APPLIED GRAPHICS TECHNOLOGIES INC
Form SC 14D9
June 20, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14D-9
SOLICITATION/RECOMMENDATION STATEMENT
UNDER SECTION 14(d)(4) OF THE
SECURITIES EXCHANGE ACT OF 1934

APPLIED GRAPHICS TECHNOLOGIES, INC.
(Name of Subject Company)
APPLIED GRAPHICS TECHNOLOGIES, INC.
(Name of Person Filing Statement)

COMMON STOCK, PAR VALUE $0.01 PER SHARE
(Title of Class of Securities)

037937208
(CUSIP Number of Class of Securities)

MARTIN D. KRALL, ESQ.
EXECUTIVE VICE PRESIDENT, CHIEF LEGAL OFFICER AND SECRETARY
APPLIED GRAPHICS TECHNOLOGIES, INC.
450 WEST 33RD STREET
NEW YORK, NEW YORK 10001
(212) 716-6600
(Name, Address and Telephone Number of Person Authorized to Receive
Notices and Communications on Behalf of the Person Filing Statement)

COPY TO:

TED S. WAKSMAN, ESQ.
WEIL, GOTSHAL & MANGES LLP
767 FIFTH AVENUE
NEW YORK, NEW YORK 10153
(212) 310-8000

[ ] CHECK THE BOX IF THE FILING RELATES SOLELY TO PRELIMINARY COMMUNICATIONS MADE BEFORE THE COMMENCEMENT OF A TENDER OFFER.

ITEM 1. SUBJECT COMPANY INFORMATION

The name of the subject company is Applied Graphics Technologies, Inc., a Delaware corporation (the "Company"). The address of the principal executive offices of the Company is 450 West 33rd Street, New York, New York 10001. The telephone number of the Company at its principal executive offices is (212) 716-6600.

The title of the class of equity securities to which this Solicitation/Recommendation Statement on Schedule 14D-9 (together with any Exhibits or Annexes hereto, this "Statement") relates is the common stock, par value $0.01 per share, of the Company (the "Common Stock"). As of June 16, 2003, there were 9,147,565 shares of Common Stock outstanding.

ITEM 2. IDENTITY AND BACKGROUND OF FILING PERSON

The filing person is the subject company. The Company's name, business address and business telephone number are set forth in Item 1 above.

This Statement relates to the tender offer by KAGT Acquisition Corp., a Delaware corporation ("Purchaser") and a wholly-owned subsidiary of KAGT Holdings, Inc., a Delaware corporation ("Parent"), an affiliate of Kolhberg Investors IV, L.P., Kolhberg TE Investors IV, L.P., Kolhberg Offshore Investors IV, L.P., and Kolhberg Partners IV, L.P. (collectively, "Kohlberg"), to purchase all of the issued and outstanding shares of Common Stock at a purchase price of $0.85 per share, net to the seller in cash, without interest, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated June 20, 2003 (the "Offer to Purchase"), and in the related Letter of Transmittal (which, together with any amendments or supplements thereto, collectively constitute the "Offer"). The Offer is described in a Tender Offer Statement on Schedule TO (as amended or supplemented from time to time, the "Schedule TO"), filed by Purchaser, Parent and Kohlberg with the Securities and Exchange Commission on June 20, 2003. The Offer to Purchase and the related Letter of Transmittal have been filed as Exhibit (a)(1)(A) and Exhibit (a)(1)(B) hereto, respectively, and each is incorporated herein by reference.

The Offer is being made pursuant to the Agreement and Plan of Merger, dated as of June 12, 2003, by and among Parent, Purchaser and the Company (as such agreement may from time to time be amended or supplemented, the "Merger Agreement"). The Merger Agreement provides that, on the second business day following the satisfaction or waiver of certain conditions (or such other day as the parties may agree), following completion of the Offer, Purchaser will merge with and into the Company (the "Merger"), and the Company will be the surviving corporation in the Merger (the "Surviving Corporation"). In the Merger, each outstanding share of Common Stock (other than shares of Common Stock owned by (a) the Company, Purchaser and Parent, and (b) stockholders who are entitled to demand and have properly demanded their appraisal rights under Section 262 of the General Corporation Law of the State of Delaware (the "DGCL")) will be converted into the right to receive in cash the highest price per share of Common Stock paid pursuant to the Offer, without interest.

