Recent Developments

On July 23, 2010, Vertis announced its intention to (i) seek a new $425.0 million first lien first out term loan with a syndicate of lenders (the "*First Out Term Loan*") and (ii) seek a new $150.0 million first lien second out term loan with a syndicate of lenders (the "*Second Out Term Loan*" and, together with the First Out Term Loan, the "*New Term Loans*"), thereby updating certain previously disclosed components of the Refinancing Transactions. In connection with this update, Vertis expects to use the net proceeds from the New Term Loans and to draw approximately $56.9 million in borrowings under a new $190.0 million senior secured asset-based revolving credit facility (the "*New Revolving Credit Facility*" and, together with the New Term Loans, the "*Senior Credit Facilities*") to fund certain elements of the Refinancing Transactions. See "Sources and Uses" in this Supplement. As a result of the changes to the Refinancing Transactions and the other information contained herein, Vertis has determined to reinstate withdrawal rights in the Exchange Offer and Consent Solicitation for a limited period of time (see "Reinstatement of Withdrawal Rights" below). Vertis reserves the right to amend or modify one or more components of the Refinancing Transactions without providing withdrawal rights in addition to those provided herein, so long as its total first lien indebtedness outstanding does not exceed $800 million upon consummation of the Refinancing Transactions. Such future amendments or modifications may include, without limitation, increasing or decreasing the size of either or both of the New Term Loans, utilizing an Early Settlement Date (as hereinafter defined), replacing either or both of the New Term Loans with senior secured notes, offering one or more series of notes, entering into one or more credit facilities, changing the size of the New Revolving Credit Facility or the amount of borrowings incurred thereunder, waiving or decreasing minimum participation conditions to consummate the Exchange Offer or the Senior PIK Notes Offer (as hereinafter defined), changing intercreditor provisions or changing the aggregate amount of first lien indebtedness or changing the covenants contained in the first lien indebtedness, so long as such first lien indebtedness outstanding does not exceed $800 million in the aggregate upon consummation of the Refinancing Transactions.

The New Term Loans are expected to mature five years after the consummation of the Refinancing Transactions or earlier upon the occurrence of certain other events set forth in the documents governing the New Term Loans. In addition, the documents governing the First Out Term Loan are expected to provide for mandatory prepayments (which may be at specified prepayment premiums) based on excess cash flow, asset sales, incurrence of additional indebtedness and issuance of equity and to contain one or more financial maintenance ratios, including one or more leverage ratios and a fixed charge coverage ratio. The documents governing the Second Out Term Loan may also provide for certain mandatory prepayments which may be at specified prepayment premiums. Additionally, the documents governing each of the New Term Loans may provide for optional prepayment of the loans at specified prepayment premiums and are expected to include negative covenants which will restrict certain activities and conduct of Vertis and certain of its subsidiaries, including payment of dividends on, and redemptions and repurchases of equity interests and making other restricted payments, prepayments, redemptions and repurchases of indebtedness, incurring additional liens, indebtedness and guarantees, and engaging in mergers, acquisitions and asset dispositions. There can be no assurance that these covenants will not change as a result of the syndication efforts.

The interest rate applicable to the First Out Term Loan is expected to equal either, the London interbank offered rate (subject to a floor of 2.0%) plus 9.0%, or an alternate base rate plus 8.0% (the alternate base rate being the highest of (i) the prime rate, (ii) the federal funds rate plus 0.5% and (iii) one-month London interbank offered rate plus 1.0%). The interest rate applicable to the Second Out Term Loan is expected to be fixed at 12.5%. There can be no assurance that these assumed interest rates will not change as a result of the syndication efforts.

The New Term Loans and the related guarantees will be secured by (i) a first priority lien on substantially all of Vertis' assets and the assets of Vertis Holdings, Inc. ("*Holdings*") (which will not guarantee the New Notes) and Vertis' subsidiaries (the "*Term Loan Collateral*"), except for certain current and other related assets (the "*Revolver Collateral*" and, together with the Term Loan Collateral, the "*Collateral*"), that will secure the New Revolving Credit Facility on a first priority basis and (ii) a second priority lien on the Revolver Collateral. The $425.0 million First Out Term Loan and the $150.0 million Second Out Term Loan will share the same liens on the Collateral, but the lenders under the First Out Term Loan will have the right to be paid before lenders of the Second Out Term Loan from any proceeds of such Collateral pursuant to the distribution provisions of the first lien collateral trust agreement (the "*First Lien Collateral Trust Agreement*") which will be entered into among Vertis and the other credit parties named therein, the first lien collateral trustee and the administrative agents under the New Term Loans. Subject to the limitations in the Exchange Offer and Consent Solicitation, the New Term Loans will be guaranteed by substantially all of Vertis' subsidiaries and Holdings. As further described below and in the Offering Memorandum, the lien on the Collateral securing the New Notes will be junior in priority to the liens securing the obligations under the New Term Loans and the New Revolving Credit Facility.

The first lien intercreditor agreement (the "*First Lien Intercreditor Agreement*"), which will be entered into and/or acknowledged, as applicable, by Vertis and the other credit parties named therein, the first lien collateral trustee and the revolving agent named therein, and the First Lien Collateral Trust Agreement will provide that if there is a default and foreclosure, sale or other realization upon the Term Loan Collateral by the first lien collateral trustee, the proceeds received by the first lien collateral trustee from such foreclosure, sale or other realization upon the Term Loan Collateral will be used first to satisfy all indebtedness classified as "first out" obligations under the First Lien Collateral Trust Agreement (including, without limitation, the First Out Term Loan and all obligations related thereto), and second, to satisfy all indebtedness classified as "second out" obligations under the First Lien Collateral Trust Agreement (including, without limitation, the Second Out Term Loan and all obligations related thereto). Once such obligations have been satisfied in full, all indebtedness under the New Revolving Credit Facility and all obligations related thereto must also be satisfied in full before any remaining proceeds from the Term Loan Collateral would be available for any distribution to the trustee on behalf of the holders of the New Notes, pursuant to certain intercreditor arrangements between the trustee under the New Notes and the applicable parties under any first lien indebtedness. The First Lien Intercreditor Agreement and the First Lien Collateral Trust Agreement will also provide that holders of indebtedness classified as "first out" obligations under the First Lien Collateral Trust Agreement (including, without limitation, the First Out Term Loan) will have the right to be paid before holders of indebtedness classified as "second out" obligations under the First Lien Collateral Trust Agreement (including, without limitation, the Second Out Term Loan) from proceeds of the Revolver Collateral to the extent that obligations under the New Revolving Credit Facility and all obligations related thereto (other than obligations under the New Revolving Credit Facility in excess of the specified maximum balances thereof) are satisfied in full. Any remaining proceeds from a sale of the Collateral may not be sufficient to satisfy the obligations under the New Notes and the related guarantees. If the Collateral securing the New Notes and the related guarantees is insufficient to satisfy the obligations under the New Notes, the related guarantees and other *pari passu* secured obligations, then holders of the New Notes would have a general unsecured claim against Vertis' remaining assets, which claim would be effectively subordinated to indebtedness secured by other assets of Vertis to the extent of the value of the collateral securing such other secured indebtedness. See "Risk Factors—Risks Related to the New Notes" and "Description of New Notes—Security" in the Offering Memorandum. There can be no assurance that there will not be further amendments or modifications to the intercreditor provisions relating to the first lien indebtedness and Vertis may do so without providing withdrawal rights in addition to those provided herein.

Vertis intends to use the net proceeds of the New Term Loans and borrowings under the New Revolving Credit Facility to (i) repay all of the amounts outstanding (other than amounts owed to Avenue Investments, L.P. (together with its affiliates, "*Avenue*")) under Vertis' existing approximately $414.0 million (as of June 30, 2010) term loan (the "*Existing Term Loan*"), (ii) repay all outstanding borrowings under Vertis' existing revolving credit facility (the "*Existing Revolving Credit Facility*"), (iii) fund the cash portion of the consideration in the Exchange Offer and (iv) pay fees and expenses related to the Refinancing Transactions. The substantially concurrent consummation of the Refinancing Transactions or replacement transactions, including our entry into the New Term Loans, is a condition to the consummation of the Exchange Offer and Consent Solicitation. See "Sources and Uses" in this Supplement.

<u>Sources and Uses</u>

The estimated cash sources and uses of funds for the Refinancing Transactions, assuming "pro forma minimum" participation (as described below), are set forth in the following table (in millions). The table does not include the Senior Pay-in-Kind Notes due 2014 (the "*Senior PIK Notes*") because we will not pay or receive any funds in connection with Vertis' related offer to exchange and purchase its Senior PIK Notes (the "*Senior PIK Notes Offer*"), except for the payment by us of any cash consideration, which will be funded solely through the Avenue Stock Purchase (as hereinafter defined) and our payment of the consent fee, which, assuming the pro forma minimum, would be $0.3 million in the aggregate. The table also does not include the PIK Option Notes Exchange, including the retirement of the portion of the Existing Term Loan held by Avenue. The actual amounts set forth in the table are subject to adjustment and may differ at the time of the consummation of the Exchange Offer and the other Refinancing Transactions, depending on several factors, including differences from our estimated transaction fees and expenses, the actual date of settlement of the Refinancing Transactions, any changes made to the sources of the contemplated debt financings and whether participants in the Exchange Offer and/or the Senior PIK Notes Offer exercise withdrawal rights or the participation levels in the Exchange Offer and/or the Senior PIK Notes Offer otherwise change. For more information on the significant impact the Refinancing Transactions will have on our capital structure, balance sheet and interest expense, see "Capitalization" and "Unaudited Pro Forma Combined Financial Statements" in this Supplement.

Sources(1)		**Uses(1)**	
New Revolving Credit Facility	$56.9(2)	Repay Existing Revolving Credit Facility	$ 41.0
First Out Term Loan	425.0		

Second Out Term Loan	150.0	Repay Existing Term Loan(3)	304.3
		Repurchase Old Notes(2)(3)	214.3
		Transaction fees, expenses and OID on the New Term Loans	72.3
Total Sources	$631.9	Total Uses	$631.9

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(1) Assumes a settlement date of September 2, 2010 (the "*Settlement Date*") and reflects accrued interest through that date. As further described below, Vertis reserves the right to accept for exchange any Old Notes that have been validly tendered in the Exchange Offer on a date prior to the Expiration Time (as hereinafter defined) (such earlier date, the "*Early Acceptance Date*"). Any Early Acceptance Date will be on a date following the end of the Withdrawal Period (as defined under "Reinstatement of Withdrawal Rights" below). Following such Early Acceptance Date, if any, Vertis would promptly issue the New Notes and pay the cash consideration to eligible holders of Old Notes who have tendered such Old Notes prior to the Early Acceptance Date and consummate the other components of the Refinancing Transactions (the "*Early Settlement Date*"). Eligible holders tendering Old Notes after the Early Acceptance Date will not receive any accrued and unpaid interest on such Old Notes from the Early Settlement Date to the Settlement Date and will receive the same consideration as if such holders had tendered their Old Notes prior to the Early Acceptance Date. See "Early Acceptance Date" below.

(2) As of 5:00 p.m., New York City time, on July 26, 2010, approximately 95.2% of the outstanding principal amount of Old Notes not held by Avenue had been tendered in the Exchange Offer. At such participation level, we would pay approximately $214.3 million as cash consideration in the Exchange Offer, we would issue approximately $171.0 million of New Notes (assuming a Settlement Date of September 2, 2010), approximately $18.1 million of Old Notes would remain outstanding immediately after the Settlement Date and we would have borrowings of approximately $56.9 million under the New Revolving Credit Facility upon consummation of the Refinancing Transactions. In the event of an Early Settlement Date, which we currently expect to utilize, we would issue less New Notes at the current participation levels. As mentioned elsewhere in this Supplement, there can be no assurance that we will not consummate the Refinancing Transactions with less participation by holders of the Old Notes.

(3) Excludes the portion held by Avenue and assumes the payment of approximately $40.2 million of accrued interest from April 1, 2010 until, but not including, the Settlement Date. In addition, includes a scheduled amortization payment on the Existing Term Loan of approximately $6.3 million which we paid on July 1, 2010.

Update on Second Quarter

The preliminary estimates presented below are derived from our preliminary unaudited results for the three and six months ended June 30, 2010 and are subject to the completion and review of our interim financial statements for such periods. Our actual results of operations for the three and six months ended June 30, 2010 may differ from these preliminary estimates, which are not necessarily indicative of the results to be achieved for the remainder of 2010 or any other future periods, including as a result of quarter-end closing procedures or review adjustments, and any such changes could be material. As required by the agreements governing our outstanding indebtedness, we expect our interim consolidated financial statements for the three and six months ended June 30, 2010 to be available to holders of Old Notes on or about August 14, 2010. We do not intend to provide withdrawal rights in addition to those provided herein to the holders of tendered Old Notes as a result of the completion of these financial statements.

Actual (in thousands)	**Three Months Ended June 30, 2010**		**Three Months Ended June 30, 2009**	
	Revenue	**Adj. EBITDA**	**Revenue**	**Adj. EBITDA**
Advertising Inserts	$ 215,364	$ 27,934	$ 239,081	$ 34,692
Direct Marketing	69,352	10,662	57,357	386
Corporate & Other	20,025	766	26,106	2,129
Intersegment revenue	(1,922)		(1,566)	
Total	$ 302,819	$ 39,362	$ 320,978	$ 37,207

Actual (in thousands)	Six Months Ended June 30, 2010		Six Months Ended June 30, 2009	
	Revenue	Adj. EBITDA	Revenue	Adj. EBITDA
Advertising Inserts	$ 406,646	$ 47,702	$ 469,103	$ 54,436
Direct Marketing	145,501	19,620	131,383	5,791
Corporate & Other	41,905	340	52,141	(276)
Intersegment revenue	(3,968)		(3,388)	
Total	$ 590,084	$ 67,662	$ 649,239	$ 59,951

Revenue

For the three months ended June 30, 2010, our consolidated revenue decreased $18.2 million, or 5.7%, to $302.8 million, from $321.0 million in the corresponding period in 2009. For the six months ended June 30, 2010, our consolidated revenue decreased $59.1 million, or 9.1%, to $590.1 million, from $649.2 million in the corresponding period in 2009. For the three months ended June 30, 2010, value added revenue, defined as net revenue excluding paper costs, decreased $12.6 million, or 5.6%, to $213.4 million, from $226.0 million in the corresponding period in 2009. For the six months ended June 30, 2010, value added revenue decreased $30.4 million, or 6.8%, to $417.4 million, from $447.8 million in the corresponding period in 2009. The cost of paper is a significant factor in our pricing to certain customers since a substantial portion of our revenue includes the cost of paper. As a result, changes in the cost of paper and changes in the proportion of paper supplied by our customers significantly affects our revenue generated from the sale of advertising insert and direct marketing products, both of which are products where paper is a substantial portion of the cost of production. We believe this decrease in revenues was caused primarily by continued declines in paper prices, which lowers the price we charge our customers without impacting our production volume, and volume in certain of our segments (as is more fully described below). In addition, we believe that pricing, product mix and customers reducing the cost of their advertising programs have contributed to our overall decline in revenue. We believe the declines in revenue are also indicative of a general weakness in the overall economy and its impacts on our primary customers, retailers. We have, however, experienced stabilization of revenue as a result of increases in both our revenue and our value added revenue in our Direct Marketing segment (as is more fully described below).

Revenue from our Advertising Inserts segment for the three months ended June 30, 2010 declined $23.7 million, or 9.9%, to $215.4 million, from $239.1 million in the corresponding period in 2009. For the six months ended June 30, 2010 revenue declined $62.5 million, or 13.3%, to $406.6 million, from $469.1 million in the corresponding period in 2009. For the three months ended June 30, 2010, value added revenue decreased $16.1 million, or 10.2%, to $141.1 million, from $157.2 million in the corresponding period in 2009. For the six months ended June 30, 2010, value added revenue decreased $30.3 million, or 10.2%, to $266.4 million, from $296.7 million in the corresponding period in 2009. The primary factor causing this decline was the drop in overall paper prices as well as in volume of paper used, which accounted for $7.6 million and $32.2 million of the revenue decline in our Advertising Inserts segment for the three and six months ended June 30, 2010, respectively. We are generally able to pass on increases in the cost of paper to customers, while decreases in paper cost result in lower prices to our customers and, as a result, can lower our revenues. The overall production volume decline for the Advertising Inserts segment was approximately 1.1% and 2.7% for the three and six months ended June 30, 2010, respectively. Pricing and overall product mix accounted for the remaining decline in revenue for Advertising Inserts.

In our Direct Marketing segment, revenue increased $12.0 million, or 20.9%, in the three months ended June 30, 2010 from the corresponding period in 2009. For the six months ended June 30, 2010 revenue increased $14.1 million, or 10.7%, from the corresponding period in 2009. The primary driver of the increase in the 2010 period was higher volume partially offset by reduced pricing driven by customer and product mix. The increase in Direct Marketing volume in the three and six month periods was driven primarily by our in-line customer sectors such as financial (credit cards), insurance and healthcare.

