IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re: ARANDELL HOLDINGS, INC., *et al.*,[1] Debtors.	Chapter 11 Case No. 20-11941 (JTD) (Joint Administration Requested)

DECLARATION OF BRADLEY J. HOFFMAN IN SUPPORT OF THE CHAPTER 11 PETITIONS AND FIRST DAY MOTIONS

I, Bradley J. Hoffman, hereby declare (this "Declaration") under penalty of perjury that the following is true to the best of my knowledge, information and belief:

1. I am the President, Chief Executive Officer ("CEO") and the sole member of the Board of Directors of Arandell Holdings, Inc. ("Arandell Holdings"); I am the President and CEO of Arandell Corporation; and, I am the Manager of Arandell Kentucky, LLC ("Arandell Kentucky") (together, Arandell Holdings, Arandell Corporation, and Arandell Kentucky are referred to herein as the "Companies").

2. I make these statements and representations based on my own personal knowledge, except as specifically noted, and/or based upon my review and knowledge of the books and records of the Companies.

A. Corporate Structure and Governance

3. Arandell Holdings is a Delaware corporation, formed on February 26, 2018.

4. Arandell Corporation is a Wisconsin corporation, that is the successor to R&L Lithography, Inc. ("R&L")

5. R&L was founded in Wisconsin in 1922.

[1] The Debtors in these chapter 11 cases, and the last four digits of their U.S. taxpayer identification numbers are: Arandell Holdings, Inc. (5311), Arandell Corporation (4270), and Arandell Kentucky, LLC (1505). The corporate headquarters is located at N82 W13118 Leon Road, Menomonee Falls, WI 53051.

6. Arandell Corporation was formed on October 25, 1988.

7. Arandell Kentucky is a Wisconsin limited liability company that was formed on October 19, 2017.

8. I joined Arandell Corporation in 2007 as the Chief Financial Officer ("CFO").

9. In 2014, I led a buyout of Arandell Corporation from its prior owners.

10. I currently hold 100% of the Class A voting shares in Arandell Holdings, and I own 69% of Class B nonvoting shares of Arandell Holdings, representing 73% of the total equity interests in Arandell Holdings.

11. The remaining stock of Arandell Holdings consists of the Class B shares that are owned by key employees of the Companies.

12. Arandell Holdings owns 100% of all equity interests in Arandell Corporation and 100% of all membership interests in Arandell Kentucky.

13. Arandell Corporation owns 100% of the shares in a non-operating subsidiary company, Falls Express Transit, LLC, which in turn owns 100% of the stock in another non-operating company, Logistics for Print, LLC. Both subsidiaries are Wisconsin limited liability companies.

14. The Board of Directors of Arandell Holdings previously consisted of five members, four "outside" members and me.

15. As the Companies appeared to be headed toward an insolvency proceeding, all of the then-serving "outside" Board members resigned, and I remain the only active member of the Board of Directors of Arandell Holdings.

16. In 2018, I formed Arandell Kentucky for the purpose of acquiring or using the assets of an existing printing operation located in Walton, KY.

17. That printing operation was acquired, and the acquisition provided the Companies with a complimentary and diversified capacity to service the Companies' core businesses.

18. In 2018, Arandell Holdings was formed to consolidate the ownership of Arandell Corporation and Arandell Kentucky into a single holding company.

19. The Companies have operated with this corporate governance structure since early in 2018.

B. Business Background; Services Provided; Workforce

20. Arandell Corporation is, along with its previous iteration, a nearly 100-year-old commercial printing company that is located at N82 W13118 Leon Road, Menomonee Falls, WI.

21. The facility in Walton, KY, was built by Continental Web Press ("CWP") approximately 20 years ago.

22. In 2016, CWP sold the assets of this facility to Trend Offset, a California printer, that subsequently ceased operations in September 2017 and vacated the premises.

23. Arandell Kentucky acquired the assets of the Walton, KY, facility in March 2018.

24. Arandell Corporation currently ranks as the third largest printer of catalogs in the United States.

25. It has a strong reputation for production quality and service excellence, driven by a staff of over 600 highly skilled and trained professionals at the end of 2019.