The Schedule TO states that the principal executive offices of Parent and Purchaser are located at 111 Radio Circle, Mount Kisco, New York 10549 and the telephone number at such principal executive offices is (914) 241-7430.

ITEM 3. PAST CONTACTS, TRANSACTIONS, NEGOTIATIONS AND AGREEMENTS

Certain contracts, agreements, arrangements or understandings between the Company or its affiliates and certain of its directors and executive officers or affiliates are described in the Information Statement pursuant to Rule 14f-1 (the "Information Statement") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), attached hereto as Annex A and incorporated herein by reference. Except as described in this Statement or incorporated herein by

reference, to the knowledge of the Company, as of the date of this Statement there exists no material agreement, arrangement or understanding or any actual or potential conflict of interest between the Company or its affiliates and

(a) the Company's executive officers, directors or affiliates or (b) Parent, Purchaser or their respective executive officers, directors or affiliates.

THE MERGER AGREEMENT. The summary of the Merger Agreement and the description of the conditions to the Offer contained in the Introduction and Sections 12 and 14 of the Offer to Purchase, which is being mailed to stockholders together with this statement, are incorporated herein by reference. Such summary and description are qualified in their entirety by reference to the Merger Agreement, which has been filed as Exhibit (e)(1) hereto and is incorporated herein by reference.

THE LOCK-UP AGREEMENT. The summary of the Lock-Up Agreement contained in Section 12 of the Offer to Purchase is incorporated herein by reference. Such summary is qualified in its entirety by reference to the Lock-Up Agreement, which has been filed as Exhibit (e)(2) hereto and is incorporated herein by reference.

THE PREFERENCE SHARES UNDERTAKINGS. The summary of the Preference Shares Undertakings contained in Section 12 of the Offer to Purchase is incorporated herein by reference. Such summary is qualified in its entirety by reference to the Preference Shares Undertaking, and form of Preference Shares Undertaking that have been filed as Exhibits (e)(3) and (e)(4) hereto and are incorporated herein by reference.

THE SUBORDINATED NOTES UNDERTAKINGS. The summary of the Subordinated Notes Undertakings contained in Section 12 of the Offer to Purchase is incorporated herein by reference. Such summary is qualified in its entirety by reference to the Subordinated Notes Undertakings, a form of which has been filed as Exhibit (e)(5) hereto and is incorporated herein by reference.

THE TENDER AGREEMENTS. The summary of the Tender Agreements contained in the Introduction and Section 12 of the Offer to Purchase is incorporated herein by reference. Such summary is qualified in its entirety by reference to the Tender Agreement, and forms of Tender Agreement that have been filed as Exhibits (e)(6) through (e)(8) hereto and are incorporated herein by reference.

THE CONFIDENTIALITY AGREEMENT. The summary of the Confidentiality Agreement contained in Section 12 of the Offer to Purchase is incorporated herein by reference. Such summary and description are qualified in their entirety by reference to the Confidentiality Agreement, which has been filed as Exhibit (e)(9) hereto and is incorporated herein by reference.

AGREEMENTS BY CERTAIN CREDITORS AND HOLDERS OF PREFERENCE SHARES

Satisfaction of Company's Obligations. The Company's lenders under the Senior Credit Agreement (the "Senior Lenders"), the holders of approximately 59% of the Company's outstanding subordinated notes and the holders of approximately 88% of the preference shares of Wace Group Limited, a majority owned subsidiary of the Company ("Wace"), have each agreed to accept substantial discounts to the face amounts of such instruments in satisfaction of the Company's and Wace's respective obligations thereunder.