In our Integrated Media Solutions units, which are included in the Corporate and Other segment, revenue declined $6.1 million and $10.2 million for the three and six months ended June 30, 2010, respectively due to reduced volume.

Adjusted EBITDA

Adjusted EBITDA for the three months ended June 30, 2010 amounted to $39.4 million, an increase of $2.2 million, or 5.8%, from the corresponding period in 2009. Adjusted EBITDA for the six months ended June 30, 2010 amounted to $67.7 million, an increase of $7.7 million, or 12.9%, from the corresponding period in 2009. The improvement in Adjusted EBITDA is the result of cost savings achieved through plant consolidations resulting in increased utilization and efficiencies, supply chain initiatives and reductions in redundant labor and overhead costs.

In our Advertising Inserts segment, Adjusted EBITDA for the three and six months ended June 30, 2010 decreased $6.8 million and $6.7 million, respectively, or 19.5% and 12.4%, respectively, from the corresponding periods in 2009 as the improved cost structure created by synergy savings from the execution of our integration plan with ACG (the "*Integration Plan*") and other cost savings initiatives, partially offset the declines in volume and pricing identified above. As a percentage of revenue, Adjusted EBITDA in our Advertising Inserts segment decreased to 13.0% for the three months ended June 30, 2010 and slightly increased to 11.7% for the six months ended June 30, 2010 compared to 14.5% and 11.6%, respectively, in the corresponding periods in 2009.

For our Direct Marketing segment, Adjusted EBITDA for the three and six months ended June 30, 2010 increased $10.3 million and $13.8 million, respectively, from the corresponding periods in 2009 due to the volume and pricing factors noted above. As a percentage of revenue, Adjusted EBITDA in our Direct Marketing segment increased to 15.4% and 13.5% for the three and six months ended June 30, 2010 compared to 0.7% and 4.4%, respectively, in the corresponding periods in 2009.

In our Integrated Media Solutions units, which are included in our Corporate and Other segment, Adjusted EBITDA for the three months ended June 30, 2010 decreased $0.8 million, or 21.4%, from the corresponding period in 2009 on reduced volume somewhat offset by synergy savings from the execution of our Integration Plan as well as other cost savings initiatives. Adjusted EBITDA increased $0.5 million for the six months ended June 30, 2010, or 9.6% from the corresponding periods in 2009 as the synergy savings exceeded the volume declines.

Corporate expenses increase $0.6 million in the three months ended June 30, 2010 from the corresponding period in 2009 on increases in incentive compensation. The remaining change in Adjusted EBITDA for the six months ended June 30, 2010, is due to reduced corporate expenses $0.2 million.

Liquidity

At June 30, 2010, the aggregate outstanding borrowings under both tranches of our existing revolving credit facility was $30.6 million with an additional $16.1 million in outstanding letters of credit. Including our cash balance as of June 30, 2010 of $0.6 million, our total availability under both tranches was $85.0 million as of June 30, 2010.

Non-GAAP Financial Measures

EBITDA represents loss income plus interest expense (net of interest income), income tax benefit and depreciation and amortization of intangibles. Adjusted EBITDA represents EBITDA (as defined above) adding back all restructuring charges as well as charges related to the achievement of the Integration Plan and certain non-cash items as defined under our existing debt agreements. This is the measurement reported to our chief operating decision maker for the purpose of making decisions about allocating resources to our segments. Because these are measures by which we assess the profitability and the performance of our segments, we believe that they are appropriate metrics to use in measuring our ability to service our existing debt obligations. Value added revenue represents net revenue excluding the cost of paper. Value added revenue provides an indication of our top line performance while normalizing for paper costs, which we are generally able to pass on to our customers.

We present EBITDA, Adjusted EBITDA and value added revenue to provide additional information regarding our performance and because these are measures by which we assess the performance of our segments. These calculations are not measures of financial performance in accordance with accounting principles generally accepted in the United States of America. You should not consider these measures alternatives to net income (loss) as measures of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of EBITDA, Adjusted EBITDA and value added revenue may be different from the calculations used by other companies and therefore comparability may be limited. A reconciliation of EBITDA and Adjusted EBITDA to net loss is provided as follows:

(in thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net loss	$ (31,620)	$ (29,313)	$ (70,537)	$ (68,273)
Interest expense, net	49,940	44,943	96,803	88,731
Income tax benefit	(9,140)	(18,951)	(21,088)	(43,381)
Depreciation and amortization of intangibles	24,677	32,531	49,307	65,209
EBITDA	$ 33,857	$ 29,210	$ 54,485	$ 42,286
Restructuring charges	2,570	4,441	9,877	8,309
Integration costs	245	3,097	396	9,241
Other non-cash items, net	2,690	459	2,904	115
Adjusted EBITDA	$ 39,362	$ 37,207	$ 67,662	$ 59,951

Capitalization

As a result of certain changes relating to the Refinancing Transactions, including, among other things, our proposed entry into the New Term Loans and the revision of certain of management's estimates and assumptions (including those related to interest rates) based on current market conditions, Vertis hereby updates the capitalization table provided in the Offering Memorandum. The following table sets forth (i) Vertis' and its consolidated subsidiaries' cash and capitalization as of March 31, 2010 on an actual basis and (ii) Vertis' and its consolidated subsidiaries' capitalization as of March 31, 2010 as adjusted to give pro forma effect to the Exchange Offer and the other Refinancing Transactions as if they had occurred on March 31, 2010. We reserve the right to modify certain components of the Refinancing Transactions. Such modifications may include, without limitation, increasing or decreasing the size of either or both of the New Term Loans, utilizing an Early Settlement Date, replacing either or both of the New Term Loans with senior secured notes, offering one or more series of notes, entering into one or more credit facilities, changing the size of the New Revolving Credit Facility or the amount of borrowings incurred thereunder, waiving or decreasing minimum participation conditions to consummate the Exchange Offer or the Senior PIK Notes Offer, changing intercreditor provisions or changing the aggregate amount of first lien indebtedness or changing the covenants contained in the first lien indebtedness, so long as such first lien indebtedness outstanding does not exceed $800 million in the aggregate upon consummation of the Refinancing Transactions. Any such modifications could cause the table presented below to change.

The information presented below should be read in conjunction with, and is qualified in its entirety by, "Offering Memorandum Summary," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Selected Historical Consolidated Financial Data," our audited consolidated financial statements and unaudited condensed consolidated financial statements, as well as the related notes, included in the Offering Memorandum and Exhibit A of this Supplement.

The pro forma adjustments relating to the Exchange Offer and the other Refinancing Transactions have been prepared on the following basis:

- The "pro forma minimum" assumes that (i) 95.2% of the outstanding principal amount of Old Notes not held by Avenue are validly tendered by eligible holders in the Exchange Offer at or prior to August 31, 2010 (the "*Expiration Time*") (representing the current participation level which is sufficient to satisfy the Minimum Condition), (ii) 84.7% of the outstanding principal amount of the Senior PIK Notes are exchanged for Holdings' common stock or tendered for cash in the Senior PIK Notes Offer at or prior to the Expiration Time (representing the current participation level which is sufficient to satisfy the updated minimum condition (as more fully described below) in the Senior PIK Notes Offer, and assuming that Avenue's purchase of Holdings' common stock to fund the cash consideration in the Senior PIK Notes Offer (the "*Avenue Stock Purchase*") would result in the same amount of shares of Holdings' common stock being issued as if 84.7% of the outstanding principal amount of the Senior PIK Notes had been exchanged for Holdings' common stock in the Senior PIK Notes Offer) and (iii) we pay an aggregate consent payment of $0.3 million in connection with the Senior PIK Notes Offer. There can be no assurance that Vertis will not amend or waive such conditions and consummate the Refinancing Transactions with less participation by holders of the Old Notes or Senior PIK Notes.

- The "pro forma maximum" assumes that (i) 100% of the outstanding principal amount of Old Notes not held by Avenue are validly tendered by eligible holders in the Exchange Offer at or prior to the Expiration Time, (ii) 100% of the outstanding principal amount of the Senior PIK Notes are exchanged for Holdings' common stock or tendered for cash in the Senior PIK Notes Offer at or prior to the Expiration Time (assuming that the Avenue Stock Purchase would result in the same amount of shares of Holdings' common stock being issued as if all Senior PIK Notes had been exchanged for Holdings' common stock in the Senior PIK Notes Offer) and (iii) we pay an aggregate consent payment of $0.5 million in connection with the Senior PIK Notes Offer.

- The "pro forma minimum" and the "pro forma maximum" both assume that (i) Avenue exchanges all of its Old Notes in the Avenue Preferred Exchange, (ii) we enter into the $190.0 million New Revolving Credit Facility, (iii) we enter into the $425.0 million First Out Term Loan, (iv) we enter into the $150.0 million Second Out Term Loan (v) the Existing Term Loan and the Existing Revolving Credit Facility are extinguished and retired, (vi) we issue $117.7 million aggregate principal amount of PIK Option Notes and (vii) the Settlement Date occurs on September 2, 2010. Any change in the Settlement Date, including the utilization of an Early Settlement Date (which we currently expect to utilize) or a delay in the Settlement Date, further changes to the Refinancing Transactions, modifications to minimum participation levels, the exercise of withdrawal rights by participants in the Exchange Offer and/or the Senior PIK Notes Offer, changes in market conditions and other factors could result in changes to the capitalization table presented herein.

As of 5:00 p.m., New York City time, on July 26, 2010, approximately 84.7% of the outstanding principal amount of the Senior PIK Notes and approximately 95.2% of the outstanding principal amount of the Old Notes not held by Avenue had been tendered in the Senior PIK Notes Offer and the Exchange Offer, respectively. Each of the Senior PIK Notes Offer and the Exchange Offer may not be consummated unless the related conditions are satisfied or waived in our sole discretion. There can be no assurance that holders of Senior PIK Notes or Old Notes will not exercise withdrawal rights and that we will not consummate the Senior PIK Notes Offer and/or the Exchange Offer with lower participation levels.

(in thousands)	Vertis, Inc. As of March 31, 2010 Actual	Pro Forma Minimum	Pro Forma Maximum
Cash and cash equivalents	$204	$204	$204
Accrued Interest(1)	$62,706	$3,875	$—
Actual and pro forma debt (including current portion):			
Existing senior secured revolving credit facility (due July 2012)	$42,102	—	—
Existing term loan (due July 2012)(2)	394,742	—	—
New senior secured revolving credit facility(3)	—	56,337	67,231
First Out Term Loan(4)	—	412,250	412,250
Second Out Term Loan(4)	—	145,500	145,500
13% senior secured notes due 2016	—	142,697	149,829
13%/15% senior secured PIK option notes due 2016		110,656	110,656
$18^{1}/_{2}$% senior secured second lien notes due 2012, net of discount(5)(6)	414,601	16,580	—
$13^{1}/_{2}$% senior PIK notes due 2014, net of discount(5)(7)	225,575	34,537	—
Capital leases	2,629	2,629	2,629
Total debt	$1,079,649	$921,186	$888,095
Stockholder's equity			
Common stock, $0.01 par value: 3,000 shares authorized, 1,000 shares issued and outstanding, historical, pro forma maximum and pro forma minimum	—	—	—
Contributed capital(8)	190,658	418,667	433,234
Accumulated deficit & other(9)	(184,735)	(305,119)	(294,664)
Total stockholder's equity(10)	5,923	113,548	138,570
Total capitalization	$1,085,572	$1,034,734	$1,026,665

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(1) Reflects the reduction in accrued interest (which would have been satisfied through the issuance of additional paid-in-kind notes).

(2) Pro forma adjustments do not include the payment of approximately $24.8 million in accrued interest on the Existing Term Loan from April 1, 2010 until, but not including, the Settlement Date, including approximately $7.0 million in accrued interest owed to Avenue during such period, which amounts will be less in the event that we utilize an Early Settlement Date. In addition, the pro forma adjustments do not include a scheduled amortization payment of approximately $6.3 million which we paid on July 1, 2010.

(3) At September 2, 2010, after giving effect to the Refinancing Transactions and ordinary course borrowings and repayments of our revolving credit facilities, we expect to have between $50 million to $60 million of borrowings under the New Revolving Credit Facility (subject to borrowing base availability). Our actual borrowings under the New Revolving Credit Facility are subject to change and may vary considerably from the range provided herein.

(4) Assumes original issue discount of 3% on both the First Out Term Loan and the Second Out Term Loan.

(5) As of 5:00 p.m., New York City time, on July 26, 2010, approximately 95.2% of the outstanding principal amount of the Old Notes not held by Avenue and approximately 84.7% of the outstanding principal amount of the Senior PIK Notes had been tendered in the Exchange Offer and the Senior PIK Notes Offer, respectively. Assuming such participation levels, we would have approximately $18.1 million and $37.0 million aggregate principal amount of Old Notes and Senior PIK Notes outstanding, respectively, upon consummation of the Refinancing Transactions and would issue approximately $171.0 million of New Notes on the Settlement Date.

(6) Pro forma adjustments do not include the payment of approximately $35.8 million in accrued interest on the Old Notes from April 1, 2010 until, but not including, the Settlement Date, which amount will be less in the event that we utilize an Early Acceptance Date, which we currently expect to utilize. Such interest will be paid to participating holders of Old Notes in New Notes as more fully described in the Offering Memorandum. Any remaining Old Notes will be unsecured obligations of Vertis.

(7) Pro forma adjustments do not include any accrued and unpaid interest on the Senior PIK Notes from April 1, 2010 until, but not including, the Settlement Date. Any such accrued and unpaid interest will be forfeited by holders of Senior PIK Notes participating in the Senior PIK Notes Offer.

(8) Represents contributed capital as a result of the Senior PIK Notes Offer, as follows:

	Pro Forma Minimum	Pro Forma Maximum
Historical contributed capital	$190,658	$190,658
Recorded value of debt held by related parties	137,272	137,272
Estimated fair value of Senior PIK Notes held by unrelated third parties at 40% of the recorded value	26,689	41,440
PIK Preferred Stock issued by Holdings	72,414	72,414
Transaction expenses attributed to equity	(8,366)	(8,550)
Pro Forma contributed capital	$418,667	$433,234

(9) Represents accumulated deficit and other as a result of the Senior PIK Notes Offer, as follows:

	Pro Forma Minimum	Pro Forma Maximum
Historical accumulated deficit & other	$(184,735)	$(184,735)
Gain on debt exchange for non-related party holders	55,422	78,319
Write-off of deferred tax assets	(136,777)	(148,721)
Write-off of deferred financing fees	(13,682)	(13,682)
Transaction expenses	(25,347)	(25,845)
Pro Forma accumulated deficit & other	$(305,119)	$(294,664)

(10) Stockholders' equity for Holdings as of March 31, 2010 after giving pro forma effect to the Senior PIK Notes Offer and the other Refinancing Transactions would be as follows:

	Vertis Holdings, Inc.		
	Actual	Pro Forma Minimum	Pro Forma Maximum
Stockholders' equity			
Common Stock, $0.001 par value: 25,000,000 shares authorized, 9,987,500 shares issued and outstanding historical 199,750,000 pro forma maximum, and 169,996,451 pro forma minimum	$ 10	$ 170	$ 200
Preferred Stock, $0.001 par value: 10,000,000 shares authorized, no shares issued and outstanding, historical pro forma maximum and pro forma minimum	—	—	—
Contributed capital	190,398	345,833	360,370
Accumulated deficit & other	(184,662)	(305,046)	(294,591)
Total stockholders' equity	$ 5,746	$ 40,957	$ 65,979

Unaudited Pro Forma Combined Financial Statements

As a result of certain proposed changes relating to the Refinancing Transactions, including, among other things, our proposed entry into the New Term Loans and the revision of certain of management's estimates and assumptions (including those related to interest rates) based on current market conditions and a new assumed Settlement Date, Vertis hereby updates the pro forma combined financial statements provided in the Offering Memorandum. The following unaudited pro forma combined financial statements were prepared using the historical consolidated financial statements of Vertis. The pro forma adjustments are based upon available information and certain assumptions that Vertis' management believes are reasonable and do not purport to represent the results of operations or the financial position of Vertis that actually would have occurred had the foregoing transactions been consummated on the dates provided below. In particular, these adjustments reflect assumed interest rates on and size of the New Term Loans and the New Revolving Credit Facility that reflect our current estimates, and actual rates and other changes to the Refinancing Transactions may differ materially from what we have assumed. In addition, we reserve the right to modify certain components of the Refinancing Transactions. Such modifications may include, without limitation, increasing or decreasing the size of either or both of the New Term Loans, utilizing an Early Settlement Date, replacing either or both of the New Term Loans with senior secured notes, offering one or more series of notes, entering into one or more credit facilities, changing the size of the New Revolving Credit Facility or the amount of borrowings incurred thereunder, waiving or decreasing minimum participation conditions to consummate the Exchange Offer or the Senior PIK Notes Offer, changing intercreditor provisions or changing the aggregate amount of first lien indebtedness or changing the covenants contained in the first lien indebtedness, so long as such first lien indebtedness outstanding does not exceed $800 million in the aggregate upon consummation of the Refinancing Transactions. Any such modifications could cause the statements presented below to change. The following unaudited pro forma combined financial statements should be read in conjunction with, and are qualified in their entirety by, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and unaudited condensed consolidated financial statements, as well as the related notes, included in the Offering Memorandum and Exhibit A of this Supplement.

