IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

VALASSIS COMMUNICATIONS, INC., a Delaware corporation,	)	
Plaintiff,	)	
v.	)	C.A. No. 2383
ADVO, INC., a Delaware corporation,	)	**REDACTED - PUBLIC VERSION**
Defendant.	)	

COMPLAINT

Plaintiff Valassis Communications, Inc. ("Valassis"), by and through its attorneys, upon personal knowledge as to itself and upon information and belief as to all others, alleges as follows:

NATURE OF THIS ACTION

1. Valassis seeks to rescind its merger agreement with ADVO, Inc. ("ADVO"), pursuant to which Valassis would acquire all of ADVO's outstanding common stock in an all cash $1.3 billion transaction. The bases for this action are ADVO's fraudulent misrepresentations, withholding of material information and material adverse changes that threaten ADVO's long-term financial health and intrinsic value. Under the merger agreement, the absence of a material adverse change ("MAC") is a condition precedent to Valassis's obligation to effect the merger. The facts that Valassis has been able to uncover, despite ADVO's refusal to honor Valassis's contractual right of access to information and to key people, amply demonstrate that ADVO's senior management intentionally provided Valassis with materially false financial information, made positive representations about the health of the

business with no factual basis, withheld material information, and fabricated projections that they knew were unachievable and which falsely portrayed ADVO as a robust organization capable of supporting a valuation of $37 per share.

REDACTED

ADVO's false representations were intentionally made to induce Valassis to enter into an agreement to purchase ADVO at a greatly inflated price. As a result, Valassis has the right to rescind the Merger Agreement.

3. Moreover, if ADVO's explanations for its disastrous financial results are correct, ADVO's financial condition has deteriorated so substantially that business prospects have been permanently impaired and business losses have been sustained which will never be replaced. As a consequence, a MAC has occurred, causing ADVO to fail to satisfy a material condition precedent. Accordingly, Valassis is entitled to a declaration that it is under no obligation to implement the merger.

4. Finally, ADVO has breached the Merger Agreement by making representations and warranties that ADVO maintained a system of internal controls over its financial reporting

REDACTED

In addition, ADVO has blocked Valassis from investigating the extent of ADVO's financial problems and has refused to provide Valassis with access to information in violation of the Merger Agreement. As a result of these breaches, Valassis is entitled to a declaratory judgment that it is entitled to terminate the merger and that it is not required to perform any further obligations under the Merger Agreement. In addition, Valassis is entitled to damages caused by ADVO's breaches as well as the termination fees provided by the Merger Agreement.

PARTIES AND RELEVANT INDIVIDUALS

5. Valassis is a corporation organized and existing under the laws of the State of Delaware, with its principal executive offices located in Livonia, Michigan.

6. Defendant ADVO is a corporation organized and existing under the laws of the State of Delaware, with its principal executive offices located in Windsor, Connecticut.

7. S. Scott Harding is the Chief Executive Officer ("CEO") of ADVO.

8. John Mahoney is the Chairman of the Board of Directors of ADVO.

9. Jeffrey E. Epstein is the Executive Vice President and Chief Financial Officer ("CFO") of ADVO.

10. Marie Gant is the Senior Vice President and Chief Information Officer of ADVO.

11. Chris Hutter is the National Vice President of Finance-Investor Relations and Treasurer of ADVO.

12. William Barbieri is the Vice President of Corporate Development and Planning of ADVO.

13. Stephanie Molnar is the Executive Vice President and President, Sales and Services of ADVO.

FACTUAL BACKGROUND

14. Valassis is a global promotional marketing company that provides a wide range of marketing products and services to a variety of premier manufacturers, direct marketers, retailers, franchisees and other advertisers.

15. ADVO is a direct mail media company engaged in the business of soliciting and processing printed advertising from retailers, manufacturers, and service companies in the United States and Canada.

16. In November 2005, Valassis and ADVO began discussions about the possibility of combining companies in a stock-for-stock "merger of equals" transaction. Valassis and ADVO entered into a nondisclosure agreement on November 22, 2005 (the "Nondisclosure Agreement"), which set forth terms for the disclosure of confidential information between Valassis and ADVO for the purposes of considering and evaluating whether to enter into a business transaction. The Nondisclosure Agreement included a two-year standstill provision

preventing each party from, among other things, acquiring the securities of, seeking a merger with, or soliciting proxies with respect to the securities of the other party.

