and creditors, and all parties in interest.

F. Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing, But Not Directing, the Debtors to Pay (A) Certain Employee Compensation and Benefits and (B) Maintain and Continue Such Benefits and Other Employee-Related Programs and (II) Directing Financial Institutions to Honor and Process Checks and Transfers Related Thereto (the "Employee Wages and Benefits Motion")

62. By the Employee Wages and Benefits Motion, the Debtors seek entry of (i) an interim order (a) authorizing, but not directing, the Debtors, in their sole discretion and in the exercise of their business judgment, as deemed necessary to continue to operate and preserve value, and subject to the DIP Facility and any orders entered by the Court with respect to the DIP Facility, to (1) pay all prepetition wages, salaries, commissions, certain other compensation, and related administration and other costs incident to the foregoing (collectively, the "Compensation Obligations") and prepetition employee benefits, which include, among other things, vacation, sick leave, personal time off, leaves of absence, healthcare, pension, insurance, retirement, and other welfare benefits, reimbursable business expenses, and related administration and other costs incidental to the foregoing (collectively, the "Employee Benefit Obligations"), (2) withhold all federal, state, local, and foreign taxes relating to the Compensation Obligations and Employee Benefit Obligations as required by applicable law, (3) pay all employment, unemployment, social security, and similar federal, state, local and foreign taxes relating to the Compensation Obligations and Employee Benefit Obligations, whether withheld from wages or paid directly by the Debtors to governmental authorities (collectively, "Payroll Taxes"), and make other payroll

deductions, including but not limited to, retirement and other employee benefit plan contributions, union dues, garnishments, and voluntary deductions (collectively with the Payroll Taxes, the "Payroll Deduction Obligations," and collectively with the Compensation Obligations and Employee Benefit Obligations, the "Prepetition Employee Obligations"), and (4) continue and honor their prepetition programs, policies, and practices with respect to the Prepetition Employee Obligations in the ordinary course of business, and (b) directing all financial institutions to receive, honor, process, and pay any and all checks and wire transfers drawn on the Debtors' accounts[18] in satisfaction of the Prepetition Employee Obligations, and (ii) entry of a final order granting this relief on a final basis.

63. As of the Petition Date, the Debtors estimate that the Prepetition Employee Obligations total approximately $9.1 million, of which $7.5 million (the "Interim Amount") will become due and owing during the 21 days following the Petition Date. Accordingly, the Debtors request entry of an interim order, authorizing, but not directing, the Debtors to pay Prepetition Employee Obligations in an aggregate amount not to exceed the Interim Amount, followed by entry of a final order authorizing, but not directing, the Debtors to pay all other Prepetition Employee Obligations.

64. The success of these Cases depends on the retention and cooperation of the Debtors' employees. Any delay or failure to pay wages, salaries, benefits, and other similar items would irreparably impair the employees' morale, dedication, confidence, and cooperation and would adversely impact the Debtors' relationship with their employees. At this early stage, the Debtors simply cannot risk the substantial damage and potential value destruction to their

[18] Concurrently herewith, the Debtors have filed a motion for authority to, among other things, continue using their cash management system.

businesses that would inevitably follow as a result of any trained and knowledgeable employee seeking employment elsewhere, particularly in the months leading up to the holiday season, which is typically considered Vertis' busy season. Consequently, it is critical that the Debtors be authorized to satisfy their Prepetition Employee Obligations and continue their ordinary course Employee Benefits Obligations in effect as of the Petition Date.

65. Moreover, if the checks issued and fund transfers requested in payment of the Prepetition Employee Obligations are dishonored, or if such Prepetition Employee Obligations are not timely paid during the postpetition period, the Debtors' employees could suffer extreme personal hardship, including, in some instances, being unable to pay their daily living expenses. It would also be inequitable to require the Debtors' employees to bear personally the cost of any business expenses they incurred prepetition, for the benefit of the Debtors, with the understanding that they would be reimbursed.