The pro forma balance sheet as of March 31, 2010 gives pro forma effect to the consummation of the Refinancing Transactions, including the Exchange Offer and Consent Solicitation, assuming the transactions occurred on March 31, 2010. The pro forma statements of operations for the twelve months ended December 31, 2009 and the three months ended March 31, 2010 give pro forma effect to the consummation of the Refinancing Transactions, including the Exchange Offer and Consent Solicitation, assuming such transactions occurred on January 1, 2009 and January 1, 2010, respectively.

The pro forma adjustments relating to the Exchange Offer and Consent Solicitation and the other Refinancing Transactions have been prepared on the following basis:

- The "pro forma minimum" assumes that (i) 95.2% of the outstanding principal amount of Old Notes not held by Avenue are validly tendered by eligible holders in the Exchange Offer at or prior to the Expiration Time (representing the current participation level which is sufficient to satisfy the Minimum Condition), (ii) 84.7% of the outstanding principal amount of the Senior PIK Notes are exchanged for Holdings' common stock or tendered for cash in the Senior PIK Notes Offer at or prior to the Expiration Time (representing the current participation level which is sufficient to satisfy the updated minimum condition in the Senior PIK Notes Offer, and assuming that the Avenue Stock Purchase would result in the same amount of shares of Holdings' common stock being issued as if 84.7% of the outstanding principal amount of the Senior PIK Notes had been exchanged for Holdings' common stock in the Senior PIK Notes Offer) and (iii) we pay an aggregate consent payment of $0.3 million in connection with the Senior PIK Notes Offer. There can be no assurance that Vertis will not amend or waive such conditions and consummate the Refinancing Transactions with less participation by holders of the Old Notes or Senior PIK Notes.

- The "pro forma maximum" assumes that (i) 100% of the outstanding principal amount of Old Notes not held by Avenue are validly tendered by eligible holders in the Exchange Offer at or prior to the Expiration Time, (ii) 100% of the outstanding principal amount of the Senior PIK Notes are exchanged for Holdings' common stock or tendered for cash in the Senior PIK Notes Offer at or prior to the Expiration Time (assuming that the Avenue Stock Purchase would result in the same amount of shares of Holdings' common stock being issued as if all Senior PIK Notes had been exchanged for Holdings' common stock in the Senior PIK Notes Offer) and (iii) we pay an aggregate consent payment of $0.5 million in connection with the Senior PIK Notes Offer.

- The "pro forma minimum" and the "pro forma maximum" both assume that (i) Avenue exchanges all of its Old Notes in the Avenue Preferred Exchange, (ii) we enter into the $190.0 million New Revolving Credit Facility, (iii) we enter into the $425.0 million First Out Term Loan, (iv) we enter into the $150.0 million Second Out Term Loan (v) the Existing Term Loan and the Existing Revolving Credit Facility are extinguished and retired, (vi) we issue $117.7 million aggregate principal amount of PIK Option Notes and (vii) the Settlement Date occurs on September 2, 2010. Any change in the Settlement Date, including the utilization of an Early Settlement Date (which we currently expect to utilize) or a delay in the Settlement Date, further changes to the Refinancing Transactions, modifications to minimum participation levels, the exercise of withdrawal rights by participants in the Exchange Offer and/or the Senior PIK Notes Offer, changes in market conditions and other factors could result in changes to the pro forma financial statements presented herein.

As of 5:00 p.m., New York City time, on July 26, 2010, approximately 84.7% of the outstanding principal amount of the Senior PIK Notes and approximately 95.2% of the outstanding principal amount of the Old Notes not held by Avenue had been tendered in the Senior PIK Notes Offer and the Exchange Offer, respectively. Each of the Senior PIK Notes Offer and the Exchange Offer may not be consummated unless the related conditions are satisfied or waived in our sole discretion. There can be no assurance that holders of Senior PIK Notes or Old Notes will not exercise withdrawal rights and that we will not consummate the Senior PIK Notes Offer and/or the Exchange Offer with lower participation levels.

VERTIS, INC.
UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

(in thousands, except share amounts)	March 31, 2010 Actual	Adjustments from Actual	March 31, 2010 Pro Forma Minimum	Adjustments from Pro Forma Minimum	March 31, 2010 Pro Forma Maximum
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 204	$—	$ 204	$—	$ 204
Accounts Receivable, net	164,527	—	164,527	—	164,527
Inventories, net	39,998	—	39,998	—	39,998
Deferred income taxes	21,288	—	21,288	—	21,288
Maintenance Parts	13,670	—	13,670	—	13,670
Prepaid expenses and other current assets	15,843	—	15,843	—	15,843
Assets held for sale	4,778	—	4,778	—	4,778
Total current assets	260,308	—	260,308	—	260,308
Property, plant and equipment, net	683,445	—	683,445	—	683,445
Goodwill	288,185	—	288,185	—	288,185
Deferred financing costs	13,682	25,608 (1)	39,290	—	39,290
Other intangible assets, net	236,341	—	236,341	—	236,341
Other assets	10,130	—	10,130	—	10,130
Total assets	$1,492,091	$ 25,608	$1,517,699	$—	$1,517,699
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities:					
Accounts payable	$136,026	—	$136,026	—	$136,026
Compensation and benefits payable	40,897	—	40,897	—	40,897
Accrued interest	62,706	(58,831)(2)	3,875	(3,875)(2)	—
Current portion of long-term debt	25,764	(25,000)(3)	764		764
Other current liabilities	31,492		31,492		31,492
Total current liabilities	296,885	(83,831)	213,054	(3,875)	209,179
Due to (from) parent	1,283	(1,500)(4)	(217)		(217)
Long-term debt	1,053,885	(133,463)(3)	920,422	(33,091)(3)	887,331
Deferred income taxes	45,446	136,777 (5)	182,223	11,944(5)	194,167
Other long-term liabilities	88,669		88,669		88,669
Total liabilities	1,486,168	(82,017)	1,404,151	(25,022)	1,379,129
Stockholder's equity (Vertis, Inc.):					
Common stock—authorized 3,000 shares; $.01 par value; issued and outstanding 1,000 shares	—		—		—
Contributed capital	190,658	228,009 (6)	418,667	14,567(6)	433,234
Accumulated deficit	(174,493)	(120,384)(7)	(294,877)	10,455(7)	(284,422)
Accumulated other comprehensive loss	(10,242)		(10,242)		(10,242)
Total stockholder's equity	5,923	107,625	113,548	25,022	138,570
Total liabilities and stockholder's equity	$1,492,091	$25,608	$1,517,699	$—	$1,517,699

See accompanying notes to unaudited pro forma combined financial statements

VERTIS, INC.
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands)	Three Months Ended March 31, 2010	Adjustments from Actual	Pro Forma Three Months Ended March 31, 2010 Minimum	Adjustments from Pro Forma Minimum	Pro Forma Three Months Ended March 31, 2010 Maximum
Revenue	$ 287,265	$—	$ 287,265	$—	$ 287,265
Operating expenses:					
Costs of production	227,992	—	227,992	—	227,992
Selling, general and administrative	31,252	—	31,252	—	31,252
Restructuring charges	7,307	—	7,307	—	7,307
Depreciation and amortization of intangibles	24,630	—	24,630	—	24,630
Total operating expenses	291,181	—	291,181	—	291,181
Operating income from continuing operations	(3,916)	—	(3,916)	—	(3,916)
Other expenses:					
Interest expense, net(8)	46,863	(15,543)	31,320	(1,611)	29,709
Other, net	86		86		86
Total other expenses	46,949	(15,543)	31,406	(1,611)	29,795
Loss before income taxes	(50,865)	15,543	(35,322)	1,611	(33,711)
Income tax (benefit) expense(9)	(11,948)	(1,828)	(13,776)	629	(13,147)
Net loss	$ (38,917)	$ 17,371	$ (21,546)	$ 982	$ (20,564)

See accompanying notes to unaudited pro forma combined financial statements

VERTIS, INC.
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands)	Year Ended December 31, 2009	Adjustments from Actual	Pro Forma Year Ended December 31, 2009 Minimum	Adjustments from Pro Forma Minimum	Pro Forma Year Ended December 31, 2009 Maximum
Revenue	$1,323,879	$—	$1,323,879	$—	$1,323,879
Operating expenses:					
Costs of production	1,041,892	—	1,041,892	—	1,041,892
Selling, general and administrative	134,872	—	134,872	—	134,872
Impairment charges	6,186	—	6,186	—	6,186
Restructuring charges	11,928	—	11,928	—	11,928
Depreciation and amortization of intangibles	123,732	—	123,732	—	123,732
Total operating expenses	1,318,610	—	1,318,610	—	1,318,610
Operating income from continuing operations	5,269	—	5,269	—	5,269
Other expenses:					
Interest expense, net(8)	182,344	(56,656)	125,688	(6,801)	118,887
Other, net	(51)		(51)		(51)
Total other expenses	182,293	(56,656)	125,637	(6,801)	118,836
Loss before reorganization items, net and income taxes	(177,024)	56,656	(120,368)	6,801	(113,567)
Reorganization items, net	(1,852)		(1,852)		(1,852)
Loss before income taxes	(175,172)	56,656	(118,516)	6,801	(111,715)
Income tax (benefit) expense(9)	(67,124)	20,903	(46,221)	2,652	(43,569)
Net loss	$(108,048)	$ 35,753	$(72,295)	$ 4,149	$(68,146)

See accompanying notes to unaudited pro forma combined financial statements

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(1) Reflects the estimated increase in deferred financing fees, as follows:

	Pro Forma Minimum	Pro Forma Maximum
Write-off of existing deferred financing fees	$(13,682)	$(13,682)
Transaction expenses	39,290	39,290
Total adjustment	$25,608	$25,608

(2) Reflects the reduction in accrued interest, as follows:

	Pro Forma Minimum	Pro Forma Maximum	Incremental
Accrued Interest	$58,831	$62,706	$3,875

(3) Reflects the reduction in the outstanding balance of the long-term debt, the reclassification of the current portion of debt to be refinanced, payment of estimated transaction expenses, support agreements and new borrowings, as follows:

	Pro Forma Minimum	Pro Forma Maximum
Reclassification of current portion of long term debt	$(25,000)	$(25,000)

	Pro Forma Minimum	Pro Forma Maximum	Incremental
Existing senior secured revolving credit facility (due July 2012)	$(42,102)	$(42,102)	$—
Existing term loan (due July 2012)	(394,742)	(394,742)	
New senior secured revolving credit facility	56,337	67,231	10,894
First Out Term Loan (reflects assumed OID)	412,250	412,250	
Second Out Term Loan (reflects assumed OID)	145,500	145,500	
13% senior secured notes due 2016	142,697	149,829	7,132
13%/15% senior secured PIK option notes due 2016	110,656	110,656	
$18^1/_2$% senior secured second lien notes due 2012, net of discount	(398,021)	(414,601)	(16,580)
$13^1/_2$% senior notes due 2014, net of discount	(191,038)	(225,575)	(34,537)
Reclassification of current portion of long-term debt	25,000	25,000	
Total adjustment	$(133,463)	$(166,554)	$(33,091)

(4) Reflects the payment of accrued and unpaid amounts under certain agreements, as follows:

	Pro Forma Minimum	Pro Forma Maximum
Due to (from) Parent (Holdings)	$1,500	$1,500

(5) Reflects the increase in deferred tax liabilities due to the loss of net operating loss carryforward and changes in the tax basis of the retired debt obligations, as follows:

	Pro Forma Minimum	Pro Forma Maximum	Incremental
Deferred taxes	$136,777	$148,721	$11,944

(6) Reflects the increase in contributed capital for the percentage of the transaction with related parties and the estimated transaction expenses, as follows:

	Pro Forma Minimum	Pro Forma Maximum	Incremental
Recorded value of debt held by related parties	$209,686	$209,686	$—
Estimated fair value of Senior PIK Notes held by unrelated third parties at 40% of the recorded value	26,689	41,440	14,751
Transaction expenses	(8,366)	(8,550)	(184)
Total adjustment	$228,009	$242,576	$14,567

(7) Reflects the increase in accumulated deficit for the gain on debt exchange for the percentage of the debt not held by related parties, (the related parties for the purposes of calculating the gain on exchange was Avenue), the write-off of deferred financing fees, consent fees and call premiums on the existing debt, as follows:

	Pro Forma Minimum	Pro Forma Maximum	Incremental
Historical value of the Senior PIK Notes	$191,062	$225,575	$34,513
Accrued interest	12,933	15,298	2,365
Estimated fair value of the Senior PIK Notes at 40% of historical value	(81,598)	(96,349)	(14,751)
	122,397	144,524	22,127
Related party portion recorded in equity	(82,363)	(82,363)	—
Gain on debt exchange for non-related party holders	40,034	62,161	22,127
Gain on debt exchange of Old Notes for non-related party holders	15,388	16,158	770
Less;			
Write-off of deferred tax assets	136,777	148,721	11,944
Write-off of deferred financing fees	13,682	13,682	—
Transaction expenses	25,347	25,845	498
Total adjustment	$(120,384)	$(109,929)	$10,455

(8) Reflects the adjustments related to interest expense (including (i) an estimate of the weighted average interest rate of our total first lien indebtedness (including an assumed interest rate on the First Out New Term Loan of LIBOR (subject to a floor of 2%) plus 9%, an assumed fixed interest rate on the Second Out Term Loan of 12.5% and an average interest rate of 4.25% for debt under our New Revolving Credit Facility) of 10.8% and (ii) the assumption that interest is paid on the PIK Option Notes at a rate of 15% per annum through June 1, 2012), as follows:

Three Months Ended March 31, 2010

	Pro Forma Minimum	Pro Forma Maximum	Incremental
Elimination of historical interest on indebtedness to be refinanced	$(46,122)	$(46,122)	$—
Pro forma interest for the three months ended March 31, 2010	30,579	28,968	(1,611)
Total adjustment	$(15,543)	$(17,154)	$(1,611)

Twelve Months Ended December 31, 2009

	Pro Forma Minimum	Pro Forma Maximum	Incremental
Elimination of historical interest on indebtedness to be refinanced	$(180,098)	$(180,098)	$—
Pro forma interest for the twelve months ended December 31, 2009	123,442	116,641	(6,801)
Total adjustment	$(56,656)	$(63,457)	$(6,801)

Assuming participation levels as of 5:00 p.m., New York City time, on July 26, 2010 in the Senior PIK Notes Offer and the Exchange Offer and giving pro forma effect to this offering and the other Refinancing Transactions as if they had occurred on March 31, 2009, the adjustments related to interest expense for the twelve month period ended March 31, 2010 would be as follows:

	Minimum
Interest expense twelve months ended March 31, 2010	$185,419
Elimination of historical interest on indebtedness to be refinanced	(183,160)
Pro forma interest for the twelve months ended March 31, 2010 on refinanced debt	123,442
Pro Forma interest expense twelve months ended March 31, 2010	$125,701

Every 1% change in the weighted average interest rate of our first lien indebtedness (including the New Term Loans and debt under our New Revolving Credit Facility) would result in an increase/decrease of approximately $6.3 million in pro forma interest expense for the twelve months ended March 31, 2010 at the pro forma minimum. The weighted average interest rate is impacted by the size of the New Term Loans, the size of and borrowings under the New Revolving Credit Facility and market and other conditions. There can be no assurance that the actual interest rate will not be different than the weighted average interest rate assumed herein and such difference could exceed 1% or otherwise be material. For each week that the Settlement Date is delayed, we will pay an additional $3.0 million, in the aggregate, of accrued interest in connection with the PIK Option Notes Exchange, the Exchange Offer (assuming current participation levels) and our repayment and extinguishment of the Existing Term Loan upon consummation of the Refinancing Transactions.

If Vertis institutes an Early Acceptance Date, interest on the Existing Term Loan and the Old Notes will be paid until the Early Settlement Date. Eligible holders tendering Old Notes after the Early Acceptance Date will not receive accrued and unpaid interest on Old Notes tendered for the period beginning on the Early Settlement Date and will receive the same consideration as holders of Old Notes who settle on the Early Settlement Date as further described below. For each week that the actual settlement of the Refinancing Transactions precedes September 2, 2010, Vertis will pay $3.0 million less of accrued interest on the Existing Term Loan and the Old Notes (assuming current participation levels) in connection therewith.

(9) Represents adjustments to record the provision for incomes taxes at the statutory rate for Vertis of 39%.