17. In February 2006, ADVO rolled out a new enterprise order-to-cash system called Service Delivery Redesign ("SDR"), which was supposed to speed information flow and integrate business processes throughout ADVO.

18. Ultimately, on March 6, 2006, the parties decided against entering into a stock-for-stock "merger of equals" transaction.

19. The parties revisited the possibility of a business transaction on or about March 29, 2006, when Valassis sent ADVO a letter indicating that it would be willing to entertain the idea of an all-cash offer for ADVO in the range of $38 to $40 per share, and asked ADVO to waive the Nondisclosure Agreement's standstill provision. At the time, ADVO's common stock was trading at $32.29.

20. On May 4, 2006, ADVO filed its Form 10-Q for the quarterly period ended March 25, 2006, which discussed how the SDR program was launched at the start of the third fiscal quarter of 2006:

> The Company is closely monitoring the new systems and making normal and expected adjustments. The Company believes it is adequately managing the transition to the new processes and controls. If needed, the Company will continue to devote additional resources to stabilizing the new system. This would include continued user training, implementation of compensating controls and system enhancements.
>
> The Company will experience an increase in depreciation expense for the remainder of the fiscal year and into the future due to the new systems being placed into service.

(ADVO's Form 10-Q for the quarterly period ended March 25, 2006, filed with the SEC on May 4, 2006, at p. 18.)

21. On or about May 4, 2006, ADVO sent a letter to Valassis in which it informed Valassis that it would waive the standstill provision in the Nondisclosure Agreement and open an electronic "data room" to allow Valassis to conduct its due diligence. ADVO also insisted on the following aggressive schedule: data room to be opened by May 15-16, 2006; all cash offer to be made with financial backing by June 2, 2006; and merger agreement to be signed by June 12, 2006. In hindsight, ADVO was attempting to steamroll the process to completion before the latest disastrous quarterly results would have to be issued.

REDACTED

REDACTED

REDACTED

REDACTED

29. In sum, everything shown to Valassis representatives confirmed the rosy picture previously painted by ADVO senior executives to Valassis. Every concern was explained away as a problem that had been solved or had been addressed. Valassis continued to believe that ADVO was an attractive merger partner because of its purported growth prospects and impressive operating income stream. But for the misrepresentations and withholding of material information by ADVO during due diligence, Valassis would not have proceeded with merger negotiations at a price of $37 per share. ADVO hid a host of material problems from Valassis

REDACTED

REDACTED

Valassis Offers to Purchase ADVO

30. On June 2, 2006, Valassis made an all-cash offer to acquire ADVO for $35.25 per share. The offer was somewhat lower than the range that Valassis had previously indicated it would be willing to bid, primarily because of certain issues identified by ADVO representatives at the May 18, 2006 meeting and the fact that the market price of ADVO's stock had dropped approximately 16 percent since March 29, 2006. ADVO closed at $26.48 that day.

31. Valassis's $35.25 offer was summarily rejected by ADVO's board of directors on June 5, 2006. This was communicated orally by ADVO's investment banker, Christina Mohr of Citigroup, to Valassis's investment banker, Adam Blackman of Bear Stearns & Co., Inc. ("Bear Stearns"). Upon rejecting Valassis's initial offer, ADVO closed the data room, preventing Valassis from conducting further diligence.

32. On June 10, 2006, Alan Schultz, Valassis's CEO and chairman of the board, and Mr. Harding, ADVO's CEO, met in Chicago and discussed the proposed transaction. During this meeting, Mr. Schultz proposed a $1 per share increase in the amount of the June 5, 2006 offer, to $36.25 per share. ADVO's stock had closed at $24.83 the previous day.

33. On June 12, 2006, Bear Stearns orally advised Citigroup of the revised bid of $36.25 per share.

34. Valassis's revised offer contained the following conditions: (a) Valassis being granted access to the data room that ADVO had closed after rejecting Valassis's prior offer; (b) fulfillment of Valassis's outstanding due diligence requests; and (c) providing Valassis with written comments on the agreement and plan of merger that had been previously provided to ADVO's board of directors.

REDACTED

The revised offer was memorialized in a letter dated June 13, 2006 from Mr. Schultz to ADVO's board of directors

35. On June 16, 2006, ADVO's board of directors rejected the $36.25 June 13, 2006 offer from Valassis.

36. Over the course of June 21-22, 2006, ADVO's board of directors held a meeting.

REDACTED

But for these misrepresentations, communicated by ADVO to Valassis through

the respective parties' financial advisors, Valassis would not have proceeded with merger negotiations, given ADVO's rejection of the June 13, 2006 offer.