The Senior Lenders have entered into to a Lock-Up Agreement (the "Lock-Up Agreement"), dated June 12, 2003, by and among the Senior Lenders, the Company, Parent, and Fleet National Bank ("Fleet"), as Administrative Agent. Pursuant to

the Lock-Up Agreement, the Senior Lenders agreed to accept payment of (i) cash equal to 55% of the principal amount outstanding on the date of the Lock-Up Agreement (the "Senior Indebtedness") under the Second Amended and Restated Credit Agreement, dated as of April 15, 2003, by and among the Company and the Senior Lenders (the "Senior Credit Agreement"), or, in lieu thereof, at the option of each Senior Lender, cash equal to 53% of the Senior Indebtedness and options to purchase 2% of the fully diluted common stock of Parent as of the closing date of the Recapitalization Transactions (as defined below); (ii) accrued interest; (iii) 100% of amounts borrowed after the date of the Lock-Up Agreement and (iv) cash equal to 2% of the Senior Indebtedness if the Company's Consolidated EBITDA (as defined in the Senior Credit Agreement) exceeds $48,000,000 for fiscal year 2004 in exchange for cancellation of the Senior Indebtedness. The Senior Lenders, in connection therewith, also agreed to the cancellation of their presently exercisable warrants to purchase 1,360,131 shares of Common Stock. The Senior Lenders also exercised, on June 11, 2003, an

option to purchase 680,067 shares of Common Stock from Applied Printing Technologies, L.P. and have agreed to tender such shares pursuant to the Offer.

Holders of approximately 59% of the Company's 10% Subordinated Notes due 2005 (the "Subordinated Notes"), each, pursuant to a Deed of Irrevocable Undertaking (the "Subordinated Notes Undertakings"), have agreed, subject to certain conditions, to tender all of the Subordinated Notes they own in exchange for 25% of the principal amount thereof, plus accrued interest.

Holders of approximately 88% of Wace's 8% Cumulative Convertible L1 Preference Shares (the "Wace Preference Shares"), each, pursuant to a Deed of Irrevocable Undertaking (the "Preference Shares Undertakings"), have agreed, subject to certain conditions, to accept a proposal permitting the redemption of all of the Wace Preference Shares (other than those owned by Applied Graphics Technologies (UK) Limited, a subsidiary of the Company) in exchange for 19% of the liquidation preference thereof (without regard to accrued and unpaid dividends). Such holders party to the Preference Share Undertakings have also agreed to subscribe, in cash, upon completion of the redemption of such Wace Preference Shares, for unsecured notes of the Company in a principal amount of 6 pence for each preference share redeemed from such holder.

Material Conditions to Offer. Consummation of the Offer is subject to certain conditions including, without limitation:

- tender of more than 50% of the outstanding fully diluted shares of Common Stock (as defined in Section 14 of the Offer to Purchase) as set forth in the Offer;

- the prior or contemporaneous cancellation of the Senior Indebtedness as contemplated by the Lock-Up Agreement;

- the requisite affirmative vote (and other acts) by the holders of the Subordinated Notes sufficient to permit all outstanding Subordinated Notes to be discharged or repaid on the terms set forth in a Notice of Noteholders Meeting sent to such holders on June 13, 2003 or such Subordinated Notes shall actually have been repurchased or redeemed;

- the requisite affirmative vote (and other acts) by the holders of the Wace Preference Shares sufficient to permit all outstanding Wace Preference Shares to be purchased or redeemed on the terms set forth in a Notice of Meeting sent to such holders on June 13, 2003 or such Wace Preference Shares (other than those held by Applied Graphics Technologies (UK) Limited) shall actually have been repurchased or redeemed (such

transactions, collectively referred to herein as the "Recapitalization Transactions"). Funds to consummate each of the Recapitalization Transactions are to be provided by Parent or Purchaser. The Recapitalization Transactions are summarized in Item 12 of the Offer to Purchase. In addition, consummation of the Offer is subject to the following conditions:

- debt financing shall be made available pursuant to the terms of a commitment letter obtained by the Parent; and

- there shall not have occurred a material adverse change in the Company or its business.