Possible Termination of Long-Term Cash Incentive Plan and Adoption of New Equity Incentive Plan

As previously disclosed, we continue to discuss with Mr. Quincy Allen and Mr. Gerald Sokol, Jr. restructuring our Long-Term Cash Incentive Plan (the "*Incentive Plan*") in connection with the Refinancing Transactions. These discussions have continued and if the Refinancing Transactions are consummated, we intend to terminate the Incentive Plan and adopt a new equity incentive plan (the "*Equity Plan*") which will provide for the issuance of equity awards to management representing an aggregate of 15% of Holdings' common stock on a fully diluted basis following the completion of the Refinancing Transactions, although there can be no assurance such amount will not be greater. The board of directors will determine (i) the type of awards available for grant under the Equity Plan (which we intend will include restricted stock, restricted stock units and options), (ii) the number of shares subject to such awards, and (iii) the terms of such awards (including vesting conditions). If granted, certain awards of restricted stock units will vest and be settled in cash or stock upon a change in control of the company, subject to the holder's continued employment through the date of such event. If the Equity Plan is adopted, the Incentive Plan will be terminated and outstanding grants thereunder will be void. In light of the possible extinguishment of the Incentive Plan, which affords Mr. Allen and Mr. Sokol among other things material financial protections relative to the Equity Plan, we have agreed to pay a total cash bonus to Mr. Allen and Mr. Sokol of approximately $7.5 million in the aggregate to waive such rights and cancel the Incentive Plan. This bonus is to be paid upon the successful consummation of the Refinancing Transactions, the termination of the Incentive Plan and the adoption of the Equity Plan. These awards are currently being further discussed and may be substantially changed. If the Equity Plan is adopted, Mr. Allen and Mr. Sokol are presently expected to receive grants of restricted stock units equal to approximately 6% and 2.25%, respectively, of Holdings' common stock on a fully diluted basis, and will be entitled to receive certain cash payments in the future, not to exceed $7.5 million in the aggregate. The restricted stock units and cash payments are also subject to further discussion and may be further revised. Although we expect to terminate the Incentive Plan and adopt the Equity Plan if the Refinancing Transactions are consummated, the Equity Plan has not been approved by our board of directors and there can be no assurance that we will take such actions.

Senior PIK Notes Offer

Vertis has amended the minimum tender condition relating to the Senior PIK Notes Offer and, as a result, the consummation of the Senior PIK Notes Offer is now conditioned upon, among other things, holders of at least 84% of the aggregate principal amount of Senior PIK Notes validly tendering their Senior PIK Notes at or prior to the expiration of the Senior PIK Notes Offer. Consummation of the Senior PIK Notes Offer was previously conditioned upon the participation in the Senior PIK Notes Offer of holders of at least 95% of the aggregate principal amount of Senior PIK Notes. Vertis reserves the right to amend the Senior PIK Notes Offer and the related consent solicitation in any respect, including further amendment of the related minimum tender condition, without reinstating or providing withdrawal rights in addition to those provided herein, in connection with the Offer or Senior PIK Notes Offer.

Vertis has also reinstated withdrawal rights for a limited period of time in connection with the Senior PIK Notes Offer. Pursuant to the terms of the Senior PIK Notes Offer, Senior PIK Notes already tendered (including Senior PIK Notes tendered by holders that previously entered into support agreements to participate in the Senior PIK Notes Offer), and all future tenders of Senior PIK Notes, may be validly withdrawn (and the related consents therefore revoked) from 9:00 a.m., New York City time, on July 29, 2010 to 5:00 p.m., New York City time, on August 2, 2010, but not thereafter. Vertis and Holdings have also determined to release holders of Senior PIK Notes who previously entered into support agreements relating to the Senior PIK Notes Offer from such agreements so that they may exercise withdrawal rights, if they so desire. As a result, neither Vertis nor such holders have any obligations or withdrawal or other rights under the support agreements relating to the Senior PIK Notes Offer and such agreements will be deemed to have terminated as of the date of this Supplement. After the withdrawal rights have expired in the Senior PIK Notes Offer, Vertis may, in its sole discretion, utilize an early acceptance date in connection with the Senior PIK Notes Offer.

As of 5:00 p.m., New York City time, on July 26, 2010, approximately $204.9 million (or approximately 84.7%) of the aggregate outstanding principal amount of Senior PIK Notes had been validly tendered in the Senior PIK Notes Offer. Of the total Senior PIK Notes validly tendered in the Senior PIK Notes Offer, approximately $177.0 million aggregate principal amount were tendered for Holdings' common stock and approximately $27.9 million aggregate principal amount were tendered for cash, representing approximately 73.2% and 11.5%, respectively, of the outstanding principal amount of Senior PIK Notes. As a result of the reinstatement of withdrawal rights, participating holders of Senior PIK Notes can change their prior consideration election. There can be no assurance that the final participation levels in the Senior PIK Notes Offer will not differ from the levels provided herein or that the mix of Senior PIK Notes tendered for Holdings' common stock and/or cash will not change or that we will not consummate the Senior PIK Notes Offer with a lower participation level. Vertis does not intend to reinstate withdrawal rights in the Senior PIK Notes Offer after 5:00 p.m., New York City time, on August 2, 2010.

As described in the Offering Memorandum, Holdings and certain holders of its common stock proposed amending the stockholders' agreement (the "*Stockholders' Agreement*") between Holdings and certain holders of its common stock (or, alternatively, entering to a separate additional stockholder agreement) in conjunction with the Senior PIK Notes Offer. The Stockholders' Agreement governs certain rights and obligations with respect to such holders' ownership of Holdings' common stock. As a result of the reinstatement of withdrawal rights in the Senior PIK Notes Offer and an expected change in a certain participating holder's consideration election, Holdings and the relevant holders of its common stock will not enter into an amendment to the Stockholders' Agreement (or a separate stockholder agreement) in conjunction with the Senior PIK Notes Offer. Holdings and the relevant holders of its common stock reserve the right to amend the Stockholders' Agreement in the future.

Other

This Supplement may include forward-looking statements. These forward-looking statements generally can be identified by phrases such as "believes," "anticipates," "expects," "estimates," "plans," "projects," "intends" or other similar words or phrases and are based on Vertis' current expectations, estimates and projections regarding Vertis' business, including, but not limited to, Vertis' current beliefs and assumptions with respect to Vertis' financial condition and liquidity and its leverage and debt service obligations, ability to realize benefits of the Refinancing Transactions, downgrades in its credit ratings, changes in the advertising, marketing and information services markets, the demand for its products and services, actions by its competitors, the level of capital resources required for its operations, general economic and business conditions, changes in interest rates, the financial condition and/or results of operations of its customers, its ability to renew contracts (including material contracts) with customers on favorable terms or at all, its ability to realize expected cost-savings from operational efficiency initiatives, its ability to execute business strategies, the effects of supplier price fluctuations on its operations, including fluctuations in the price of raw materials, changes in the legal and regulatory environment and other beliefs and assumptions relating to Vertis' business, liabilities and other factors, including with respect to certain second quarter trends described herein. Such forward-looking statements represent Vertis' beliefs regarding future events, many of which are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

In the future, we may acquire Old Notes or Senior PIK Notes that are not tendered in the Exchange Offer or the Senior PIK Notes Offer, respectively, through open market purchases, privately negotiated transactions, one or more exchange offers or such other means as we deem appropriate. Any such acquisitions will occur upon the terms and at the prices we may determine in our discretion, which may be more or less favorable than the respective terms and prices of the Exchange Offer and/or the Senior PIK Notes Offer. We may choose to pursue any or none of these alternatives, or a combination thereof, in the future.

Exhibit A

Vertis, Inc.

For the Three Months Ended March 31, 2010

INDEX

	Page
Financial Statements	
Condensed Consolidated Balance Sheets at March 31, 2010 and December 31, 2009	A-1
Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2010 and 2009	A-2
Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2010 and 2009	A-3
Notes to Condensed Consolidated Financial Statements	A-4
Management's Discussion and Analysis of Financial Condition and Results of Operations	A-24

Vertis, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

In thousands, except share and per share amounts

	March 31, 2010 (Unaudited)	December 31, 2009 (Unaudited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 204	$ 1,275
Accounts receivable, net	164,527	188,032
Inventories, net	39,998	34,984
Deferred income taxes	21,288	21,288
Maintenance parts, net	13,670	13,766
Prepaid expenses and other current assets	15,843	12,073
Assets held for sale	4,778	7,007
Total current assets	260,308	278,425
Property, plant and equipment, net	683,445	695,268
Goodwill	288,185	288,185
Deferred financing costs, net	13,682	15,202
Other intangible assets, net	236,341	240,042
Other assets	10,130	10,220
Total assets	$ 1,492,091	$ 1,527,342
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Accounts payable	$ 136,026	$ 129,693
Compensation and benefits payable	40,897	36,990
Accrued interest	62,706	35,710
Current portion of long-term debt	25,764	25,705
Other current liabilities	31,492	30,708
Total current liabilities	296,885	258,806
Due to parent	1,283	1,091
Long-term debt	1,053,885	1,076,075
Deferred income taxes	45,446	57,436
Other long-term liabilities	88,669	89,464
Total liabilities	1,486,168	1,482,872
Stockholder's equity:		
Common stock - authorized 3,000 shares; $0.01 par value; issued and outstanding 1,000 shares		
Contributed capital	190,658	190,658
Accumulated deficit	(174,493)	(135,576)
Accumulated other comprehensive loss	(10,242)	(10,612)
Total stockholder's equity	5,923	44,470
Total liabilities and stockholder's equity	$ 1,492,091	$ 1,527,342

See Notes to Condensed Consolidated Financial Statements.

Vertis, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

In thousands

Three Months Ended March 31,	**2010**	**2009**
	(Unaudited)	**(Unaudited)**
Revenue	$ 287,265	$ 328,261
Operating expenses:		
Costs of production	227,992	271,197
Selling, general and administrative	31,252	40,066
Restructuring charges	7,307	3,868
Depreciation and amortization of intangibles	24,630	32,678
Total operating expenses	291,181	347,809
Operating loss	(3,916)	(19,548)
Other expenses:		
Interest expense, net	46,863	43,788
Other, net	86	54
Total other expenses	46,949	43,842
Loss from operations before income tax benefit	(50,865)	(63,390)
Income tax benefit	(11,948)	(24,430)
Net loss	$ (38,917)	$ (38,960)

See Notes to Condensed Consolidated Financial Statements.

Vertis, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

In thousands

Three Months Ended March 31,	**2010**	**2009**
	(Unaudited)	**(Unaudited)**
Cash Flows from Operating Activities:		
Net loss	$ (38,917)	$ (38,960)
Adjustments to reconcile net loss to net cash provided by Operating activities:		
Depreciation and amortization	24,630	32,678
Interest paid-in-kind	39,752	33,993
Amortization of deferred financing costs	1,520	1,520
Accretion of long-term debt discount	66	66
Benefit for deferred taxes	(12,106)	(24,640)
Other, net	(36)	1,238
Changes in operating assets and liabilities:		
Decrease in accounts receivable	23,564	37,219
(Increase) decrease in inventories	(5,005)	5,178
(Increase) decrease in prepaid expenses and other assets	(3,475)	3,930
Increase (decrease) in accrued interest	108	(490)
Increase (decrease) in accounts payable	5,763	(14,117)
Increase (decrease) in other liabilities	4,191	(21,441)
Net cash provided by operating activities	40,055	16,174
Cash Flows from Investing Activities:		
Capital expenditures	(7,753)	(3,443)
Software development costs capitalized	(530)	(614)
Proceeds from sale of property, plant and equipment	2,401	218
Net cash used in investing activities	(5,882)	(3,839)
Cash Flows from Financing Activities:		
Borrowings under revolving credit facilities	176,611	166,112
Repayments under revolving credit facilities	(205,400)	(169,206)
Repayments under term loan	(6,250)	(10,000)
Repayments of capital lease obligations	(183)	(64)
Advances to parent	(57)	
Net cash used in financing activities	(35,279)	(13,158)
Effect of exchange rate changes on cash	35	107
Net decrease in cash and cash equivalents	(1,071)	(716)
Cash and cash equivalents at beginning of year	1,275	1,142
Cash and cash equivalents at end of period	$ 204	$ 426

See Notes to Condensed Consolidated Financial Statements.

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of Vertis, Inc. and its subsidiaries (collectively, "Vertis" or the "Company") as of March 31, 2010 have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") for interim financial information prepared by public companies. The financial statements include all normal and recurring adjustments that management of the Company considers necessary for the fair presentation of its financial position and operating results. The operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes for the year ended December 31, 2009.

The Company is a wholly-owned subsidiary of Vertis Holdings, Inc., a Delaware corporation ("Holdings").

Revenues, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be the same as those for the full year.

2. FRESH START REPORTING

In accordance with Accounting Standard Codification ("ASC") subtopic 852-10, Reorganizations, ("ASC 852-10"), the Company applied "fresh-start" reporting as of October 1, 2008. Fresh-start reporting requires the Company to allocate the reorganization value of its assets and liabilities in a manner similar to that which is required under ASC subtopic 805-10, Business Combinations, ("ASC 805-10"). The Company has prepared the accompanying condensed consolidated financial statements in accordance with ASC 852-10 and on a going concern basis, which assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business.

Under the provisions of fresh-start reporting, a new entity has been deemed created for financial reporting purposes. As such, the financial information subsequent to September 30, 2008 is presented on a basis different from, and is therefore not comparable to, the financial information as of September 30, 2008 or for prior periods. In the opinion of management, all adjustments considered necessary for a fair presentation have been included.

Fresh-start reporting reflects the value of the Company as determined in the confirmed plan of reorganization. The excess of reorganization value over the fair value of net tangible and identified intangible assets and liabilities was recorded as goodwill in the accompanying condensed consolidated balance sheet. In addition, fresh-start reporting also requires that all liabilities, other than deferred taxes, should be stated at fair value or at the present values of the amounts to be paid using appropriate market interest rates. Deferred taxes are determined in conformity with ASC subtopic 740-10, Income Taxes ("ASC 740-10").

Estimates of fair value represent the Company's best estimates, which are based on industry data and trends and by reference to relevant market rates and transactions, and discounted cash flow valuation methods, among other factors. The foregoing estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially. In accordance with ASC 805-10, the preliminary allocation of the reorganization value is subject to additional adjustment until the Company has completed its analysis, but not to exceed one year after emergence from bankruptcy, to provide the Company with the time to complete the valuation of its assets and liabilities. The Company's final determination of the fair value of individual assets and liabilities and the final allocation of the reorganization value was reflected in the December 31, 2009 balance sheet.

To facilitate the calculation of the enterprise value of the Successor Company, the Company developed a set of financial projections. Based on these financial projections, the reorganization value was determined by the Company, using various valuation methods, including (i) a comparison of the Company and its projected performance to the market values of comparable companies; (ii) a review and analysis of several recent transactions of companies in similar industries to the Company; and (iii) a calculation of the present value of the future cash flows of the Company under its projections.

Realization of the estimated reorganization value is highly dependent upon achieving the future financial results set forth in the projections as well as the realization of certain other assumptions. As confirmed by the bankruptcy court, the estimated reorganization value of the Company was calculated to be approximately $1.2 billion. The estimates and assumptions made in this valuation are inherently subject to significant uncertainties and there can be no assurance that the estimates, assumptions, and amounts reflected in the valuations will be realized, and actual results could vary materially.

3. ACCOUNTING STANDARD UPDATES

In June 2009, the Financial Accounting Standards Board ("FASB") issued an update to "Consolidation – Consolidation of Variable Interest Entities." Among other things, the update replaces the calculation for determining which entities, if any, have a controlling financial interest in a variable interest entity ("VIE") from a quantitative based risks and rewards calculation, to a qualitative approach that focuses on identifying which entities have the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. The update also requires ongoing assessments as to whether an entity is the primary beneficiary of a VIE (previously, reconsideration was only required upon the occurrence of specific events), modifies the presentation of consolidated VIE assets and liabilities, and requires additional disclosures about a company's involvement in VIEs. This update was adopted on January 1, 2010 and did not have a material impact on the Company's results of operations or financial position.

In October 2009, the FASB issued ASU 2009-13, "Multiple-Deliverable Revenue Arrangements" ("ASU 2009-13"). ASU 2009-13 removes the objective-and-reliable-evidence-of-fair-value criterion from the separation criteria used to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, replaces references to "fair value" with "selling price" to distinguish from the fair value measurements required under the "Fair Value Measurements and Disclosures" guidance, provides a hierarchy that entities must use to estimate the selling price, eliminates the use of the residual method for allocation and expands the ongoing disclosure requirements. ASU 2009-13 is effective for the Company beginning January 1, 2011 and can be applied prospectively or retrospectively. The Company is currently evaluating the effect the adoption of this update will have, if any, on its results of operations or financial position when it becomes effective in 2011.

4. RESTRUCTURING CHARGES

Restructuring charges recorded by the Company consists of severance and employee related costs and facility costs primarily related to the consolidation of facilities, reducing duplicative positions and the consolidation of administrative functions as part of the Company's planned integration with American Color Graphics' ("ACG") operations (the "Integration Plan").