66. Accordingly, I believe that payment of all Prepetition Employee Obligations in accordance with the Debtors' prepetition business practices will enable the Debtors to retain qualified employees and is in the best interests of the Debtors, their estates and creditors, and all parties in interest.

G. Motion of Debtors for Entry of an Interim and Final Orders (I) Prohibiting Utilities From Altering, Refusing, or Discontinuing Service, (II) Approving Debtors' Proposed Form of Adequate Assurance of Payment to Utilities, and (III) Establishing Procedures For Resolving Objections to Debtors' Proposed Form of Adequate Assurance (the "Utilities Motion")

67. By the Utilities Motion, the Debtors seek (i) entry of an interim order (a) prohibiting utilities, as that term is used in section 366 of the Bankruptcy Code ("Utility Companies"), from altering, refusing, or discontinuing services to, or discriminating against, the Debtors solely on the basis of the commencement of the Cases, a debt owed by the Debtors for services rendered prior to the Petition Date, or on account of any perceived inadequacy of the

Debtors' proposed adequate assurance of payment to Utility Companies for postpetition services, (b) approving the Debtors' proposed adequate assurance of payment to Utility Companies for postpetition services, subject to the DIP Facility and any budgets approved in connection therewith, and (c) approving procedures for resolving objections to the Debtors' proposed adequate assurance of payment to Utility Companies for postpetition services, and (ii) entry of a final order granting the requested relief on a final basis.

68. In connection with the operation of their businesses and management of their properties, the Debtors obtain electricity, natural gas, water, telephone services, including mobile phone services, and/or other similar services. Should any Utility Company refuse or discontinue service, even for a brief period, the Debtors' business operations would be severely disrupted, irreparably damaging the Debtors' production supply, vendor relationships, and revenue stream to the detriment of all parties in interest.

69. The Debtors project that they will have sufficient cash on hand to timely pay all undisputed postpetition obligations owed to the Utility Companies during these Cases. Nevertheless, within 30 days after the Petition Date, the Debtors propose to provide additional assurance of payment to each Utility Company listed on the Utility Services List for postposition Utility Services by placing a cash deposit equal to two weeks of Utility Services, based on the two-week historical average over the last 12 months (the "Utility Deposit"), into a newly-created, interest-bearing segregated account (the "Utility Deposit Account") for the benefit of any Utility Company, unless such Utility Company (i) agrees in writing to a lesser amount, or (ii) already holds a deposit or letter of credit equal to or greater than two weeks of Utility Services. The Utility Deposit Account will be held in escrow pending further order of the Court,

and the creditors of the Debtors shall have no interest in, or lien on, the Utility Deposit or the Utility Deposit Account.

70. I believe that the Utility Deposit, together with the Debtors' ability to pay for future Utility Services in the ordinary course of business, should provide the Utility Companies with the assurance they need and enable the Debtors to continue to operate their businesses in chapter 11 without disruption to their Utility Services. I further believe that the procedures for requesting additional assurance of payment as set forth in the Utilities Motion provide the Utility Companies with a fair and orderly process for seeking modification of the Proposed Utility Deposit while protecting the Debtors from being forced to address numerous additional adequate assurance requests in a disorganized manner and at a time when the Debtors' efforts could be more productively focused on the seamless continuation of their operations.

71. Accordingly, I believe that the relief requested in the Utilities Motion is in the best interest of the Debtors, their estates and creditors, and all parties in interest.