37. On June 23, 2006, ADVO's board of directors indicated that they would be willing to meet with Valassis's "decision makers" and discussed further the possibility of a deal.

38. On June 27, 2006, Bear Stearns advised Citigroup that Mr. Schultz requested a meeting with one or more members of ADVO's special committee, which had been formed to evaluate the merger. Citigroup, on behalf of ADVO, further indicated it would start providing answers to Valassis's inquiries.

REDACTED

40. The following day, June 28th, Messrs. Mitzel and Groe of Valassis participated in a conference call with Chris Hutter, ADVO's National Vice President of Finance-Investor Relations and Treasurer, and William Barbieri, ADVO's Vice President of Corporate Development and Planning. **REDACTED**

REDACTED

REDACTED

REDACTED

Valassis and ADVO Reach a Deal

44. On June 30, 2006, the parties gathered for an all-hands meeting in Boston, including John Mahoney, Chairman of ADVO's board of directors, Mr. Harding, Mr. Schultz, Robert Recchia, Valassis's Executive Vice President and CFO, and Barry Hoffman, Valassis's Executive Vice President and General Counsel. Also in attendance were attorneys and investment bankers for both companies. This meeting was set up as a "go/no go" meeting, in that both parties agreed that they would either agree on a price or end negotiations. Initially, ADVO signaled that it would not be willing to agree to a deal unless it received an offer within the previously stated range of $38 to $40 per share. However, after a short period of private negotiation among Messrs. Schultz, Recchia, Mahoney and Harding, the companies reached an agreement whereby Valassis would acquire ADVO for $37 per share in an all-cash merger. The ADVO representatives spoke with ADVO's board to confirm.

45. The lawyers and business personnel agreed to announce the merger on or about July 10, 2006, in order to give the parties the week following the July 4th holiday weekend to work on a formal merger agreement, news releases, announcements and presentations to analysts. The ADVO board, however, expressed concern about news of the merger being leaked to the market, and insisted upon a July 5, 2006 date for execution of the Merger Agreement and announcement of the merger the following morning.

Valassis and ADVO Announce That Valassis Will Acquire ADVO

46. On July 6, 2006, Valassis and ADVO issued a joint press release announcing the Merger Agreement publicly before the market opened. On news of the deal, the

price of ADVO stock increased from a previous close of $24.26 to close at $35.39 on July 6, 2006.

The Merger Agreement

47. The terms of the merger are set forth in the Merger Agreement and ancillary documents incorporated therein, including disclosure schedules of ADVO and a letter agreement between Valassis and ADVO concerning certain compensation and employee benefits matters.

48. Specifically, Valassis entered into the Merger Agreement with ADVO and Michigan Acquisition Corporation, a wholly owned subsidiary of Valassis ("Merger Sub"). The Merger Agreement provides for a business combination whereby Merger Sub would merge with and into ADVO (the "Merger"). As a result of the Merger, the separate corporate existence of Merger Sub would cease, and ADVO would continue as a wholly owned subsidiary of Valassis.

49. Under the terms of the Merger Agreement, Valassis agreed to pay $37 per share in cash for all of the outstanding shares of ADVO, as well as the assumption of approximately $125 million in existing ADVO debt, for total merger consideration of approximately $1.3 billion.

50. Section 3.01 of the Merger Agreement is entitled "Representations and Warranties of the Company." In subsection (e)(iii), ADVO (which is referred to as the "Company") represented that:

> The Company maintains a system of internal controls over financial reporting in all material respects in accordance with applicable law. The Company has disclosed to the Company's auditors and the audit committee of the Board of Directors of the Company with respect to each reporting period in which reviews of its internal controls over financial reporting were required to be implemented under law, (A) any "material weaknesses", any "control deficiencies" and any "significant deficiencies" that were identified in the design or operation of the Company's internal

> controls over financial reporting, (B) each letter to or from (or material discussion with) the internal auditors and/or outside auditors relating to the Company's internal controls over financial reporting relating to any "material weaknesses", any "control deficiencies" or any "significant deficiencies" in the design or operation of the Company's internal controls over financial reporting and (C) any fraud or allegation of fraud, whether or not material, known to management of the Company (or any reporting person or center set up to accept "whistleblower" complaints, or any Company ombudsmen) which involves the Company's system of internal controls over financial reporting. The Company has previously provided to Parent each letter described in the preceding sentence or has disclosed in Section 3.01(e)(iii) of the Company Disclosure Schedule a summary of any such material undocumented disclosure or report, in each case, heretofore delivered to any of the foregoing persons or to any member of the Board of Directors.