In the quarter ended March 31, 2010, the Company expensed approximately $7.3 million in restructuring costs primarily related to consolidation efforts associated with the Integration Plan. As a part of these efforts, one Advertising Inserts facility was closed and four others were downsized. The restructuring charges recorded for these actions included the termination of approximately 358 employees and facility closing costs. During the three months ended March 31, 2010, costs savings initiatives were implemented, which included the termination of an additional 41 employees. In addition, expenses related to prior restructuring programs that could not be accrued were recorded.

In the three months ended March 31, 2009, the Company expensed approximately $3.9 million in restructuring costs primarily related to the restructuring programs associated with the Integration Plan. These restructuring costs primarily related to costs that could not be accrued for as part of the fresh-start balance sheet and, to a lesser degree, additional severance and employee related costs and lease termination costs.

The Company is continuously evaluating the need to implement restructuring programs to rationalize its costs and improve operating efficiency. During the remainder of 2010, the Company anticipates incurring additional restructuring costs in an on-going effort to achieve these objectives.

The significant components of restructuring charges were as follows:

(in thousands)	Severance and Related Costs	Asset Write-downs	Facility Closing Costs	Total
Balance at January 1, 2009	$ 14,528		$ 8,014	$ 22,542
Restructuring charges in the three months ended March 2009	1,683	$ 14	2,171	3,868
Restructuring payments and asset write-downs in the three months ended March 2009	(8,098)	(14)	(4,058)	(12,170)
Other adjustments in the three months ended March 2009	444		128	572
Balance at March 31, 2009	$ 8,557	$ -	$ 6,255	14,812
Balance at January 1, 2010	$ 2,650	$ -	$ 3,850	$ 6,500
Restructuring charges in the three months ended March 2010	5,045		2,262	$ 7,307
Restructuring payments and asset write-downs in the three months ended March 2010	(4,424)		(2,451)	(6,875)
Other adjustments in the three months ended March 2010	70		364	434
Balance at March 31, 2010	$ 3,341	$ -	$ 4,025	$ 7,366

The Company expects to pay approximately $6.2 million of the accrued restructuring costs during the next twelve months, and the remainder, approximately $1.2 million, by 2014. The portion of this accrual attributable to facility closing costs is recorded net of estimated sublease income at its present value. Actual future cash requirements may differ from the accrual, particularly if actual sublease income differs from current estimates.

5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

(in thousands)	March 31, 2010	December 31, 2009
Trade – billled	$ 152,201	$ 180,573
Trade - unbilled	14,488	11,176
Other receivables	3,517	3,288
	170,206	195,037
Allowance for doubtful accounts	(5,679)	(7,005)
	$ 164,527	$ 188,032

6. INVENTORIES

Inventories consisted of the following:

(in thousands)	March 31, 2010	December 31, 2009
Paper	$ 19,379	$ 20,597
Ink and chemicals	3,737	3,389
Work in process	2,595	2,014
Finished goods	9,138	3,639
Other	5,149	5,345
	$ 39,998	$ 34,984

7. OTHER INTANGIBLE ASSETS

Other intangible assets consisted of the following:

(in thousands)	Estimated Useful Life (Years)	March 31, 2010	December 31, 2009
Gross:			
Customer base	2 to 20	$ 201,488	$ 201,488
Trade Name	Indefinite	53,980	53,980
Other intangibles	5 to 7	3,082	3,082
Total gross intangibles		258,550	258,550
Accumulated amortization:			
Customer base		(21,485)	(17,904)
Other intangibles		(724)	(604)
Total accumulated amortization		(22,209)	(18,508)
		$ 236,341	$ 240,042

The Company adopted fresh-start reporting effective October 1, 2008 (see Note 2). In accordance with ASC 852-10, other intangible assets were adjusted to estimated fair value. Intangible assets associated with the customer base have a weighted average amortization period of 16 years, while other intangibles (other than trade name) have a weighted average amortization period of 6 years. The trade name has been determined to have an indefinite useful life and is not amortized. The trade name allocated to certain of the reporting units within the Corporate and Other segment with a carrying amount of $5.1 million was written down in the year ended December 31, 2009 to its implied fair value of $3.6 million, resulting in an impairment charge of $1.5 million. The Company recorded no impairment in the three months ended March 31, 2010. The Company recorded amortization of the other identified intangibles of $3.7 million and $3.8 million in the three months ended March 31, 2010 and 2009, respectively. Scheduled amortization expense for the Company's intangible assets as of March 31, 2010 is:

(in thousands)

2010 (April 1 – December 31)	$ 11,011
2011	14,430
2012	14,059
2013	13,921
2014	13,322

8. LONG -TERM DEBT

Long-term debt consisted of the following in the order of priority:

(in thousands)	March 31, 2010	December 31, 2009
Senior secured revolving credit facility (due July 2012)	$ 42,102	$ 70,891
Term loan facility B (due July 2012)	87,750	94,000
Term loan facility C-1 (due July 2012)	153,525	146,844
Term loan facility C-2 (due July 2012)	153,467	147,284
$350 million 18 ½% senior secured second lien notes (due October 2012)	414,601	414,601
$200 million 13 ½% senior notes, net of discount (due April 2014)	225,575	225,509
Capital leases	2,629	2,651
	1,079,649	1,101,780
Current portion	(25,764)	(25,705)
	$1,053,885	$1,076,075

The above balances do not include cash and accrued payment-in-kind ("PIK) interest that has yet to be applied to principal. These amounts, which are recorded in accrued interest in the condensed consolidated balance sheet, consist of the following:

(in thousands)	March 31, 2010	December 31, 2009
Term loan facility C-1	$ 4,759	$ 4,626
Term loan facility C-2	3,907	3,764
$350 million 181/2% Senior Secured Second Lien Notes	38,351	19,388
$200 million 131/2% Notes, net of discount	15,298	7,649
Total accrued PIK interest	62,315	35,427
Accrued cash interest	391	283
Total accrued interest	$ 62,706	$ 35,710

Senior Secured Revolving Credit Facility

Upon consummation of the Company's prepackaged plan of reorganization (the "Plan"), on October 17, 2008, Holdings, the Company and certain of its subsidiaries (the "Subsidiary Guarantors") entered into a $250 million Senior Secured Credit Agreement (the "Revolving Credit Facility") with General Electric Capital Corporation as Agent, L/C Issuer, Swing Line Lender and Lender (as such terms are defined therein), GE Capital Markets, Inc. as Lead Arranger and Book-Running Manager, Bank of America, N.A. as Syndication Agent and the other Credit Parties and Lenders named therein. The Revolving Credit Facility consists of a $225 million senior secured last-in first-out revolving credit tranche (the "LIFO Tranche") and a $25 million senior secured first-in last-out fully funded tranche (the "FILO Tranche") and provides for the issuance of up to $60 million in letters of credit and $35 million in swing line loans as sub-limits under the LIFO Tranche.

The maximum availability under the LIFO Tranche is $225 million, limited to a borrowing base calculated as follows: up to 85% of our eligible receivables and the Subsidiary Guarantors' eligible receivables plus up to the lesser of (i) 60% of eligible raw materials inventory or (ii) 85% of the net orderly liquidation value of eligible inventory, less any applicable reserves established by the Agent (as defined therein). The maximum availability under the FILO Tranche is $25 million, limited to a borrowing base calculated as follows: up to 10% of the Company's and the Subsidiary Guarantors' eligible receivables reflected on the Company's accounts receivable aging, plus up to 60% of the Company's and the Subsidiary Guarantors' eligible unbilled accounts receivable plus up to 60% of the Company's eligible accounts receivable then reflected on the Company's balance sheets but not reflected on the accounts receivable aging, plus 100% of the eligible inventory not otherwise included in the LIFO

Tranche borrowing base. Including our cash balance as of March 31, 2010 of $0.2 million, our total availability under both tranches was $72.9 million as of March 31, 2010.

The Revolving Credit Facility includes a minimum fixed charge coverage ratio covenant to be applicable on a consolidated basis, including subsidiaries, immediately upon the LIFO Tranche availability being less than $22.5 million at any time. The covenant shall cease to be applicable (i) after at least six months and (ii) if, and only if, LIFO Tranche borrowing availability is equal to or greater than $30 million each day for a period of three consecutive months. The prepayment penalty on the FILO Tranche is 3% during year 1, 2% during year 2, 1% during year 3, and none thereafter. The FILO Tranche is assumed to be prepaid if the LIFO Tranche is zero. As of March 31, 2010, this minimum fixed charge coverage ratio covenant was not applicable to the Revolving Credit Facility.

The interest rate on the Revolving Credit Facility is based on either (a) the floating rate of interest per annum equal to the higher of the rate publicly quoted from time to time by The Wall Street Journal as the "base rate on corporate loans posted by at least 75% of the nation's 30 largest banks" or the federal funds rate plus a margin of 3.0% for the LIFO Tranche and 8.0% for the FILO Tranche, or (b) so long as no event of default under the Revolving Credit Facility exists, a per annum rate equal to the London interbank offered rate plus a margin of 4.0% for the LIFO Tranche and 9.0% for the FILO Tranche. The London interbank market rate is set at a floor of 3.0% for the LIFO Tranche and 4.0% for the FILO Tranche. As of March 31, 2010, the weighted average interest rate for the Revolving Credit Facility was 10.8%.

The Revolving Credit Facility is secured by a lien on substantially all of the assets of the Company and the assets of the Subsidiary Guarantors with a first priority lien on current assets and a second priority lien on fixed assets and intellectual property.

Term Loan Facility

Also upon consummation of the Plan, on October 17, 2008, Holdings, the Company and the Subsidiary Guarantors entered into a Term Loan Credit Agreement (the "Term Loan Facility") with Ableco Finance LLC as Term Loan B Administrative Agent and Collateral Agent and Bank of America, N.A. as Term Loan C Administrative Agent and the other financial institutions party thereto as lenders in an aggregate principal amount of approximately $397.5 million. The Term Loan Facility consists of a $150 million first out Term Loan B tranche (the "Term Loan B"), a $122 million middle out Term Loan C-1 tranche (the "Term Loan C-1"), an approximate $123 million last out Term Loan C-2 tranche and a delayed draw Term Loan C-2 tranche of $4.5 million (the "Term Loan C-2" and together with Term Loan C-1, the "Term Loan C"). The Term Loan Facility matures on July 17, 2012 or earlier upon the occurrence of certain other events set forth in the Term Loan Facility.

The Term Loan Facility provides for a maximum capital expenditure covenant, a Term Loan B leverage ratio, a senior leverage ratio, a fixed charge coverage ratio, a minimum EBITDA requirement and a minimum excess availability covenant. Additionally, the Term Loan Facility includes customary covenants including limitations on dividends on, and redemptions and repurchases of, equity interests and other restricted payments, prepayments (the prepayment fee on the Term Loan Facility is 3% during year 1, 2.25% during year 2 and 1.5% during year 3), redemptions and repurchases of indebtedness, liens, indebtedness guarantees, mergers, acquisitions and asset sales. The Company is obligated to prepay a portion of the outstanding principal amount of the Term Loans in the amount equal to 67.5% of the Excess Cash Flow (as defined therein) for the immediately preceding fiscal year, commencing February 15, 2011. Management estimates this prepayment to be within a range of $20 million to $30 million on February 15, 2011.

The interest rate applicable to the Term Loan B is equal to either, the London interbank offered rate (subject to a floor of 4.0%) plus a margin of 9.0% or an alternate base rate plus a margin of 8.0% (the alternate base rate is the higher of the prime rate and federal funds rate plus a margin). The interest rate applicable to the Term C Loan is set forth in the Term Loan Facility, including interest payable in combinations of cash and payment in kind after the first two years, depending on satisfaction of certain conditions, including a minimum fixed charge coverage ratio. The interest rate applicable to the Term Loan C-1 is the London interbank offered rate (subject to a floor of 3.5%) plus a margin of 14.5%. The interest rate applicable to the Term Loan C-2 is the London interbank offered rate (subject to a floor of 3.5%) plus a margin of 13.25%. As of March 31, 2010, the weighted average interest rate for the Term Loan Facility was 16.4%. The Term Loan Facility is secured by a lien on substantially all of the assets of the Company and the assets of the Subsidiary Guarantors with a first priority lien on fixed assets and intellectual property and a second priority lien on current assets.

Covenants

The Revolving Credit Facility, the Term Loan, the second lien notes and the senior notes include customary covenants including restrictions on indebtedness, liens, investments, asset sales, restricted payments and changes relating to certain indebtedness, mergers, consolidations and the like, changes in the nature of our businesses and transactions and the Subsidiary Guarantors' businesses and transactions with affiliates. In particular, these debt instruments all contain customary high-yield debt covenants imposing limitations on the payment of dividends or other distributions by us or on or in respect the capital stock of our restricted subsidiaries. Substantially all of the assets of the Company are pledged as collateral for the outstanding debt under the Revolving Credit Facility and the Term Loan on a first lien basis, and, on a third lien basis to the senior secured second lien notes. All of the Company's debt has customary provisions requiring prepayment in the event of a change in control and from the proceeds of asset sales, as well as cross default or cross acceleration provisions. As of March 31, 2010, the Company was in compliance with all of its debt covenants.

9. RETIREMENT PLANS

The following table provides the components of net periodic benefit cost for the Company's defined benefit plans, including pension and supplemental executive retirement plans, for the three months ended March 31, 2010 and 2009.

(in thousands)	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Service cost	$ 162	$ 164
Interest cost	1,632	1,627
Expected return on plan assets	(1,318)	(1,282)
Amortization of net loss	35	12
Net periodic benefit cost	$ 511	$ 521

The net periodic benefit cost for the Company's non U.S. pension plan for the three months ended March 31, 2010 and 2009 was approximately $45,000 and $41,000, respectively. The net periodic benefit cost for the Company's other post-retirement plan for the three months ended March 31, 2010 and 2009 was $15,000 and $12,500, respectively.

The Company made contributions of approximately $0.3 million, $43,000, and $25,000 to its funded and unfunded domestic defined benefit pension plans, non-US defined benefit pension plan and other post-retirement plan, respectively, in the three months ended March 31, 2010. In total, the Company expects to contribute approximately $6.2 million, $0.3 million, and $0.1 million to its funded and unfunded domestic defined benefit pension plans, non-US defined benefit pension plan and other post-retirement plan, respectively, for the year ending December 31, 2010.

10. FAIR VALUE

In September 2006, the FASB issued ASC 820, "Fair Value Measurements" ("ASC 820"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 applies to other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The principal market, as prescribed by ASC 820, is the market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability. If there is no principal market, the most advantageous market is used. This is the market in which the reporting entity would sell the asset or transfer the liability with the price that maximizes the amount that would be received for the asset or minimizes the amount that would be paid to transfer the liability. ASC 820 clarifies that fair value should be based on assumptions market participants would make in pricing the asset or liability. Where available, fair value is based on observable quoted market prices or derived from observable market data.

Where observable prices or inputs are not available, valuation models are used (i.e., Black-Scholes or a binomial model).

ASC 820 established a three level fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other then quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3-Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

As of March 31, 2010, the carrying amount of the Revolving Credit Facility and Term Loan facility approximates fair value. The fair value of the senior second secured lien notes, with a principal amount of $414.6 million, approximated $402.2 million at March 31, 2010. The fair value of the senior notes, with a principal value of $226.6 million, approximated $75.9 million at March 31, 2010.

11. INTEREST EXPENSE, NET

Interest expense, net consists of the following:

(in thousands)	**Three Months Ended March 31,**	
	2010	**2009**
Interest cost	$ 44,900	$ 41,749

Amortization of deferred financing fees	1,520	1,520
Amortization of long-term debt discounts	66	66
Capitalized interest	(133)	(20)
Unused Commitment Fees	518	564
Interest income	(8)	(91)
	$ 46,863	$ 43,788

The Company made interest payments of $4.2 million and $7.4 million in the three months ended March 31, 2010 and 2009, respectively. Of the $44.9 million in interest cost for the three months ended March 31, 2010 and the $41.7 million for the three months ended March 31, 2009, $39.8 million and $34.0 million, respectively, represent PIK interest.

12. INCOME TAXES

Vertis Holdings, Inc. files a consolidated federal income tax return with all of its subsidiaries including the Company. The Company or one of its subsidiaries also files income tax returns in various state and foreign jurisdictions. The Internal Revenue Service completed examinations of Vertis Holdings' U.S. income tax returns through 2003. Due to the statute of limitations the federal and state income tax returns filed for those years for Vertis Holdings, Inc. and subsidiaries existing during that time are no longer subject to examination by the tax authorities.

In connection with the 2008 reorganization, the Company realized income from the cancellation of certain indebtedness. Although this income was excluded from taxable income as it resulted from reorganization under the bankruptcy code, the Company was required to reduce certain tax attributes. All of the Company's net operating loss carryforwards, capital loss carryforwards, general business credit carryforwards and AMT credit carryforwards existing as of December 31, 2008 were consumed by cancellation of debt income.