H. Motion of Debtors for Entry of Interim and Final Orders Authorizing, But Not Directing, the Debtors to Honor Prepetition Customer Obligations (the "Customer Programs Motion")

72. By the Customer Programs Motion, the Debtors seek (i) entry of an interim order authorizing, but not directing, the Debtors to continue the Debtors' various customer programs and policies (collectively, the "Customer Programs") and honor, at the Debtors' sole discretion, subject to the DIP Facility and any budgets approved in connection therewith, their prepetition obligations under the Customer Programs (collectively, the "Customer Obligations"), provided that cash payments on account of Customer Obligations shall not exceed $19.1 million within the 21 days following the Petition Date, and (ii) entry of a final order granting this relief on a final basis, including authorizing, but not directing, the Debtors to honor all other Customer Obligations; provided, however, that cash payments on account of

Customer Obligations shall not exceed $29.6 million, subject to the DIP Facility and any budgets approved in connection therewith.[19]

73. Prior to the Petition Date, in the ordinary course of business and as is customary in the printing, advertising, and marketing industries, the Debtors implemented the Customer Programs, which are designed to ensure customer satisfaction, drive sales, meet competitive pressures, develop and sustain customer relationships and loyalty, improve profitability, and generate goodwill for the Debtors and their products and services. These Customer Programs are vital to the Debtors' efforts to preserve and maximize value for the Debtors' stakeholders and the success of these Cases.

74. Specifically, the Debtors seek to continue four Customer Programs related to the Inserts business segment that cater flexibly to the needs of their diverse customer base: (i) the Prebate Program, (ii) the Insert Rebate Program, (iii) the electronic pre-press program, and (iv) the "Vertis Bucks" program. The Debtors are also seeking to continue a rebate program with respect to their Direct Mailing operations.

75. Further, the Debtors seek to continue two Customer Programs that require the remittance of customer deposits to a third party vendor: the Direct Mail Postage Program and the Media Placement Payment Program. Pursuant to the Direct Mail Postage Program, the Debtors supply direct mailing products and services and arrange for the delivery of mailing inserts with the United States Postal Office (the "USPO") to a customer's distribution list by a specified date certain. Customers remit the amount due for postage charges to the Debtors, and the Debtors remit such funds to the USPO to ensure proper and timely processing of the

[19] These cash payments relate solely to the Direct Mail Postage Program and the Media Placement Payment Program, as described in more detail below.

customer's mailings. Pursuant to the Media Placement Payment Program, the Debtors seek out and obtain media placement opportunities with various newspapers or mail vendors throughout the United States and Canada for advertisements and inserts relating to their customers' businesses. The Debtors operate their media placement business pursuant to a payment program whereby the Debtors directly pay newspapers or mail vendors from funds previously provided to the Debtors by the Debtors' customers for that specific purpose. These remittance programs provide a business synergy and convenience for the Debtors' customers because the Debtors handle all aspects of the mailings or placements of advertisements or inserts, including payment to the vendors.

76. Additionally, as part of their cash management system, the Debtors maintain several disbursement and funding accounts at Bank of America, N.A. and a disbursement account at The Royal Bank of Canada (collectively, the "Disbursement Accounts"). The Debtors draw upon funds in their Disbursement Accounts to satisfy obligations arising from the Customer Programs. The Debtors request the Court to authorize Bank of America, N.A. and The Royal Bank of Canada to receive, process, honor, and pay all checks, drafts, transfers, or other forms of payment drawn or issued on the Disbursement Accounts prior to the Petition Date in respect of such Customer Programs (or to re-issue checks, drafts, transfers or other forms of payment drawn or issued on the Disbursement Accounts, as may be necessary), and authorize the banks and financial institutions to rely on the representations of the Debtors as to which checks, drafts, transfers or other forms of payment drawn or issued on the Disbursement Accounts are subject to Customer Programs Motion, provided that sufficient funds are on deposit in the applicable bank accounts to cover such payments.

77. Programs similar to the Customer Programs and the maintenance of the Disbursement Accounts are standard practice in the Debtors' industry, and customers have come to expect such programs from industry participants, including the Debtors. Thus, the Debtors' inability to honor their Customer Programs would place them at a considerable competitive disadvantage and imperil the value of the Debtors' businesses. At this critical juncture, the Debtors cannot risk any loss of customer support, confidence, or development as a result of the Debtors' failure to honor prepetition obligations to customers. Moreover, the resulting benefit to the Debtors' estates of continued customer satisfaction and loyalty during the pendency of these chapter 11 cases far exceed the cost of continuing the Customer Programs and honoring the prepetition obligations thereunder.