51. Valassis reasonably relied on these representations, and, at the time the Merger Agreement was executed, had no reason to believe these representations were false.

52. Section 4.01 of the Merger Agreement is entitled "Conduct of Business by the Company." Subsection (a) obligates ADVO to:

> ...carry on its business in all material respects in the ordinary course consistent with past practice prior to the Effective Time and, to the extent consistent therewith, use all commercially reasonable efforts to ... preserve its relationships with customers, suppliers, licensors, licensees, distributors and others having business dealings with it.

53. At the time the Merger Agreement was executed, Valassis had no reason to believe that ADVO was not in compliance with this provision.

54. Subsection (b) of Section 4.01 obligates ADVO to advise Valassis (which is referred to as "Parent") "orally and in writing" if any representation, warranty, condition or agreement in the Merger Agreement "becomes untrue or inaccurate in a manner that would result in the failure of any one [or] more of the conditions set forth in Section 6.02(a) [continuation of representations until Closing] or 6.02(b) [Company's performance of obligations]..." and ADVO "fails to comply with or satisfy in any material respect any covenant, condition or agreement" under the Merger Agreement.

55. At the time the Merger Agreement was executed, Valassis had no reason to believe that ADVO was not in compliance with this provision.

56. Section 5.02 of the Merger Agreement is entitled "Access to Information; Confidentiality" and obligates ADVO to afford Valassis with "reasonable access ... upon reasonable prior notice" to "all its and its Subsidiaries' properties, books, Contracts, commitments, personnel and records." In addition, this provision provides, in pertinent part, that:

> [T]he Company shall (and shall cause its Affiliates to) reasonably cooperate with Parent in connection with Parent securing financing to consummate the Merger ..., including, without limitation, ... obtaining reasonable access to the Company's accountants and their work papers, making employees of the Company and its Subsidiaries reasonably available, providing all financial information relating to the Company and its Subsidiaries as may be reasonably requested by Parent, and permitting Parent and its accountants reasonable access to the Company and its Subsidiaries.

Finally, this provision requires ADVO to "deliver estimated and reasonably detailed final monthly financial results and statements to Parent as promptly as practicable following each of their preparation at the end of each fiscal month."

57. Section 6.02 of the Merger Agreement is entitled "Conditions to Obligations of Parent and Sub." It provides, in relevant part, several conditions to the obligation of Valassis to effect the Merger.

58. Subsection (a) of Section 6.02 makes it a condition to Valassis's obligations to effect the Merger that "the representations and warranties of the Company...shall be true and correct...at and as of the Closing Date."

59. Subsection (b) of Section 6.02 conditions Valassis's obligation to effect the Merger on ADVO's performance "in all material respects all obligations required to be performed by the Company under [the] Agreement at or prior to the Closing Date."

60. Subsection (c) of Section 6.02 conditions Valassis's obligation to effect the Merger on the absence of a "Material Adverse Change." Specifically, this subsection provides:

> Except as disclosed in Section 3.01(g) of the Company Disclosure Schedule, since the date of this Agreement, there has not been any Material Adverse Change. Parent shall have received a certificate signed on behalf of the Company by the chief executive officer and the chief financial officer of the Company to such effect dated as of the Closing Date.

61. Section 3.01(g) of the Company Disclosure Schedule provides:

> It is anticipated that, on or about July, 2006, the Company's subsidiary, MBV, Inc., will make an upstream dividend to the Company in an amount consistent with past practice.
>
> On May 3, 2006, the USPS filed a rate case with the Postal Rate Commission seeking to change postal rates. Among other provisions in the filing, the USPS seeks to set rates for saturation mail with Detached Address Labels ('DALs') higher than those without DALs. As a result, on June 14, 2006, the Company announced that, to continue to qualify for the lowest possible postal rates for its class of mail, the Company will modify its operations to move to 'in-line, on-piece' addressing of its ShopWise™ shared mail advertising package. The changes are planned to be in place by Summer 2007, in conjunction with the new postal rate structure. The Board of Directors of the Company has authorized expenditures of approximately $23.3 million to effect this modification. Nevertheless, even with DALs, postal rates, and the rates charged to the Company's customers will increase, which may affect the Company's business, financial condition and results of operations.
>
> During its third fiscal quarter, the Company announced two strategic corporate actions: the consolidation and elimination of its Memphis production facility and the outsourcing of its graphics print production services to Affinity Express. The Company plans to absorb the work currently handled in Memphis into four other facilities. The closing of the Memphis facility is expected to occur in late Summer 2006. The outsourcing of the graphics print production services will be made in

several phases through January 2007. As a result, the Company will record charges primarily relating to severance, totaling approximately $4 million over the three fiscal quarters beginning in the third quarter of fiscal 2006.