During the quarter ended March 31, 2010, the Company increased the reserve for unrecognized tax positions under ASC 740-10-55 in the amount of $0.2 million, which was partially offset by a decrease of less than $0.1 million in the prior balance due to the expiration of the statute of limitations for items in the reserve. During the quarter ended March 31, 2009, the Company increased the reserve by less than $0.1 million. The Company recognizes interest and penalties accrued related to unrecognized tax positions as income tax expense.

The Company currently is not under examination for income taxes in any jurisdiction.

The income tax benefit of $11.9 million for the three months ended March 31, 2010 primarily related to current losses, recorded at an effective tax rate that includes the impact of a valuation allowance forecasted by the end of the full year. The income tax benefit of $24.4 million for the three months ended March 31, 2009 primarily related to pre-tax losses.

On April 16, 2010, Holdings announced commencement of certain refinancing activity (see Note 17, Subsequent Events). The refinancing activity, if completed as planned, will result in the Company's loss of or usage restrictions on certain future deductible differences which are currently recorded as deferred tax assets, including net operating losses, original issue discount amortization and amortizable transaction costs totaling approximately $308 million as of March 31, 2010.

13. COMPREHENSIVE LOSS

The following table provides a reconciliation of net loss to comprehensive loss for the three months ended March 31, 2010 and 2009.

(in thousands)	**Three Months Ended March 31,**	
	2010	**2009**
Net loss	$ (38,917)	$ (38,960)
Other comprehensive loss:		
Foreign currency translation gain, net of tax	337	
11		
Amortization of net loss (gain), net of tax	33	(7)
Total comprehensive loss	$ (38,547)	$ (38,956)

14. SEGMENT INFORMATION

The Company operates in two reportable segments. The Company uses EBITDA as the measure by which it gauges the profitability and assesses the performance of its segments. EBITDA represents income (loss) from continuing operations, plus:

- interest expense (net of interest income);
- income tax expense (benefit); and
- depreciation and amortization of intangibles.

The segments are:

- Advertising Inserts– provides a full array of targeted advertising products inserted into newspapers.
- Direct Marketing – provides personalized direct mail products and various direct marketing.

In addition, the Company also provides outsourced digital premedia and image content management, creative services for advertising insert page layout and design, and media planning and placement services. These services are included in the table below as "Corporate and Other." Corporate and Other also includes the Company's general corporate costs, which reflect costs associated with the Company's executive officers as well as other transactions that are not allocated to the Company's business segments. Also included in Corporate and Other are the costs associated with the integration of the Company and ACG in the amount of $0.2 million and $6.1 million for the three months ended March 31, 2010 and 2009, respectively.

The following is information regarding the Company's segments:

		Three Months Ended, March 31,	
(in thousands)		**2010**	**2009**
Revenue:			
External Revenue	Advertising Inserts	$ 191,168	$ 229,806
	Direct Marketing	75,509	73,825
	Corporate and Other	20,588	24,630
	Consolidated	$ 287,265	$ 328,261

Intersegment Revenue	Advertising Inserts	114	216
	Direct Marketing	640	201
	Corporate and Other	1,292	1,405
	Consolidated	2,046	1,822
	Elimination of intersegment revenue	(2,046)	(1,822)
	Consolidated revenue	$ 287,265	$ 328,261
EBITDA	Advertising Inserts	$ 13,379	$ 16,980
	Direct Marketing	8,836	5,097
	Corporate and Other	(1,587)	(9,001)
	Consolidated EBITDA	20,628	13,076
	Depreciation and amortization of intangibles	24,630	32,678
	Interest expense, net	46,863	43,788
	Income tax benefit	(11,948)	(24,430)
	Net loss	$ (38,917)	$ (38,960)
Restructuring charges	Advertising Inserts	$ 6,392	$ 3,094
	Direct Marketing	122	389
	Corporate and Other	793	385
	Consolidated	$ 7,307	$ 3,868
Depreciation and amortization of intangibles	Advertising Inserts	$ 16,952	$ 24,214
	Direct Marketing	4,969	5,054
	Corporate and Other	2,709	3,410
	Consolidated	$ 24,630	$ 32,678
Additions to property, plant and equipment	Advertising Inserts	$ 5,505	$ 1,795
	Direct Marketing	1,737	1,412
	Corporate and Other	1,733	1,216
	Consolidated	$ 8,975	$ 4,423
Identifiable assets	Advertising Inserts	$ 1,006,118	
	Direct Marketing	312,360	
	Corporate and Other	173,613	
	Consolidated	$ 1,492,091	
Goodwill	Advertising Inserts	$ 205,110	
	Direct Marketing	55,002	
	Corporate and Other	28,073	
	Consolidated	$ 288,185	

15. GUARANTOR/NON-GUARANTOR CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Company has two series of notes which are general obligations of Vertis, Inc., and are guaranteed by certain of its domestic subsidiaries. Accordingly, the following condensed consolidated financial information as of March 31, 2010 and December 31, 2009, and for the three months ended March 31, 2010 and 2009, are included for (a) Vertis, Inc. (the "Parent") on a stand-alone basis, (b) the guarantor subsidiaries, (c) the non-guarantor subsidiaries and (d) the Company on a consolidated basis.

As of March 31, 2010, the guarantor subsidiaries include ACG Holdings, Inc., a Delaware corporation (including its subsidiary, ACG) and Webcraft LLC (including its subsidiary Webcraft Chemicals LLC), both of which are wholly-owned subsidiaries of Vertis, Inc. The operations of ACG are reported in the Advertising Inserts segment, as well as Corporate and Other elsewhere in these condensed consolidated financial statements. The operations of Webcraft LLC and Webcraft Chemicals LLC are reported in the Direct Marketing segment. The non-guarantor subsidiary is Laser Tech Color Mexico, S.A. de C.V., which is a wholly-owned subsidiary of Vertis, Inc., and whose operations are included in Corporate and Other elsewhere in the condensed consolidated financial statements. The Parent includes the operations of Advertising Inserts as well as some Direct Marketing operations and operations reported under Corporate and Other.

Investments in subsidiaries are accounted for using the equity method for purposes of the consolidating presentation. The principal elimination entries eliminate investments in subsidiaries, intercompany balances and intercompany transactions. Separate financial statements and other disclosures with respect to the subsidiary guarantors have not been made because the subsidiaries are wholly-owned and the guarantees are full and unconditional and joint and several.

Condensed Consolidating Balance Sheet Information at March 31, 2010

In thousands

	Parent	Guarantor Companies	Non-Guarantor Companies	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 179	$ 10	$ 15		$ 204
Accounts receivable, net	100,807	63,499	221		164,527
Inventories, net	24,881	15,117			39,998
Deferred income taxes	15,449	5,839			21,288
Maintenance parts	9,013	4,657			13,670
Prepaid expenses and other current assets	14,281	1,562			15,843
Current assets held for sale	4,778				4,778
Total current assets	169,388	90,684	236		260,308
Intercompany receivable	148,176			$ (148,176)	
Investments in subsidiaries	245,178	850		(246,028)	
Property, plant and equipment, net	403,057	280,386	2		683,445
Goodwill	167,685	120,500			288,185
Deferred financing costs	13,682				13,682
Other intangible assets, net	132,621	103,720			236,341
Other assets	9,466	664			10,130
Total assets	$ 1,289,253	$ 596,804	$ 238	$ (394,204)	$ 1,492,091
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)					
Current Liabilities:					
Accounts payable	$ 105,158	$ 30,868			$ 136,026
Compensation and benefits payable	32,920	7,943	$ 34		40,897
Accrued interest	62,706				62,706
Current portion of long-term debt	25,405	359			25,764
Other current liabilities	26,952	4,450	90		31,492
Total current liabilities	253,141	43,620	124		296,885
Due to parent	1,283	131,630	16,546	$ (148,176)	1,283
Long-term debt	1,053,885				1,053,885
Deferred income taxes	(45,656)	91,102			45,446
Other long-term liabilities	20,677	67,992			88,669
Total liabilities	1,283,330	334,344	16,670	(148,176)	1,486,168
Stockholder's equity (deficit)	5,923	262,460	(16,432)	(246,028)	5,923
Total liabilities and stockholder's Equity (deficit)	$ 1,289,253	$ 596,804	$ 238	$ (394,204)	$ 1,492,091

Condensed Consolidating Balance Sheet Information at December 31, 2009

In thousands

	Parent	Guarantor Companies	Non-Guarantor Companies	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents		$ 506	$ 769		$ 1,275
Accounts receivable, net	$ 100,373	86,962	697		188,032
Inventories, net	18,309	16,668	7		34,984
Deferred income taxes	9,229	12,059			21,288
Maintenance parts	8,995	4,771			13,766
Prepaid expenses and other current assets	10,260	1,803	10		12,073
Current assets held for sale	7,007				7,007
Total current assets	154,173	122,769	1,483		278,425
Intercompany receivable	230,915			$ (230,915)	
Investments in subsidiaries	243,578	850		(244,428)	
Property, plant and equipment, net	410,196	284,835	237		695,268
Goodwill	167,685	120,500			288,185
Deferred financing costs	15,202				15,202
Other intangible assets, net	134,256	105,786			240,042
Other assets	9,543	677			10,220
Total assets	$ 1,365,548	$ 635,417	$ 1,720	$ (475,343)	$ 1,527,342
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)					
Current Liabilities:					
Accounts payable	$ 102,517	$ 27,176			$ 129,693
Compensation and benefits payable	29,413	7,543	$ 34		36,990
Accrued interest	35,710				35,710
Current portion of long-term debt	25,351	354			25,705
Other current liabilities	25,284	5,211	213		30,708
Total current liabilities	218,275	40,284	247		258,806
Due to parent	1,091	213,043	17,872	$ (230,915)	1,091
Long-term debt	1,075,353	722			1,076,075
Deferred income taxes	9,361	48,068	7		57,436
Other long-term liabilities	16,998	72,466			89,464
Total liabilities	1,321,078	374,583	18,126	(230,915)	1,482,872
Stockholder's equity (deficit)	44,470	260,834	(16,406)	(244,428)	44,470
Total liabilities and stockholder's equity (deficit)	$ 1,365,548	$ 635,417	$ 1,720	$ (475,343)	$ 1,527,342

Condensed Consolidating Statement of Operations

Three Months Ended March 31, 2010

In thousands

	Parent	Guarantor Companies	Non-Guarantor Companies	Eliminations	Consolidated
Revenue	$ 170,250	$ 118,353	$ 87	$ (1,425)	$ 287,265
Operating expenses:					
Costs of production	135,761	93,568	88	(1,425)	227,992
Selling, general and administrative	23,300	7,949	3		31,252
Restructuring charges	3,078	4,203	26		7,307
Depreciation and amortization of intangibles	14,970	9,663	(3)		24,630
	177,109	115,383	114	(1,425)	291,181
Operating (loss) income	(6,859)	2,970	(27)		(3,916)
Other expenses:					
Interest expense, net	46,227	636			46,863
Other, net	5	82	(1)		86
	46,232	718	(1)		46,949
Equity in net income of subsidiaries	1,600			(1,600)	
(Loss) Income before income taxes	(51,491)	2,252	(26)	(1,600)	(50,865)
Income tax (benefit) expense	(12,574)	626			(11,948)
Net (loss) income	$ (38,917)	$ 1,626	$ (26)	$ (1,600)	$ 38,917)

Condensed Consolidating Statement of Operations

Three Months Ended March 31, 2009

In thousands

	Parent	Guarantor Companies	Non-Guarantor Companies	Eliminations	Consolidated
Revenue	$ 196,222	$ 133,225	$ 434	$ (1,620)	$ 328,261
Operating expenses:					
Costs of production	162,768	109,815	234	(1,620)	271,197
Selling, general and administrative	27,026	13,029	11		40,066
Restructuring charges	2,260	1,608			3,868
Depreciation and amortization of intangibles	21,342	11,325	11		32,678
	213,396	135,777	256	(1,620)	347,809
Operating (loss) income	(17,174)	(2,552)	178		(19,548)
Other expenses:					
Interest expense, net	43,166	622			43,788
Other, net	3	35	16		54
	43,169	657	16		43,842
Equity in net income of subsidiaries	(2,112)			2,112	
(Loss) income before income taxes	(62,455)	(3,209)	162	2,112	(63,390)
Income tax (benefit) expense	(23,495)	(981)	46		(24,430)
Net (loss) income	$ (38,960)	$ (2,228)	$ 116	$ 2,112	$ (38,960)

Condensed Consolidating Statement of Cash Flows

Three Months Ended March 31, 2010

In thousands

	Parent	Guarantor Companies	Non-Guarantor Companies	Consolidated
Cash Flows from Operating Activities:				
Net cash provided by operating activities	$ 4,891	$ 34,529	$ 635	$ 40,055
Cash Flows from Investing Activities:				
Capital expenditures	(5,303)	(2,686)	236	(7,753)
Software development costs capitalized	(530)			(530)
Proceeds from sale of property, plant and equipment and divested assets	2,401			2,401
Net cash used in (provided by) investing activities	(3,432)	(2,686)	236	(5,882)
Cash Flows from Financing Activities:				
Borrowings under revolving credit facilities	176,611			176,611
Repayment under revolving credit facilities	(205,400)			(205,400)
Repayments under term loan	(6,250)			(6,250)
Repayments of capital lease obligations	(12)	(171)		(183)
Distributions from (advances to) parent	35,437	(33,635)	(1,859)	(57)
Net cash provided by (used in) financing activities	386	(33,806)	(1,859)	(35,279)
Effect of exchange rate changes on cash	-	(199)	234	35
Net (decrease) increase in cash and cash equivalents	1,845	(2,162)	(754)	(1,071)
Cash and cash equivalents at beginning of year	(1,666)	2,172	769	1,275
Cash and cash equivalents at end of period	$ 179	$ 10	$ 15	$ 204

Condensed Consolidating Statement of Cash Flows

Three Months Ended March 31, 2009

In thousands

	Parent	Guarantor Companies	Non-Guarantor Companies	Consolidated
Cash Flows from Operating Activities:				
Net cash provided by operating activities	$ 1,568	$ 14,513	$ 93	$ 16,174
Cash Flows from Investing Activities:				
Capital expenditures	(2,372)	(1,046)	(25)	(3,443)
Software development costs capitalized	(614)			(614)
Proceeds from sale of property, plant and equipment and divested assets	218			218
Net cash used in investing activities	(2,768)	(1,046)	(25)	(3,839)
Cash Flows from Financing Activities:				
Borrowings under revolving credit facilities	166,112			166,112
Repayment under revolving credit facilities	(169,206)			(169,206)
Repayments under term loan	(10,000)			(10,000)
Repayments of capital lease obligations	(64)			(64)
Distributions from (advances to) parent	13,714	(13,530)	(184)	
Net cash provided by (used in) financing activities	556	(13,530)	(184)	(13,158)
Effect of exchange rate changes on cash	-	108	(1)	107
Net (decrease) increase in cash and cash equivalents	(644)	45	(117)	(716)
Cash and cash equivalents at beginning of year	971	(126)	297	1,142
Cash and cash equivalents at end of period	$ 327	$ (81)	$ 180	$ 426

16. CONTINGENCIES AND UNCERTAINTIES

The Company is subject to laws and regulations relating to the protection of the environment. The Company provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. Such accruals are adjusted as new information develops or circumstances change and are not discounted. The Comprehensive Environmental Response, Compensation & Liability Act of 1980, as amended ("CERCLA"), provides for strict, and under certain circumstances, joint and several liability, for among other things, generators of hazardous substances disposed of at contaminated sites. The Company has been designated as a potentially responsible party ("PRP") at a former hazardous waste treatment and storage facility, known as the Omega Chemical Corporation, that operated from 1976 to 1991 in the City of Whittier, California (the "Omega Property"). Contamination at the site is being addressed under CERCLA, and the Company is a part of the Omega Chemical Site PRP Organized Group or "OPOG" to undertake certain removal activities.

The Company does not currently believe it will incur material costs in the future in responding to conditions at the Omega Property; however, it is not possible at this time to determine the extent of any ultimate liability with respect to this site because neither the nature, the extent, nor the costs of remediation have been determined, and the allocation percentages could change in the future.

From time to time, the Company's customers and others file voluntary petitions for reorganization under United States bankruptcy laws. In such cases, certain pre-petition payments received by the Company could be considered preference items and subject to return to the bankruptcy administrator. In addition, the Company may be party to certain litigation arising in the ordinary course of business. Management believes that the final resolution of these preference items and litigation will not have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows.

In connection with the merger with ACG, the Company assumed multi-year contracts to purchase a portion of the Company's raw materials to be used in its normal operations. In connection with such purchase agreements, the pricing for a portion of the Company's raw materials is adjusted for certain movements in market prices, changes in raw material costs and other specific price increases while purchase quantity levels are variable based upon certain contractual requirements and conditions. The Company is deferring certain contractual provisions over the life of the contracts, which are being recognized as the purchase commitments are achieved and the related inventory is sold. In connection with fresh-start reporting these deferred items were valued at their present values based on the expected cash flow. The amount deferred at March 31, 2010 and December 31, 2009 was $25.7 million and $26.6 million, respectively. These amounts were included within other long-term liabilities in the Company's condensed consolidated balance sheet. The undiscounted amount of these items was $31.1 million and $32.3 million as of March 31, 2010 and December 31, 2009, respectively.