78. Accordingly, I believe that continuing the Customer Programs and the maintenance of the Disbursement Accounts in the ordinary course of the Debtors' business and performing and honoring prepetition obligations arising under the Customer Programs is in the best interest of the Debtors, their estates and creditors, and all parties in interest.

I. Motion of Debtors for Entry of an Order (I) Granting Administrative Expense Status to Debtors' Undisputed Obligations to Vendors Arising From Postpetition Delivery of Goods and Services Ordered Prepetition and (II) Authorizing Debtors to Satisfy Such Obligations in the Ordinary Course of Business (the "Administrative Expense Motion")

79. By the Administrative Expense Motion, the Debtors seek entry of an order (i) granting administrative priority status to all undisputed obligations of the Debtors owed to vendors and suppliers (collectively, the "Vendors") arising from the postpetition delivery of goods and services ordered prior to the Petition Date and (ii) authorizing the Debtors to satisfy such obligations in the ordinary course of business, subject to the DIP Facility and any budgets approved in connection therewith.

80. In connection with the normal operation of their businesses, the Debtors rely on various Vendors to provide the Debtors with the goods and services necessary for the Debtors' production and distribution of their products to customers. As of the Petition Date, the Debtors have certain prepetition purchase orders (the "Prepetition Orders") outstanding with various Vendors for goods and services ordered by the Debtors. As a consequence of the commencement of these Cases, Vendors may be concerned that the obligations arising from goods shipped or services ordered prepetition and delivered postpetition pursuant to the Prepetition Orders will be treated as general unsecured claims against the Debtors' estates.

81. Without the benefit of an order authorizing the Debtors to pay for postpetition deliveries of goods and services ordered prepetition, Vendors may refuse to ship such goods (or may recall shipments) or perform services unless the Debtors issue substitute purchase orders postpetition. This is particularly true for Vendors located in foreign jurisdictions, which are even less familiar with the intricacies of chapter 11 and a debtor's authority to satisfy certain obligations in the ordinary course. This disruption to the continuous flow of goods and services to the Debtors could adversely affect the Debtors' ability to maintain and control the production and delivery of their products, and thus negatively impact the value of the Debtors' estates during the pendency of these Cases.

82. Accordingly, I believe that the relief requested in the Administrative Expense Motion is essential, appropriate, and in the best interests of the Debtors, their estates and creditors, and all parties in interest.

J. Motion of Debtors for Entry of Interim and Final Orders Authorizing, But Not Directing, the Debtors to Pay Certain Prepetition Taxes and Granting Related Relief (the "Taxes Motion")

83. By the Taxes Motion, the Debtors seek (i) entry of an interim order authorizing, but not directing, the Debtors to pay, subject to the DIP Facility and any budgets

approved in connection therewith, prepetition sales, use, income, franchise, property and annual report fees, business license fees and other taxes and fees, and all other similar obligations, including any penalties and interest with respect thereto (collectively, the "Taxes") to various federal, state and local authorities (collectively, the "Taxing Authorities"), as such Taxes come due in the ordinary course of the Debtors' business, in an amount not to exceed $250,000 during the 21 days following the Petition Date, and (ii) entry of a final order authorizing, but not directing, the Debtors to pay all other Taxes in an aggregate amount not to exceed $2,100,000, subject to the DIP Facility and any budgets approved in connection therewith.