See Section 3.01(i) of this Company Disclosure Schedule re: *Tiffany Sumuel v. ADVO, Inc.*

The Company may perform its rights and obligations under that certain Letter Agreement dated July 5, 2006 by and between Parent and the Company (the "Side Letter").

62. In subsection (c) of Section 8.03 of the Merger Agreement, ADVO and Valassis negotiated a definition of material adverse change or material adverse effect to include not only an effect on ADVO's current business or condition, but also an effect on ADVO's future business performance. In this regard, "Material Adverse Change" is defined to mean:

> [A]ny event, development, circumstance, change or effect that is or would reasonably be expected to be materially adverse to the business, financial condition or results of operations of the Company and its Subsidiaries, taken as a whole, except for any such effects or changes arising out of or relating to (i) the announcement or the existence of this Agreement and the transactions contemplated hereby, (ii) changes in general economic or political conditions or the financial, credit or securities markets, as long as such changes do not substantially disproportionately affect the Company, (iii) changes in laws, rules, regulations or orders of any Governmental Entity or interpretations thereof by any Governmental Entity or changes in accounting rules applicable to the Company and its Subsidiaries, (iv) changes affecting generally the industries in which the Company or its Subsidiaries conduct business, as long as such changes do not substantially disproportionately affect the Company, or (v) any outbreak or escalation of hostilities or war or any act of terrorism.

After the Merger Agreement Is Executed, the Truth Begins to Emerge

REDACTED

REDACTED

REDACTED

REDACTED

70. ADVO issued a press release and filed a Form 8-K with the Securities and Exchange Commission ("SEC") on August 2, 2006, publicly reporting its REDACTED REDACTED financial results for its third fiscal quarter ended July 1, 2006.

REDACTED

REDACTED

REDACTED

REDACTED

78. On August 10, 2006, ADVO filed its Form 10-Q for the quarterly period ended July 1, 2006. ADVO provided a more thorough explanation of SDR than it had in prior filings, stating that SDR directly impacts the following business functions: contracting, order management, graphics print, operations, sales, accounts receivable, billing, collections, finance, and information technology. Contrary to prior statements of ADVO indicating that SDR was a success, ADVO publicly revealed in its 10-Q that SDR implementation caused what it called "transitional issues:"

> Problems with entering and processing customer orders, temporary inefficiencies in production, shipping disruptions and delayed customer invoicing were experienced. These types of issues are expected with the launch of new systems. As a result, the Company incurred delayed collection of accounts receivable and additional costs that contributed to the lower profit margins realized in the third quarter of fiscal 2006.

(ADVO's Form 10-Q for the quarterly period ended July 1, 2006, filed with the SEC on August 10, 2006, at p. 13.) ADVO stated that it believed it had identified and corrected "many" of those issues. (Id.)

79. Also on August 10, 2006, ADVO filed its definitive proxy statement to shareholders to approve the Merger.

REDACTED

Valassis Obtains Board Minutes Revealing ADVO's Knowledge of the Fraud

REDACTED

REDACTED

Valassis Attempts to Perform Further Diligence But Encounters Unreasonable Restrictions

REDACTED

REDACTED

REDACTED

90. On August 17, 2006, Eric Stovall of KPMG visited ADVO's corporate headquarters and was met by Mr. Hutter, Hal Manoian, ADVO's director of accounting, and \Kirkpatrick & Lockhart, counsel for ADVO. Mr. Stovall was told that the general ledger would be made available only on a read-only basis and that ADVO would not answer questions unless the questions were put in writing, to which ADVO would respond within two business days. Mr. Stovall was not allowed to speak to any personnel other than Mr. Manoian, and was only permitted to speak with Mr. Manoian while an attorney for ADVO was present. Because Mr. Stovall was not permitted to download the general ledger, such that he could manipulate and/or

organize the ledger entries, it was impossible for him to analyze the data in any meaningful fashion.

91. KPMG was not permitted to contact any ADVO employee directly without first clearing it with ADVO and advising ADVO of who they wished to talk to, and the purpose of the conversation, and providing a list of the questions so the employee could adequately prepare.