26. The Companies' workforce has been trimmed to about 500 employees as of the date of the filing herein.

27. The Companies' largest customers are blue chip major retailers and recognized brands using direct mail catalogs to promote both in-store and e-commerce sales.

28. The Companies' products and services include the production and delivery of

higher-end catalogs and other promotional products along with related data analytics services supporting the needs of marketers.

29. The Companies' primary production facility in Wisconsin includes a state-of- the-art pre-press department, one of the industry's most efficient heat-set web pressrooms, and a bindery that includes saddle stitching, perfect binding, and co-mailing capabilities.

30. The Companies serve the data and production needs of catalog customers nationwide with several sales offices throughout the country.

31. Approximately 60% of the work orders of the Companies are under contract, and the average account relationship is eight years.

32. Until recently, the production of catalogs was accomplished in both the Kentucky and Wisconsin plants.

33. In May 2020, the Companies received notice from its senior lenders that certain collateral located in Kentucky would no longer be considered as part of the Companies' borrowing base. In July 2020, management determined that it would close the Arandell Kentucky operation.

34. In Arandell Corporation, 380 production employees are covered under one of two collective bargaining agreements ("CBAs"), and the Arandell Kentucky employees were not unionized.

35. The Arandell Corporation production workers are covered under two CBAs:

a. one for prepress, press and maintenance employees; and,

b. one for bindery and shipping related employees.

36. Approximately 110 workers elected to "opt out" of the relevant CBAs under Wisconsin's Right to Work Statute.

37. The CBAs were last renegotiated in 2019. The CBAs will expire by their own terms on March 31, 2022.

C. Conditions Leading to This Filing

38. The Arandell Kentucky facility experienced significant start-up issues primarily related to equipment failures, competition for unskilled labor in the area and a condensed timetable to begin live production in order to meet customer commitments.

39. The plant was abandoned by the prior owners and had been idle for about six months.

40. In September 2018, Arandell Kentucky believed that the facility was ready to begin live production to produce the work committed to customers.

41. Unfortunately, numerous challenges were experienced upon restarting equipment that had been neglected for many years. These challenges resulted in significant mechanical and electrical repairs being incurred in connection with the start-up.

42. Additionally, the facility's air and water systems experienced untimely operating failures requiring emergency repairs or replacements.

43. Not only did Arandell Kentucky encounter numerous significant and unanticipated maintenance costs to repair and upgrade the failing systems, the production downtime caused expensive scheduling changes to produce the committed work, including sending print jobs back to Arandell Corporation, to other printers, or expediting freight charges to make up for lost production time.

44. Adding to the startup challenges, the Northern Kentucky region experienced an unprecedented ice storm in early November 2018 resulting in lost power to the area and a power surge to certain printing presses that took several days to correct.

45. Also, given the tight labor market conditions, Arandell Kentucky needed to rely on more than anticipated temporary employees.

46. This unanticipated HR issue added significant unplanned labor costs to the startup.

47. At the close of 2018, Arandell Kentucky had posted negative earnings before interest, taxes, depreciation, and amortization ("EBITDA") of $2.7 million.

48. The startup challenges continued into the first quarter of 2019, with Arandell Kentucky posting negative EBITDA of $565,000.

49. A change in manufacturing leadership for Arandell Kentucky that began in January 2019 started to show improvement on operating efficiencies, with Arandell Kentucky posting a negative second quarter EBITDA of $300,000, and further improvement with a breakeven EBITDA third quarter.

50. Arandell Kentucky posted its first positive EBITDA in the fourth quarter of 2019.

51. Arandell Corporation was not immune to its own financial problems in 2018.

52. During 2018, Arandell Corporation experienced an unusually greater than normal insurance "high claim" year with several major medical cases.

53. Arandell Corporation operates its own self-funded health plan.

54. These factors contributed to a reduction of $3.6 million in EBITDA from the $9.5 million posted in 2017, to total EBITDA of $5.9 million in 2018 for Arandell Corporation.

55. The delayed startup in Kentucky, coupled with the Arandell Corporation challenges, resulted in covenant defaults to the Companies' primary secured lender at the end of September 2018.

56. In early 2019, the Companies began to operate under a forbearance agreement

that required it to achieve certain EBITDA landmarks, beginning with the second quarter of 2019.