84. Payment of the Taxes is critical to the Debtors' continued, uninterrupted operations. Nonpayment of Taxes may cause the respective Taxing Authorities to take precipitous action, including, but not limited to, preventing the Debtors from conducting business in applicable jurisdictions where Taxes are unpaid, seeking increased audits, seeking to lift the automatic stay and perhaps imposing liens, all of which would be disruptive to the Debtors' operations and detrimental to all parties in interest. Moreover, to the extent that the Taxes are secured by liens on the Debtors' property, interest as well as penalties may continue to accrue even after the Petition Date. The Debtors submit that payment of such amounts may actually reduce the amounts ultimately paid to the Taxing Authorities because prompt payment will avoid the imposition of liens and accrual of interest and penalties with respect to the Taxes.

85. Importantly, certain of the Taxes are collected by the Debtors on behalf of the applicable Taxing Authority and are held in trust by the Debtors for the benefit of such Taxing Authority. As such, I am informed by counsel that these funds do not constitute property of the Debtors' estates pursuant to section 541 of the Bankruptcy Code, and therefore, such funds are not available for the satisfaction of creditors' claims.

86. Furthermore, many federal, state, local, and foreign statutes impose personal liability on officers and directors of companies for nonpayment of such "trust fund" taxes or other tax obligations owed by such entities. To the extent that the relevant Taxes remain unpaid by the Debtors, the Debtors' directors, officers, and executives may be subject to lawsuits or criminal prosecution during the pendency of these Cases. Any such lawsuit or criminal prosecution (and the ensuing potential liability) would distract the Debtors and their officers, directors, and executives from devoting their full attention to the Debtors' business and the orderly administration of these Cases, and would thus materially and adversely impact the value of the Debtors' estates.

87. The Debtors submit that the payment of Taxes as they come due will preserve the value and inure to the benefit of the Debtors and their estates and will not prejudice any parties in interest. Indeed, claims for unpaid Taxes will be accorded priority treatment under section 507(a)(8) of the Bankruptcy Code. Thus, the relief requested merely expedites the treatment and distribution that is afforded to such claims thereby doing no violence to the priority scheme of the Bankruptcy Code and will avoid the cost of paying any additional accrued amounts to which the Taxing Authorities may be entitled.

88. Accordingly, I believe that the relief requested in the Taxes Motion is in the best interests of the Debtors, their estates and creditors, and all parties in interest, and will enable the Debtors to continue to operate their business in an economic and efficient manner without disruption.

K. Motion of Debtors for Entry of Interim and Final Orders Authorizing, But Not Directing, the Debtors to (I) Maintain Existing Insurance Programs and Pay All Policy Premiums and Brokers' Fees Arising Thereunder or In Connection Therewith and (II) Continue Insurance Premium Financing Programs and Pay Insurance Premium Financing Obligations Arising Thereunder or In Connection Therewith (the "Insurance Motion")

89. By the Insurance Motion, the Debtors seek (i) entry of an interim order authorizing, but not directing, the Debtors to maintain their existing and legacy workers' compensation programs (the "Workers' Compensation Programs") and various liability, property, directors' and officers' liability, and other insurance policies and related agreements obtained by one or more of the Debtors (collectively, the "General Insurance Programs", and together with the Workers' Compensation Programs, the "Insurance Programs") from several third-party insurance carriers (collectively, the "Insurance Carriers"), and to pay, subject to the DIP Facility and any budgets approved in connection therewith, prepetition premiums, deductibles, retrospective adjustments, expenses, administrative fees, taxes, and brokers' fees arising under, or in connection with, the Insurance Programs (the "Insurance Obligations"), in an amount not to exceed $157,000 during the first 21 days following the Petition Date, plus any additional amounts due and owing under the Workers' Compensation Programs, and (ii) entry of a final order granting the relief requested herein on a final basis, including authorizing, but not directing, the Debtors to pay all other Insurance Obligations in an aggregate amount not to exceed $157,000, plus any additional amounts due and owing under the Workers' Compensation Programs, subject to the DIP Facility and any budgets approved in connection therewith.