92. ADVO has not allowed KPMG to examine internal ADVO communications (such as emails and internal memos) relating to changes in forecasts/projections and the financial impact of system conversion.

93. ADVO also has not allowed KPMG to examine any draft budgets REDACTED REDACTED for fiscal 2007, which commences in a few weeks on October 1, 2006.

94. Valassis needed the information it sought from ADVO through KPMG in order to be able to investigate the reasons behind ADVO's REDACTED financial results, to make reliable projections to appropriately provide its own shareholders with guidance for the combined company in the future, as well as to negotiate appropriate financial covenants for its financing of the ADVO transaction.

95. The process that ADVO has insisted upon in order for Valassis to obtain the information it needs and to which it is entitled under the Merger Agreement is unreasonable,

REDACTED

There is no requirement in the Merger Agreement that access to information be conditioned upon putting requests in writing and submitting them in advance.

COUNT I

(Fraudulent Concealment and Fraudulent Inducement)

96. Valassis realleges and reincorporates the allegations contained in paragraphs 1 through 95 above as if fully set forth herein.

97. As described above, prior to the execution of the Merger Agreement, ADVO deliberately misrepresented to Valassis the nature of ADVO's financial condition. Specifically, ADVO misrepresented facts that, if properly disclosed, would have revealed:

REDACTED

98. By misrepresenting the foregoing facts and failing to disclose additional facts necessary to render its statements not materially misleading, ADVO deliberately misled Valassis into believing that ADVO was financially sound. As a result of these omissions, the

statements made by ADVO executives concerning the financial condition of ADVO were materially false and misleading.

99. ADVO knew such statements and omissions were materially false and misleading at the time they were made or acted with reckless indifference as to whether the statements were false or misleading.

100. ADVO made these statements and omissions with the intent that Valassis would rely thereon and in order to induce Valassis to enter into the Merger Agreement on the terms set forth therein.

101. Valassis entered into the Merger Agreement in reliance on such statements and omissions. Valassis would not have entered into the Merger Agreement on the terms set forth therein if it had known that such statements and omissions were false and misleading.

102. ADVO's fraudulent concealment of material facts and fraudulent inducement of Valassis to enter into the Merger Agreement entitles Valassis to rescission of the Merger Agreement.

103. Alternatively, because Valassis expended money and valuable executive time and corporate resources continuing with due diligence and attempting to close the prospective transaction, Valassis is entitled to rescissory damages to restore Valassis to its *status quo ante*.

104. Valassis has no adequate remedy at law.

COUNT II

(Declaratory Judgment)

105. Valassis realleges and reincorporates the allegations contained in paragraphs 1 through 104 above as if fully set forth herein.

106. ADVO executed the Merger Agreement and is bound by its terms.

107. Valassis has fully performed all of its obligations under the Merger Agreement, except as excused by ADVO's breaches thereof.

108. Subsection (c) of Section 6.02 conditions Valasiss' obligation to effect the Merger on the absence of a "Material Adverse Change." Specifically, this subsection provides:

> Except as set forth on Section 3.01(g) of the Company Disclosure Schedule, since the date of this Agreement, there has not been any Material Adverse Change. Parent shall have received a certificate signed on behalf of the Company by the chief executive officer and the chief financial officer of the Company to such effect dated as of the Closing Date.

109. As noted previously, Section 8.03(c) of the Merger Agreement defines a Material Adverse Change" to mean:

> ...any event, development, circumstance, change or effect that is or would reasonably be expected to be materially adverse to the business, financial condition or results of operations of the Company and its Subsidiaries, taken as a whole, except for any such effects or changes arising out of or relating to (i) the announcement or the existence of this Agreement and the transactions contemplated hereby, (ii) changes in general economic or political conditions or the financial, credit or securities markets, as long as such changes do not substantially disproportionately affect the Company, (iii) changes in laws, rules, regulations or orders of any Governmental Entity or interpretations thereof by any Governmental Entity or changes in accounting rules applicable to the Company and its Subsidiaries, (iv) changes affecting generally the industries in which the Company or its Subsidiaries conduct business, as long as such changes do not substantially disproportionately affect the Company, or (v) any outbreak or escalation of hostilities or war or any act of terrorism.