57. The Companies achieved those landmarks.

58. The Companies were also required, in conjunction with the forbearance, to retain a bank-approved consultant who was charged with the responsibility to examine the Companies' financial projections for 2019 and to issue a report to the Companies and the lender on the achievability of the projections.

59. This requirement was also met.

60. The Companies have also held monthly meetings with the lender to provide compliance information relating to the loan documents along with updates on the status of the business.

61. The Companies complied with all of these requirements.

62. During periods of peak production, the borrowing base contains collateral to support a higher loan limit, but that higher loan limit is currently unavailable to cover the Companies' liquidity needs. Additionally, the reserves implemented under the loan documents have placed other restrictions on accessing the full collateral available.

63. These restrictions on working capital support has caused the Companies to rely heavily upon existing suppliers extending their normal payment terms and finding additional suppliers to supplement those unwilling to extend beyond certain credit limits to backstop the working capital.

64. Complicating the financial challenges faced by the Companies pre-petition, additional business challenges enhanced the Companies' need to seek bankruptcy relief, as follows:

a. Scrap Proceeds: As a by-product of the printing production process, paper is wasted but can be recaptured and baled into "waste paper" which is useful in the production of other products such as recycled paper, napkins and other tissue products, paper plates, packaging materials, and as a substitute for virgin pulp for a variety of raw printed materials. The "short-ton" ("ST") price for baled scrap in December 2018 was $205/ST, whereas the December 2019 price was $85/ST. All of the value of the scrap paper falls to the bottom line of the Companies. This decrease in scrap pricing resulted in an unexpected loss of $1.4 million in scrap proceeds for 2019 from expectations.

b. Customer Bankruptcies and Delinquent Accounts: The Companies were owed money on several accounts that filed for bankruptcy relief during the past two years resulting in uncollected receivables of $1.25M. Additionally, the Companies still produce for several customers who pay beyond 90-day payment terms, rendering their accounts receivable ineligible for borrowing base purposes.

c. Paper Margin: The Companies enjoyed relationships with certain customers that required the Companies to purchase and invoice paper that would be needed to complete their catalog projects. As a result of the Companies' reduced working capital, the Companies were forced to "redirect" those paper transactions to third-party suppliers, thus resulting in a loss of margin on the resale of the paper to the catalog printing customers. The effect of redirecting this paper purchasing to third parties, or using alternative brokered sources with higher costs, adversely affected paper margins by $500,000 in 2019.

d. Paper and Postal Price Increases: Paper prices increased 20% and relevant postal rates increased 5% since the start of 2018. While paper prices have since stabilized, postal rates are projected to increase. Because postage and paper are the two largest cost components related to producing and distributing a catalog, these price increases adversely affect the demand for printed catalogs, as opposed to other promotional methods, such as digital, broadcast, and other direct mail formats.

e. Outside Co-Mailing Services: As noted above, postage is the largest cost component of a catalog program. Therefore, any service that reduces this expense item is a much sought-after value-added service. Co-Mailing is a service offered by Arandell Corporation (along with their main competitors) that significantly reduces the postage bill for customers. At certain times, outsourcing Co-Mailing services is necessary, but the outside alternatives are limited, stemming from recent consolidation activity. During 2019, the Companies were forced to use alternative, more expensive outside sources to process its overflow Co-Mailing services. This third-party utilization eroded historical margins on this service for those catalogs sent outside for Co-Mailing processing.

f. Missed 2019 Q4 Sales Opportunities: The fourth quarter of 2019 had many promising opportunities to close out the year with a strong finish to complement an already promisingly strong first quarter 2020 order start. For numerous and varying reasons, each of the opportunities identified for the fourth quarter failed to materialize. As a result, the Companies missed the targets they forecasted for November and December.

65. Recent trends for the balance of 2020 and outlook for 2021 are much brighter for the Companies.

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Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the contents of the foregoing Declaration are true and correct to the best of my information and belief.

Executed on August 13, 2020.

*/s/ Bradley J. Hoffman*___________________
Bradley J. Hoffman
President and Chief Executive Officer, Arandell Holdings, Inc.
President and Chief Executive Officer, Arandell Corporation
Manager, Arandell Kentucky, LLC