90. To the extent any of the Debtors' employees hold valid claims under the Workers' Compensation Program, the Debtors also seek authorization to modify the automatic stay of section 362 of the Bankruptcy Code, to the extent applicable, to permit these employees to proceed with their claims under the Workers' Compensation Program and for the Debtors'

insurers and third party claims administrators to adjust, settle and/or pay such claims. This modification of the automatic stay pertains solely to claims under the Workers' Compensation Program. Any claims relating to any of the General Insurance Programs or otherwise will remain subject to the automatic stay.

91. In addition, the Debtors request that (i) the interim order also authorize, but not direct, the Debtors to continue their insurance premium financing agreements (the "PFAs") and, to the extent necessary, pay prepetition insurance premium financing obligations ("Premium Financing Obligations") owed by the Debtors on account of such PFAs in an amount not to exceed $128,000 during the 21 days following the Petition Date, and (ii) the final order authorize, but not direct, the Debtors to continue their PFAs, enter into new PFAs, and, to the extent necessary, pay all other Premium Financing Obligations owed by the Debtors on account of such PFAs in an aggregate amount not to exceed $384,000, subject to the DIP Facility and any budgets approved in connection therewith.

92. The nature of the Debtors' businesses and the extent of their operations make it essential for the Debtors to maintain their Insurance Programs on an ongoing and uninterrupted basis. The nonpayment of any premiums, deductibles, or related fees, including the Premium Financing Obligations, under one of the Insurance Programs could result in one or more of the Insurance Carriers terminating their existing policies, declining to renew their insurance policies, or refusing to enter into new insurance agreements with the Debtors in the future, which would cause immediate and irreparable harm to the Debtors and the value of their estates.

93. Moreover, applicable state law mandates that the Debtors maintain workers' compensation coverage for their employees. Failure by the Debtors to pay the

premiums associated with their Workers' Compensation Programs would jeopardize their coverage and expose the Debtors to substantial liability in fines by various state workers' compensation boards. The guidelines established by the U.S. Trustee also obligate the Debtors to remain current with respect to certain of their primary Insurance Programs.

94. The risk that eligible workers' compensation claimants will not receive timely payments for prepetition employment-related injuries could have a devastating effect on the financial well-being and morale of the Debtors' current employees. The retention of the Debtors' qualified and dedicated senior management is also linked to the continued effectiveness of the directors' and officers' liability insurance policies. Departures by the Debtors' employees at this critical time may result in a severe disruption of the Debtors' businesses with a substantially adverse impact on the Debtors and the value of their estates. Therefore, the continuation or renewal of the Insurance Programs, on an uninterrupted basis, and the payment of all prepetition and postpetition Insurance Obligations arising under the Insurance Programs, are essential to preserve and maximize the value of the Debtors' estates.

95. Accordingly, I believe that the relief requested in the Insurance Motion is in the best interest of the Debtors, their estates and creditors, and all parties in interest.

L. Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Obtain Postpetition Senior Secured Financing, (B) Use Cash Collateral, (C) Grant Priming Liens, Priority Liens, and Superpriority Claims to DIP Lenders, and (D) Provide Adequate Protection to Prepetition Secured Parties, and (II) Granting Related Relief (the "DIP Motion")

96. By the DIP Motion, the Debtors respectfully request that the Court (a) authorize the Debtors, on an interim basis pending a final hearing and entry of a final order, to (i) obtain postpetition senior secured financing up to an aggregate principal amount of $150,000,000 pursuant to the DIP Facility; provided that, although the total $150,000,000 commitment under the DIP Facility shall be made available on the closing date, during such

interim period, the Debtors shall be permitted to use only such amounts as are consistent with the budget approved in connection with the DIP Motion and the relevant credit agreement (the "DIP Credit Agreement"), (ii) use cash collateral ("Cash Collateral"), (iii) grant priming liens and superpriority claims to the lenders under the DIP Facility (the "DIP Lenders"), and (iv) provide adequate protection to the Prepetition Lenders, (b) authorize the Debtors, on a final basis, to (i) obtain postpetition senior secured financing up to an aggregate principal amount of $150,000,000 pursuant to the DIP Facility, (ii) use cash collateral, (iii) grant priming liens and superpriority claims to the DIP Lenders, and (iv) provide adequate protection to the Prepetition Lenders, (c) schedule the final hearing, and (d) grant related relief, in each case, on the terms and subject to the conditions described in the DIP Motion and set forth in the proposed interim and final orders and the DIP Credit Agreement.