REDACTED

REDACTED

REDACTED

112. Because there has been an event, development, circumstance, change or effect that is or would reasonably be expected to be materially adverse to the business, financial condition or results of operations of ADVO and its subsidiaries, taken as a whole, the condition precedent set forth in Section 6.02(c) of the Merger Agreement cannot be satisfied.

113. Valassis therefore seeks a judicial declaration that a Material Adverse Change has occurred and that, as a result of the Material Adverse Change, there has been as failure of a condition precedent under Section 6.02(c) of the Merger Agreement, excusing Valassis from performing its obligations under the Merger Agreement.

COUNT III

(Breach of Section 3.01(e)(iii) of the Merger Agreement)

114. Valassis realleges and reincorporates the allegations contained in paragraphs 1 through 113 above as if fully set forth herein.

115. ADVO executed the Merger Agreement and is bound by its terms.

116. Valassis has fully performed all of its obligations under the Merger Agreement, except as excused by ADVO's breaches thereof.

117. Section 3.01 of the Merger Agreement is entitled "Representations and Warranties of the Company." In subsection (e)(iii), ADVO (which is referred to as the "Company") represented and warranted that:

> The Company maintains a system of internal controls over financial reporting in all material respects in accordance with applicable law. The Company has disclosed to the Company's auditors and the audit committee of the Board of Directors of the Company with respect to each reporting period in which reviews of its internal controls over financial reporting were required to be implemented under law, (A) any "material weaknesses", any "control deficiencies" and any "significant deficiencies" that were identified in the design or operation of the Company's internal controls over financial reporting, (B) each letter to or from (or material discussion with) the internal auditors and/or outside auditors relating to the Company's internal controls over financial reporting relating to any "material weaknesses", any "control deficiencies" or any "significant deficiencies" in the design or operation of the Company's internal controls over financial reporting and (C) any fraud or allegation of fraud, whether or not material, known to management of the Company (or any reporting person or center set up to accept "whistleblower" complaints, or any Company ombudsmen) which involves the Company's system of internal controls over financial reporting. The Company has previously provided to Parent each letter described in the preceding sentence or has disclosed in Section 3.01(e)(iii) of the Company Disclosure Schedule a summary of any such material undocumented disclosure or report, in each case, heretofore delivered to any of the foregoing persons or to any member of the Board of Directors.

118. As described above, ADVO was aware of internal control weaknesses or deficiencies during the relevant reporting period and such information was not either forwarded to Valassis or disclosed in Schedule 3.01(e)(iii) of the Company Disclosure Schedule.

119. By its actions, ADVO has willfully and materially breached Section 3.01(e)(iii) of the Merger Agreement.

120. Section 6.02(a) of the Merger Agreement makes it a condition to Valassis's obligations to effect the Merger that "the representations and warranties of the Company . . . shall be true and correct . . . at and as of the Closing Date."

121. As described above, ADVO is in material breach of Section 3.01(e)(iii) of the Merger Agreement.

122. Under Section 7.01(c) of the Merger Agreement, ADVO's breach of the representation and warranty set forth in Section 3.01(e)(iii) of the Merger Agreement gives rise to the failure of the condition set forth in Section 6.02(a) of the Merger Agreement, such that Valassis is permitted to terminate the Merger Agreement without liability according to its terms.

123. Valassis therefore seeks a judicial declaration that Valassis is permitted to terminate the Merger Agreement pursuant to Section 7.01(c) because ADVO's breach of Section 3.01(e)(iii) of the Merger Agreement has resulted in a failure of the condition set forth in Section 6.02(a) of the Merger Agreement. Valassis also seeks to recover its fees and expenses in accordance with Section 5.05(c) of the Merger Agreement and damages in an amount to be determined at trial.

124. Alternatively, ADVO's breach of Section 3.01(e)(iii) of the Merger Agreement constitutes a material breach of the Merger Agreement, thereby excusing Valassis from performing its obligations thereunder, and entitling Valassis to damages in an amount to be determined at trial.

COUNT IV

(Breach of Section 5.02(a) of the Merger Agreement)

125. Valassis realleges and reincorporates the allegations contained in paragraphs 1 through 124 above as if fully set forth herein.

126. ADVO executed the Merger Agreement and is bound by its terms.

127. Valassis has fully performed all of its obligations under the Merger Agreement, except as excused by ADVO's breaches thereof.