The Company had outstanding letters of credit of $16.2 million at March 31, 2010.

17. SUBSEQUENT EVENTS

The Company has evaluated all subsequent events that occurred after the balance sheet date and through the date that its condensed consolidated financial statements were available to be issued on May 14, 2010.

On April 16, 2010, Holdings announced that the Company has commenced (i) a private exchange offer, a tender offer and a consent solicitation relating to its outstanding 131/2 percent Senior Pay-in-Kind Notes due 2014 (the "Senior Notes"), and (ii) a private exchange offer and a consent solicitation relating to its 181/2 percent Senior Secured Second Lien Notes due 2012 (the "Existing Second Lien Notes" and, together with the Senior PIK Notes, the "Notes") held by eligible holders (collectively, the "Offers").

The Offers represent elements of a comprehensive $1.1 billion refinancing of substantially all of the Company's outstanding secured and unsecured indebtedness. In addition to the Offers, the refinancing (collectively, the "Refinancing Transactions") is expected to include:

- the refinancing of the existing $225 million senior revolving credit facility and a portion of the existing $400 term loan with the proceeds of a new senior secured asset-based revolving credit facility of up to $200 million;

- the incurrence of approximately $600 million aggregate principal amount of new first lien term indebtedness, the proceeds of which will be used to refinance a portion of the existing term loan and to fund the cash consideration for the Second Lien Notes Exchange Offer;

- the exchange of approximately $74 million aggregate principal amount of Existing Second Lien Notes held by Avenue Capital for shares of 13.5 percent pay-in-kind preferred stock of Holdings in a private placement; and

- the issuance to Avenue Capital of approximately $113 million aggregate principal amount of new 13/15 percent PIK-Option Senior Secured Notes due 2016 in a private exchange for approximately $113 million of borrowings owed to Avenue Capital under the Company's existing term loan.

The purpose of the Refinancing Transactions is to improve the Company's capital structure by reducing its overall debt and its annual interest expense.

As of May 14, 2010, certain holders of the Notes, which collectively held, through one or more of their affiliates and consolidated funds, approximately 84.6% of the Senior Notes and 93.8% of the Existing Second Lien Notes, tendered their Notes in the applicable Exchange Offer at or prior to the applicable consent time.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Special Note Regarding Forward Looking Statements

We have included in this report, and from time to time our management may make, statements which may constitute "forward looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You may find discussions containing such forward looking statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as within this quarterly report generally. In addition, when used in this quarterly report, the words "believes," "anticipates," "expects," "estimates," "plans," "projects," "intends" and similar expressions are intended to identify forward looking statements. These forward looking statements include statements other than historical information or statements of current condition and represent our beliefs regarding future events, including certain projected revenues and synergies, many of which, by their nature, are inherently uncertain and outside of our control. Our actual results may differ, possibly materially, from the anticipated results indicated in these forward looking statements. Important factors that could cause actual results to differ from those in our specific forward looking statements include, but are not limited to:

- general economic and business conditions;
- our financial condition and liquidity and our high degree of leverage and significant debt service obligations;
- our ability to refinance a significant amount of our debt that matures in 2012;
- changes in the advertising, marketing and information services markets;
- the financial condition of our customers;
- the demand for our products and services;
- our ability to execute key strategies;
- our ability to realize expected cost-savings and synergies from operational efficiency initiatives;
- our ability to renew contracts with our customers on favorable terms, or at all;
- the level of capital resources required for our operations;
- actions by our competitors;

- the effects of supplier price fluctuations on our operations, including fluctuations in the price of raw materials we use;
- our ability to attract and retain key personnel;
- downgrades in, or lower than expected credit ratings;
- changes in interest rates;
- changes in the legal and regulatory environment; and
- other matters discussed in this document generally.

Consequently, readers of this quarterly report should consider these forward-looking statements only as our current plans, estimates and beliefs. We do not undertake any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. We undertake no obligation to update or revise any forward-looking statement in this document to reflect any new events or any change in conditions or circumstances. All of the forward-looking statements in this document are expressly qualified by these cautionary statements. Even if our plans, estimates or beliefs change because of future events or circumstances after the date of these statements, or because anticipated or unanticipated events occur, we disclaim any obligation to update these forward-looking statements.

Unless the context suggests otherwise, the terms "we," "our," "ours," and "us" refer to Vertis, Inc., its parent, Vertis Holdings, Inc. and their subsidiaries and are sometimes collectively referred to herein as the "Company".

Introductory Overview

Company Overview

We are a leading provider of marketing communications services and one of the largest offset printers in North America. We offer our clients insert advertising, direct mail production and distribution, and related services. We believe our experience in the planning, design, production, distribution and measurement of effective advertising messages allows our clients to maximize their return on marketing dollar spend by outsourcing their market communications function to us. By offering an extensive list of solutions distributed across a broad spectrum of media, we enable our clients to reach customers with the most effective message. Customers employ these services individually or on a combined basis to create targeted marketing solutions.

We operate through two reportable business segments: Advertising Inserts and Direct Marketing. Advertising Inserts provides a full product line of printed targeted advertising products inserted into newspapers. Direct Marketing provides personalized direct mail and marketing products. In addition, we also provide Premedia and Media Services. Integrated Media Solutions, which includes our Premedia, Media Services and other businesses, is included in Corporate and Other, together with corporate costs we incurred.

Advertising spending for key customers continues to be impacted by adverse trends in the economy. We have continued to improve liquidity, through a number of initiatives, including successfully negotiating improved vendor terms and removing the requirement for letters of credit with some vendors. We continue to focus our efforts on sales, as well as cost reductions. These measures are designed to buffer us against continued economic downturn.

Our merger integration with ACG continues and the current synergy estimates continue to exceed the initial estimates. We continue to identify additional cost saving opportunities and synergies as a result of the merger and have committed resources to capture these identified cost reductions. We anticipate incremental actions during 2010 that will yield additional savings.

Restructuring

Restructuring charges consists of severance and employee related costs and facility costs primarily related to the consolidation of facilities, reducing duplicative positions and the consolidation of administrative functions as part of our planned integration with American Color Graphics' operations (the "Integration Plan").

In the first quarter of 2010, we expensed approximately $7.3 million in restructuring costs primarily related to our consolidation efforts associated with the Integration Plan. As a part of these efforts, we closed one Advertising Inserts facility and downsized four others. The restructuring charges recorded for these actions included the termination of approximately 358 employees and facility closing costs. During the first quarter of 2010, we also implemented costs savings initiatives, which included the termination of an additional 41 employees. In addition, expenses related to prior restructuring programs that could not be accrued were recorded.

In the first quarter of 2009, we expensed approximately $3.9 million in restructuring costs primarily related to the restructuring programs associated with our Integration Plan. These restructuring costs primarily related to costs that could not be accrued for as part of the fresh-start balance sheet and to a lesser degree additional severance and employee related costs and lease termination costs.

We continuously evaluate our clients' needs and make decisions to size our workforce and national network of facilities to match our business plans. We anticipate further restructuring costs during the remainder of the year ending December 31, 2010, in an on-going effort to achieve objectives. We expect to pay approximately $6.2 million of the accrued restructuring costs during the next twelve months (a portion of which we have expensed in the first quarter) and the remainder, approximately $1.2 million, by 2014.

Factors Affecting Comparability

Several factors can affect the comparability of our results from one period to another. Most significant among these factors is the merger and integration with ACG that commenced in October 2008. For example, the quarter ended March 31, 2009, six months following the merger with ACG, included higher costs and minimal cost savings while the quarter ended March 31, 2010, approximately 18 months following the merger with ACG, included a significant impact of the benefits realized as a result of our cost savings initiatives and synergies achieved. Other factors include seasonality, the cost of paper, changes in business mix, the timing of restructuring expenses and the realization of the associated benefits. Therefore, these matters should be considered in assessing the discussion below.

The cost of paper is a principal factor in our pricing to certain customers since a substantial portion of our revenue includes the cost of paper. Therefore, changes in the cost of paper and changes in the proportion of paper supplied by our customers significantly affects the revenue we generate from the sale of Advertising Insert and Direct Marketing products, both of which are products where paper is a substantial portion of the costs of production. We are generally able to pass on increases in the cost of paper to our customers while decreases in paper costs generally result in lower prices to customers.

Variances in expenses expressed in terms of percentage of revenue can fluctuate based on changes in business mix and are influenced by the change in revenue directly resulting from changes in paper prices and the proportion of paper supplied by our customers. As our business mix changes, the nature of products sold in a period can lead to offsetting increases and decreases in different expense categories as a percentage of revenue.

You should consider all of these factors in reviewing the discussion of our operating results.

Results of Operations

The following table presents major components from our condensed consolidated statements of operations and condensed consolidated statements of cash flows:

	Three Months Ended March 31,		Percentage of Revenue Three Months Ended March 31,	
	2010	2009	2010	2009
Revenue	$ 287,265	$ 328,261	100.0%	100.0%
Costs of production	227,992	271,197	79.4%	82.6%
Selling, general and administrative	31,252	40,066	10.9%	12.2%
Restructuring charges	7,307	3,868	2.5%	1.2%
Depreciation and amortization of intangibles	24,630	32,678	8.6%	10.0%
Total operating costs	291,181	347,809	101.4%	106.0%
Operating loss	$ (3,916)	$ (19,548)	(1.4%)	(6.0%)

Other data:

Cash flows provided by operating activities	$ 40,055	$ 16,174		
Cash flows used in investing activities	(5,882)	(3,839)		
Cash flows used in financing activities	(35,279)	(13,158)		
EBITDA	$ 20,628	$ 13,076	7.2%	4.0%
Adjusted EBITDA	$ 28,300	$ 22,744	9.9%	6.9%

EBITDA represents net loss plus:

- interest expense (net of interest income);
- income tax benefit; and
- depreciation and amortization of intangibles.

Adjusted EBITDA represents EBITDA (defined above) adding back all restructuring charges as well as charges related to the achievement of the Integration Plan and certain non-cash items as defined by the current debt agreement. This is the measurement reported to our chief operating decision maker for the purpose of making decisions about allocating resources to the segments and assessing performance of the segments.

We present EBITDA and Adjusted EBITDA to provide additional information regarding our performance and because these are measures by which we gauge the profitability and assess the performance of our segments as we believe these are appropriate metrics to use in measuring our ability to service our existing debt obligations. These EBITDA calculations are not measures of financial performance in accordance with accounting principles generally accepted in the United States of America ("GAAP"). You should not consider these measures alternatives to net income (loss) as measures of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of EBITDA and Adjusted EBITDA may be different from the calculations used by other companies and therefore comparability may be limited. A reconciliation of EBITDA and Adjusted EBITDA to net loss is provided as follows:

(in thousands)	Three Months Ended March 31, 2010	2009
Net loss	$ (38,917)	$ (38,960)
Interest expense, net	46,863	43,788
Income tax benefit	(11,948)	(24,430)
Depreciation and amortization of intangibles	24,630	32,678
EBITDA	$ 20,628	$ 13,076
Restructuring charges	7,307	3,868
Integration costs	151	6,144
Other non-cash items, net	214	(344)
Adjusted EBITDA	$ 28,300	$ 22,744

Revenue

For the three months ended March 31, 2010, our consolidated revenue decreased $41.0 million, or 12.5%, to $287.3 million, from $328.3 million in the corresponding period in 2009. This decrease in revenues was primarily caused by declines in paper prices and volume in our Advertising Inserts segment and volume in our Integrated Media Solutions business units. The declines in revenue are indicative of a general weakness in the overall economy and its impacts on our primary customer segment, retailers. We have offset these declines in revenue by reducing our cost structure through plant consolidations, streamlining administrative operations and by fully executing on the identified synergies in our merger plan with ACG. This has allowed the Company to increase Adjusted EBITDA when comparing our results to the results for the corresponding prior period.

Our Advertising Inserts segment revenue decreased $38.7 million, or 16.8%, in the first quarter as compared to 2009 and Direct Marketing revenue increased $2.1 million, or 2.9%, in the first quarter as compared to 2009. See the "Segment Performance" section for further discussion.

Operating Expenses

For the three months ended March 31, 2010, our consolidated costs of production decreased $43.2 million, or 15.9%, from $271.2 million in 2009 to $228.0 million in 2010. As a percent of revenue, our costs of production have decreased to 79.4% from 82.6% for the three month period ended March 31, 2010 from the corresponding 2009 period. The decrease in costs of production in the quarter ended March 31, 2010 is primarily due to decreases in the cost of paper as well as cost savings achieved through plant consolidations resulting in increased utilization and efficiencies, supply chain initiatives and reductions in redundant labor and overhead costs.

Selling, general and administrative expenses decreased $8.8 million, or 22.0%, for the quarter ended March 31, 2010, from $40.1 million in the corresponding 2009 period to $31.3 million in 2010. As a percent of revenue, selling, general and administrative costs decreased to 10.9% from 12.2%. The decrease in selling, general and administrative expenses is primarily due to a $6.0 million decrease in costs related to the integration of the Company and ACG. In addition, these costs decreased as a result of cost savings initiatives being implemented, headcount reductions and lower commissions.

Restructuring charges for the three months ended March 31, 2010, were $7.3 million as compared to $3.9 million in the corresponding 2009 period. See the "Restructuring" section for a detailed discussion of restructuring charges.

Depreciation and amortization

Depreciation and amortization decreased $8.1 million, or 24.6%, for the three months ended March 31, 2010, from $32.7 million in 2009 to $24.6 million in 2010. The decrease in depreciation and amortization in the three months ended March 31, 2010 compared to the corresponding 2009 period is a result of certain assets reaching the end of their useful life.

Interest expense

Interest expense amounted to $46.9 million and $43.8 million for the three months ended March 31, 2010 and 2009, respectively. This increase is the result of higher levels of indebtedness due to payment-in-kind ("PIK") interest being added to the outstanding principal. Of the $46.9 million in interest expense for the three months ended March 31, 2010 and the $43.8 million for the three months ended March 31, 2009, $39.8 million and $34.0 million, respectively represent PIK interest.

Income taxes

For the three months ended March 31, 2010, the consolidated income tax benefit was $11.9 million versus $24.4 million in the corresponding 2009 period. This decrease in tax benefit is the result of lower pre-tax losses and a lower effective tax rate due to a projected 2010 valuation allowance that will be necessary as of December 31, 2010 for a portion of the deferred tax assets.

Net loss

Net loss was $38.9 million for the quarter ended March 31, 2010 versus $39.0 million in the corresponding 2009 period. This decrease is a result of the factors noted above.

Segment Performance

Set forth below is a discussion of the performance of our business segments based on revenue and Adjusted EBITDA, which is the measure reported to our chief operating decision maker for the purpose of making decisions about allocating resources to the segment and assessing performance of the segment as we believe that this is an appropriate metric to use in measuring our ability to service our existing debt. A tabular reconciliation of segment EBITDA to income (loss), in accordance with ASC 280, Segment Reporting ("ASC 280"), is contained in Note 14.

Actual

(in thousands)	**Three Months Ended March 31, 2010**		**Three Months Ended March 31, 2009**	
	Revenue	**Adj. EBITDA**	**Revenue**	**Adj. EBITDA**
Advertising Inserts	$ 191,282	$ 19,768	$ 230,022	$ 19,744
Direct Marketing	76,149	8,958	74,026	5,405
Other	21,880	(426)	26,035	(2,405)
Intersegment revenue	(2,046)	-	(1,822)	-
Total	$ 287,265	$ 28,300	$ 328,261	$ 22,744

Advertising Inserts

(in thousands)	**Three Months Ended March 31, 2010**	**2009**
Revenue	$ 191,282	$ 230,022
EBITDA	$ 13,379	$ 16,980
Restructuring charges	6,392	3,094
Other non-cash items, net	(3)	(330)
Adjusted EBITDA	$ 19,768	$ 19,744

Revenue

Revenue from our Advertising Inserts segment for the three months ended March 31, 2010 declined $38.7 million, or 16.8%, to $191.3 million, from $230.0 million in the corresponding period in 2009. The primary factor causing this decline was the drop in overall paper prices as well as in the volume of paper used, which accounted for $24.6 million of the revenue decline. The cost of paper is a significant factor in our pricing to certain customers since a substantial portion of our revenue includes the cost of paper, therefore changes in the cost of paper and changes in the proportion of paper supplied by our customers significantly affects our revenue generated from the sale of advertising inserts which are products where paper is a substantial portion of the cost of production. We are generally able to pass on increases in the cost of paper to customers, while decreases in paper cost result in lower prices to our customers and, as a result, can lower our revenues. The overall production volume decline for the Advertising Inserts segment was 3.9% for the three months ended March 31, 2010. Pricing and overall product mix accounted for the remaining decline in revenue for the Advertising Inserts segment.