97. The Debtors have been and are unable to obtain sufficient financing without granting priming liens pursuant to section 364(d) of the Bankruptcy Code. Despite their concerted efforts, the Debtors did not find a lender or lender group, within the timeframe necessitated by the Debtors' liquidity needs and the sale process, willing to extend (i) unsecured credit pursuant to 364(a) or (b) of the Bankruptcy Code, allowable under section 503(b)(1) as an administrative expense or (ii) credit in exchange for the grant of a superpriority administrative expense claim pursuant to section 364(c)(1) of the Bankruptcy Code. Similarly, the Debtors' efforts to procure postpetition financing or other financial accommodations from any other prospective lender on terms and conditions more favorable than the proposed DIP Facility, and within the necessary timeframe, proved unsuccessful. Accordingly, the Debtors propose to obtain the financing set forth in the DIP Credit Agreement by providing, among other things,

superpriority claims, security interests, and liens pursuant to sections 364(c)(1), (2), (3), and (d) of the Bankruptcy Code.

98. Having determined that postpetition financing is available only under sections 364(c) and (d) of the Bankruptcy Code, the Debtors negotiated extensively with the DIP Agent and the Prepetition Lenders, in good faith and at arm's length, regarding the DIP Facility, the use of Cash Collateral, and adequate protection. The Debtors and their advisors understood that the proposed DIP Facility was the only viable alternative available to avoid a value-destructive, disorderly liquidation of their assets. In light of these limitations, the Debtors have successfully negotiated postpetition financing on the best and most realistic terms available. The circumstances of the Cases necessitate postpetition financing under section 364(c) and (d) of the Bankruptcy Code, and the DIP Facility reflects the sound exercise of the Debtors' business judgment.

99. In addition to the DIP Facility, the Debtors require the use of Cash Collateral in order to ensure that they have the liquidity necessary to implement the Sale Process, and fund their ordinary course business operations and the administration of the Cases. Without authority to use Cash Collateral, the Debtors' liquidity needs will not be satisfied, jeopardizing the Debtors' ability to conduct an efficient and effective sale process in accordance with the timeline set forth in the Stalking Horse Agreement, and, ultimately, their ability to maximize value for the benefit of all parties in interest. Thus, the use of Cash Collateral is imperative to the success of the Cases.

100. Approval of the DIP Facility and the use of Cash Collateral will enable the Debtors to pursue approval of the sale of its assets without delay and in accordance with the tight timeline required under the Stalking Horse Agreement, while satisfying their current and

ongoing operating expenses, including postpetition wages and salaries, utilities, taxes, and vendor costs. Absent the requisite financing, the Debtors' operations would come to an immediate halt, resulting in irreparable harm to their businesses, their going concern value, and ultimately, their ability to pursue a sale of substantially all of their assets – a course of action that the Debtors and the Prepetition Lenders believe to be the most expeditious and effective means of maximizing the value of the Debtors' estates.

101. Accordingly, I believe that the relief requested in the DIP Motion is in the best interest of the Debtors, their estates and creditors, and all parties in interest.

CONCLUSION

For the reasons stated herein and in each of the First Day Pleadings, the Debtors respectfully request that the Court enter orders approving the First Day Pleadings.

Jeffrey Pritchett

Dated: October 10, 2012
Wilmington, Delaware

EXHIBIT A

Corporate Structure