128. Section 5.02(a) of the Merger Agreement provides in pertinent part:

> To the extent permitted by applicable Law, the Company shall afford to Parent, and to Parent's officers, employees, accountants, counsel, financial advisors, financing sources (and their advisors) and other Representatives,

> reasonable access during normal business hours and upon reasonable prior notice to the Company during the period prior to the Effective Time to all its and its Subsidiaries' properties, books, Contracts, commitments, personnel and records, and, during such period, the Company shall furnish promptly to Parent (i) a copy of each report, schedule, registration statement and other document filed by it during such period pursuant to the requirements of Federal or state securities Laws and (ii) all other information concerning its and its Subsidiaries' business, properties and personnel as Parent may reasonably request; provided that such access and inspections shall not unreasonably disrupt the operations of the Company or its Subsidiaries; and provided further, that the Company shall not be required to (or to cause any of its Subsidiaries to) so confer, afford such access or furnish such copies or other information to the extent that doing so would result in a violation of law, result in the loss of attorney-client privilege (provided that the Company shall use its reasonable best efforts to allow for such access or disclosure in a manner that does not result in a loss of attorney-client privilege, including through the use of joint defense agreements) or which are subject to confidentiality obligations owing to third parties. Without limiting the foregoing, between the date hereof and the Effective Time, the Company shall (and shall cause its Affiliates to) reasonably cooperate with Parent in connection with Parent securing financing to consummate the Merger (including debt and/or equity financing), including, without limitation, cooperating with the Parent in obtaining appraisals of the assets of the Company and its Subsidiaries, sending notices to reflect the change of control, obtaining reasonable access to the Company's accountants and their work papers, making employees of the Company and its Subsidiaries reasonably available, providing all financial information relating to the Company and its Subsidiaries as may be reasonably requested by Parent, and permitting Parent and its accountants reasonable access to the Company and its Subsidiaries. In addition, the Company shall deliver estimated and reasonably detailed final monthly financial results and statements to Parent as promptly as practicable following each of their preparation at the end of each fiscal month. Nothing contained in this Agreement shall give to Parent or its Subsidiaries, directly or indirectly, the right to control or direct the Company's or its Subsidiaries' operations prior to the Effective Time in any unlawful manner.

129. As described above, ADVO has not provided Valassis reasonable access to all of its and its subsidiaries' properties, books, contracts, commitments, personnel and records. ADVO has not cooperated with Valassis in connection with Valassis securing financing to consummate the Merger, including, without limitation, permitting Valassis to obtain

reasonable access to the ADVO's accountants and their work papers, making employees of ADVO and its subsidiaries reasonably available, providing all financial information relating to ADVO and its subsidiaries as may be reasonably requested by Valassis, and permitting Valassis and its accountants reasonable access to the ADVO and its subsidiaries. Additionally, ADVO has failed to provide Valassis with detailed final monthly financial results and statements for July 2006 (the most recently completed month).

130. By its actions, ADVO has willfully and materially breached Section 5.02(a) of the Merger Agreement.

131. ADVO's breach of Section 5.02(a) of the Merger Agreement constitutes a material breach of the Merger Agreement, thereby excusing Valassis from performing its obligations thereunder, and entitling Valassis to damages in an amount to be determined at trial.

WHEREFORE, Valassis seeks an Order of this Court:

A. Entering judgment in its favor;

B. Declaring that the Merger Agreement is rescinded and void *ab initio*;

C. Awarding Valassis rescissory damages in an amount to be proven at trial;

D. Declaring that ADVO has breached Section 3.01(e)(iii) of the Merger Agreement, resulting in the failure of the condition set forth in Section 6.02(a) of the Merger Agreement, and thus entitling Valassis to terminate the Merger Agreement without liability;

E. Declaring that ADVO has breached Section 5.02(a) of the Merger Agreement, thereby excusing Valassis from performing its obligations thereunder;

F. Awarding Valassis damages in an amount to be proved at trial;

G. Awarding Valassis its costs and attorneys' fees;

H. Awarding Valassis such other and further relief as may be appropriate.

MORRIS, NICHOLS, ARSHT & TUNNELL LLP

Kenneth J. Nachbar (# 2067)
Megan Ward Cascio (#3785)
Susan Wood Waesco (#4476)
1201 North Market Street
P.O. Box 1347
Wilmington, DE 19899-1347
(302) 658-9200
Attorneys for Plaintiff Valassis Communications, Inc.

OF COUNSEL:

Eric Landau
Steven J. Aaronoff
Shawn M. Harpen
Travis Biffar
McDERMOTT WILL & EMERY LLP
18191 Von Karman Avenue, Suite 500
Irvine, CA 92612-7107
(949) 757-7162

August 30, 2006