Operating Expenses

For the three months ended March 31, 2010, production costs decreased as a result of reduced volumes. Variable costs decreased $34.2 million from $169.0 million in the corresponding 2009 period to $134.8 million. As a percent of revenue, variable costs decreased to 70.4% in 2010 versus 73.5% in the corresponding 2009 period. Adjusted for changes in volumes and paper, variable costs decreased $6.8 million from the corresponding period in 2009. These costs were primarily driven by reduced costs as a result of the integration activities to reduce the overall cost base, offset in part by reduced salvage on paper waste. For the three months ended March 31, 2010, fixed costs, exclusive of depreciation, decreased $4.1 million from $26.1 million in the corresponding 2009 period to $22.0 million. As a percent of revenue, fixed costs increased to 11.5% in 2010 versus 11.3% in the corresponding 2009 period, primarily as a result of the reduced revenue. Selling, general and administrative charges decreased $0.1 million from the corresponding period in 2009. These savings in fixed costs and selling, general and administrative costs were driven by the reduced number of plants, synergies and other cost savings initiatives, offset in part by higher allocated costs from shared service functions, primarily as the result of increases in marketing costs and certain employee benefits. As a percent of revenue, these costs increased to 7.7% in 2010 versus 6.5% in the corresponding 2009 period.

Adjusted EBITDA

Adjusted EBITDA for the three months ended March 31, 2010 increased $24,000 from the corresponding prior year period as the improved cost structure created by synergy savings from the execution of our integration plan with ACG and other cost savings initiatives, offset the declines in volume and pricing identified above. As a percent of revenue, Adjusted EBITDA increased to 10.3% in 2010 versus 8.6% in the corresponding 2009 period.

Direct Marketing

(in thousands)	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Revenue	$ 76,149	$ 74,026
EBITDA	$ 8,836	$ 5,097
Restructuring charges	122	389
Other non-cash items, net		(81)
Adjusted EBITDA	$ 8,958	$ 5,405

Revenue

In our Direct Marketing segment, revenue increased $2.1 million, or 2.9%, in the three months ended March 31, 2010, from the corresponding period in 2009. The primary driver of the increase in the 2010 period was higher volume partially offset by reduced pricing driven by customer and product mix. The increase in Direct Marketing volume in this three month period is attributed to an increase in our in-line and conventional customer base in several sectors: financial (credit card), insurance and healthcare. With respect to price and mix, the lower price is attributable to lower value added per unit as customers simplify and reduce the cost of mail programs, particularly in our in-line business which is highly automated.

Operating Expenses

In the three months ended March 31, 2010, variable costs increased $0.2 million from $45.4 million in the corresponding 2009 period to $45.6 million. As a percent of revenue however, variable costs decreased to 59.9% in 2010 versus 61.4% in the corresponding 2009 period. Variable costs, adjusted for changes in volumes and paper, decreased $3.2 million from the corresponding period in 2009. These costs were primarily driven by reduced material costs, including increases in salvage paper prices, and reduced labor costs as a result of cost reduction programs. In the three months ended March 31, 2010, fixed costs, exclusive of depreciation, decreased $0.8 million from $13.1 million in the corresponding 2009 period to $12.3 million. These savings were driven by lower indirect labor costs as well as lower equipment leasing costs as certain leased equipment was replaced with capitalized equipment. As a percent of revenue, fixed costs decreased to 16.2% in 2010 versus 17.8% in the corresponding 2009 period. In the three months ended March 31, 2010, selling, general and administrative charges decreased $0.8 million from the corresponding period in 2009. As a percent of revenue, these costs decreased to 12.0% in 2010 versus 13.5% in the corresponding 2009 period. These savings were driven by headcount reductions and lower commissions somewhat offset by higher allocated costs in shared service functions.

Adjusted EBITDA

Adjusted EBITDA for the three month period increased $3.6 million, or 65.7%, from the corresponding prior year period due to the volume, pricing and other factors noted above. As a percent of revenue, Adjusted EBITDA increased to 11.8% in 2010 versus 7.3% in the corresponding 2009 period.

Corporate and Other

(in thousands)	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Revenue	$ 21,880	$ 26,035
EBITDA	$ (1,587)	$ (9,001)
Restructuring charges	793	385
Integration costs	151	6,144
Other non-cash items, net	217	67
Adjusted EBITDA	$ (426)	$ (2,405)

Revenue

For the three months ended March 31, 2010, Corporate and Other revenue decreased $4.2 million from $26.0 million in the corresponding 2009 period to 21.9 million primarily driven by the decrease in revenue in our Integrated Media Solutions units, included in Corporate and Other, as a result of lower volumes.

Integration costs

We have captured all internal and external costs related to the integration of Vertis and ACG in Corporate and Other, and not allocated these to our operating segments. The $0.2 million for the three months ended March 31, 2010 related to costs incurred by our corporate office. Of the $6.2 million in the corresponding 2009 period, $2.3 million related to our Advertising Inserts segment. The remaining costs were incurred by our corporate office and the business units included in Corporate and Other.

Adjusted EBITDA

For the three months ended March 31, 2010, Adjusted EBITDA at Corporate and Other increased $2.0 million to $(0.4) million from $(2.4) million in the corresponding 2009 period. In our Integrated Media Solutions units, which are included in our Corporate and Other segment, Adjusted EBITDA for the three months ended March 31, 2010 increased $1.2 million, or 98.6%, from the corresponding period in 2009 due to synergy savings from the execution of the Integration Plan as well as other cost savings initiatives. The remaining improvement in Adjusted EBITDA for the three months ended March 31, 2010, is due to reduced corporate expenses of $0.8 million as a result of cost savings initiatives.

Liquidity and Capital Resources

Sources of Funds

We have historically funded our operations, acquisitions and investments with internally generated funds, borrowings under the Revolving Credit Facility, sales of accounts receivable, and issuances of debt. We intend to fund our operations over the next 12 months with internally generated funds, borrowings under the credit facilities and other sources of liquidity. At March 31, 2010, the aggregate outstanding borrowings under both tranches of our Revolving Credit Facility was $42.1 million with an additional $16.2 million in outstanding letters of credit. Including our cash balance as of March 31, 2010 of $0.2 million, our total availability under both tranches was $72.9 million as of March 31, 2010. As of April 30, 2010, the Revolving Credit Facility had $35.6 million outstanding, an additional $16.2 million in outstanding letters of credit and an additional $85.9 million available to borrow.

We expect to enter into a comprehensive $1.1 billion refinancing of substantially all of our outstanding secured and unsecured indebtedness. We do not anticipate a significant change in our sources of funds as a result of this transaction. See Note 17, Subsequent Events, for further discussion of this refinancing transaction.

Senior Secured Revolving Credit Facility

Upon consummation of our prepackaged plan of reorganization (the "Plan"), on October 17, 2008, Holdings, Vertis and certain of our subsidiaries (the "Subsidiary Guarantors") entered into a $250 million Senior Secured Credit Agreement (the "Revolving Credit Facility") with General Electric Capital Corporation as Agent, L/C Issuer, Swing Line Lender and Lender (as such terms are defined therein), GE Capital Markets, Inc. as Lead Arranger and Book-Running Manager, Bank of America, N.A. as Syndication Agent and the other Credit Parties and Lenders named therein. The Revolving Credit Facility consists of a $225 million senior secured last-in first-out revolving credit tranche (the "LIFO Tranche") and a $25 million senior secured first-in last-out fully funded tranche (the "FILO Tranche") and provides for the issuance of up to $60 million in letters of credit and $35 million in swing line loans as sub-limits under the LIFO Tranche.

The maximum availability under the LIFO Tranche is $225 million, limited to a borrowing base calculated as follows: up to 85% of our eligible receivables and the Subsidiary Guarantors' eligible receivables plus up to the lesser of (i) 60% of eligible raw materials inventory or (ii) 85% of the net orderly liquidation value of eligible inventory, less any applicable reserves established by the Agent (as defined therein). The maximum availability under the FILO Tranche is $25 million, limited to a borrowing base calculated as follows: up to 10% of the Company's and the Subsidiary Guarantors' eligible receivables reflected on the Company's accounts receivable aging, plus up to 60% of the Company's and the Subsidiary Guarantors' eligible unbilled accounts receivable plus up to 60% of the Company's eligible accounts receivable then reflected on the Company's balance sheets but not reflected on the accounts receivable aging, plus 100% of the eligible inventory not otherwise included in the LIFO Tranche borrowing base. Including our cash balance as of March 31, 2010 of $0.2 million, our total availability under both tranches was $72.9 million as of March 31, 2010.

The Revolving Credit Facility includes a minimum fixed charge coverage ratio covenant to be applicable on a consolidated basis, including subsidiaries, immediately upon the LIFO Tranche availability being less than $22.5 million at any time. The covenant shall cease to be applicable (i) after at least six months and (ii) if, and only if, LIFO Tranche borrowing availability is equal to or greater than $30 million each day for a period of three consecutive months. The prepayment penalty on the FILO Tranche is 3% during year 1, 2% during year 2, 1% during year 3, and none thereafter. The FILO Tranche is assumed to be prepaid if the LIFO Tranche is zero. As of March 31, 2010, this minimum fixed charge coverage ratio covenant was not applicable to the Revolving Credit Facility.

The interest rate on the Revolving Credit Facility is based on either (a) the floating rate of interest per annum equal to the higher of the rate publicly quoted from time to time by The Wall Street Journal as the "base rate on corporate loans posted by at least 75% of the nation's 30 largest banks" or the federal funds rate plus a margin of 3.0% for the LIFO Tranche and 8.0% for the FILO Tranche, or (b) so long as no event of default under the Revolving Credit Facility exists, a per annum rate equal to the London interbank offered rate plus a margin of 4.0% for the LIFO Tranche and 9.0% for the FILO Tranche. The London interbank market rate is set at a floor of 3.0% for the LIFO Tranche and 4.0% for the FILO Tranche. As of March 31, 2010, the weighted average interest rate for the Revolving Credit Facility was 10.8%.

The Revolving Credit Facility is secured by a lien on substantially all of our assets and the assets of the Subsidiary Guarantors with a first priority lien on current assets and a second priority lien on fixed assets and intellectual property.

Term Loan Facility

Also upon consummation of the Plan, on October 17, 2008, Holdings, Vertis and the Subsidiary Guarantors entered into a Term Loan Credit Agreement (the "Term Loan Facility") with Ableco Finance LLC as Term Loan B Administrative Agent and Collateral Agent and Bank of America, N.A. as Term Loan C Administrative Agent and the other financial institutions party thereto as lenders in an aggregate principal amount of approximately $397.5 million. The Term Loan Facility consists of a $150 million first out Term Loan B tranche (the "Term Loan B"), a $122 million middle out Term Loan C-1 tranche (the "Term Loan C-1"), an approximate $123 million last out Term Loan C-2 tranche and a delayed draw Term Loan C-2 tranche of $4.5 million (the "Term Loan C-2" and together with Term Loan C-1, the "Term Loan C"). The Term Loan Facility matures on July 17, 2012 or earlier upon the occurrence of certain other events set forth in the Term Loan Facility.

The Term Loan Facility provides for a maximum capital expenditure covenant, a Term Loan B leverage ratio, a senior leverage ratio, a fixed charge coverage ratio, a minimum EBITDA requirement and a minimum excess availability covenant. Additionally, the Term Loan Facility includes customary covenants including limitations on dividends on, and redemptions and repurchases of, equity interests and other restricted payments, prepayments (the prepayment fee on the Term Loan Facility is 3% during year 1, 2.25% during year 2 and 1.5% during year 3), redemptions and repurchases of indebtedness, liens, indebtedness guarantees, mergers, acquisitions and asset sales. We are obligated to prepay a portion of the outstanding principal amount of the Term Loans in the amount equal to 67.5% of the Excess Cash Flow (as defined therein) for the immediately preceding fiscal year, commencing February 15, 2011. Management estimates this prepayment to be within a range of $20 million to $30 million on February 15, 2011.

The interest rate applicable to the Term Loan B is equal to either, the London interbank offered rate (subject to a floor of 4.0%) plus a margin of 9.0% or an alternate base rate plus a margin of 8.0% (the alternate base rate is the higher of the prime rate and federal funds rate plus a margin). The interest rate applicable to the Term C Loan is set forth in the Term Loan Facility, including interest payable in combinations of cash and payment in kind after the first two years, depending on satisfaction of certain conditions, including a minimum fixed charge coverage ratio. The interest rate applicable to the Term Loan C-1 is the London interbank offered rate (subject to a floor of 3.5%) plus a margin of 14.5%. The interest rate applicable to the Term Loan C-2 is the London interbank offered rate (subject to a floor of 3.5%) plus a margin of 13.25%. As of March 31, 2010, the weighted average interest rate for the Term Loan Facility was 16.4%. The Term Loan Facility is secured by a lien on substantially all of our assets and the assets of the Subsidiary Guarantors with a first priority lien on fixed assets and intellectual property and a second priority lien on current assets.

Covenants

The Revolving Credit Facility, the Term Loan, the second lien notes and the senior notes include customary covenants including restrictions on indebtedness, liens, investments, asset sales, restricted payments and changes relating to certain indebtedness, mergers, consolidations and the like, changes in the nature of our businesses and transactions and the Subsidiary Guarantors' businesses and transactions with affiliates. In particular, these debt instruments all contain customary high-yield debt covenants imposing limitations on the payment of dividends or other distributions by us or on or in respect the capital stock of our restricted subsidiaries. Substantially all of our assets are pledged as collateral for the outstanding debt under the Revolving Credit Facility and the Term Loan on a first lien basis, and, on a third lien basis to the senior secured second lien notes. All of our debt has customary provisions requiring prepayment in the event of a change in control and from the proceeds of asset sales, as well as cross default or cross acceleration provisions. As of March 31, 2010, we were in compliance with all of our debt covenants.

Long-term debt consisted of the following in the order of priority:

(in thousands)	March 31, 2010	December 31, 2009
Senior secured revolving credit facility (due July 2012)	$ 42,102	$ 70,891
Term loan facility B (due July 2012)	87,750	94,000
Term loan facility C-1 (due July 2012)	153,525	146,844
Term loan facility C-2 (due July 2012)	153,467	147,284
$350 million 18 ½% senior secured second lien notes (due October 2012)	414,601	414,601
$200 million 13 ½% senior notes, net of discount (due April 2014)	225,575	225,509
Capital leases	2,629	2,651
	1,079,649	1,101,780
Current portion	(25,764)	(25,705)
	$1,053,885	$1,076,075

The above balances do not include cash and accrued PIK interest that has yet to be applied to principal. These amounts, which are recorded in accrued interest in the condensed consolidated balance sheet, consist of the following:

(in thousands)	March 31, 2010	December 31, 2009
Term loan facility C-1	$ 4,759	$ 4,626
Term loan facility C-2	3,907	3,764
$350 million 181/2% Senior Secured Second Lien Notes	38,351	19,388
$200 million 131/2% Notes, net of discount	15,298	7,649
Total accrued PIK interest	62,315	35,427
Accrued cash interest	391	283
Total accrued interest	$ 62,706	$ 35,710

Off-Balance Sheet Arrangements

As of March 31, 2010, we have no off-balance sheet arrangements that may 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 revenues or expenses.

Working Capital

Our current liabilities exceeded current assets by $36.6 million at March 31, 2010. At December 31, 2009, our current assets exceeded current liabilities by $19.6 million. This represents a decrease in working capital of $56.2 million primarily attributable to an increase in accrued interest of $27.0 million and a $23.5 million decrease in accounts receivable due to reduced volume, pricing and the impact of seasonality. The ratio of current assets to current liabilities as of March 31, 2010 was 0.88 to 1 compared to 1.08 to 1 as of December 31, 2009.

Interest Rate Cap Agreement

In connection with our October 2008 debt financing, we entered into two interest rate cap agreements in the first quarter of 2009. The first agreement consisted of a series of four $125 million notional 6% contracts with quarterly resets maturing in February, May, August, and November of 2009. The second agreement consisted of a series of thirty-two $125 million notional 6% contracts with an effective date of November 27, 2009 and caps expiring monthly through July 17, 2012, the maturity of the Term B Debt Agreement. The last cap was structured as a short period hedge to mirror the debt structure. In the three months ended March 31, 2010, expense of $0.3 million was recorded as part of interest expense related to these agreements.

Summary of Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities was $40.1 million and $16.2 million for the three months ended March 31, 2010 and 2009, respectively. This $23.9 million increase is primarily the result of increased EBITDA and positive changes in accounts payable and accrued liabilities, offset in part by changes in accounts receivable, inventory and prepaids in the first quarter of 2010 versus the corresponding 2009 period.

Cash Flows from Investing Activities

Net cash used in investing activities in the three months ended March 31, 2010, increased by $2.0 million from the corresponding 2009 period. This increase was primarily due to a $4.2 million increase in capital spending in 2010 offset in part by a $2.2 million increase in proceeds received from the sale of property, plant and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities was $35.3 million and $13.2 million for the three months ended March 31, 2010 and 2009, respectively. This $22.1 million change primarily relates to the repayments on the revolving credit facility.

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