The conditions to the Offer are summarized in Section 14 of the Offer to Purchase.

Vote to Facilitate the Offer. The Subordinated Notes Undertakings and the Preference Shares Undertakings provide for the holders of Subordinated Notes and Wace Preference Shares party thereto to vote in accordance with the Company's, or Wace's, directions, as the case may be, in respect of any "Relevant Resolution." A Relevant Resolution, is a resolution that would assist (or impede) the tender offer for the Subordinated Notes or the redemption of the Wace Preference Shares, as the case may be, as contemplated in the applicable Undertaking. The vote of such holders on Relevant Resolutions that are presently proposed would be sufficient to permit redemption of the Wace Preference Shares and would most likely be sufficient to allow redemption of the Subordinated Notes.

EFFECTS OF THE OFFER AND THE MERGER UNDER COMPANY STOCK PLANS AND AGREEMENTS BETWEEN THE COMPANY AND ITS OFFICERS

Company Stock Options. In accordance with the Merger Agreement, the Board of Directors of the Company (the "Board of Directors") has acted to provide that, at the time of the first acceptance for payment of shares of Common Stock pursuant to the Offer, each outstanding option to purchase Common Stock (whether vested or unvested) shall be canceled in exchange for a cash payment by the Company as soon as practicable following the first acceptance for payment of shares of Common Stock pursuant to the Offer of an amount equal to (a) the excess, if any, of the highest price per share of Common Stock to be paid pursuant to the Offer over the exercise price per share of Common Stock subject to such option, multiplied by (b) the number of shares of Common Stock for which such option shall not previously have been exercised, less applicable withholding tax. The Merger Agreement also provides that the Board of Directors shall use its commercially reasonable efforts to obtain appropriate consents and shall take certain actions to provide that all outstanding options to purchase Common Stock will be exercisable at the time of such first acceptance.

Company Stock Plans. The Merger Agreement provides that all Company stock plans shall terminate as of the Effective Time (as defined in the Merger Agreement), and the provisions in any other Company benefit plan providing for the issuance, transfer or grant of capital stock of the Company or any interest in respect of capital stock of the Company shall be deleted as of the Effective Time, and the Company shall ensure that no holder of a Company stock option or any participant in any Company stock plan, or other Company benefit plan, shall thereafter have any right thereunder to acquire any capital stock of the Company or the Surviving Corporation of the Merger. The Merger Agreement further provides that Parent shall cause the Surviving Corporation in the Merger, for a period of twelve months after the Effective Time, to provide to each then-current employee of the Company and its subsidiaries severance benefits no

less favorable than those applicable immediately prior to the date of the Merger Agreement and other benefits (other than equity-based plans) that are not materially less favorable in the aggregate to such employees than those benefits in effect for such employees on the date of the Merger Agreement.

Employment Agreements. The Company is party to employment agreements with the following executive officers: Fred Drasner, Chairman of the Board of Directors and Chief Executive Officer, Joseph Vecchiolla, President and Chief Operating Officer, Martin Krall, Executive Vice President, Chief Legal Officer and Secretary, and Kenneth Torosian, Senior Vice President, Chief Financial Officer and Treasurer. The employment agreements provide that if the executive officer's employment is terminated by the Company without "cause" or by the officer for "good reason," the Company will pay the executive officer a lump sum in cash. The consummation of the Offer or the Merger would not, by itself, constitute "good reason" for purposes of these agreements.

EFFECT OF THE OFFER AND MERGER ON THE BOARD OF DIRECTORS

Indemnification. The Merger Agreement provides that Parent shall, to the fullest extent permitted by law, cause the Company (from and after the date on which a majority of directors designated by Parent shall have been elected to the Board of Directors) and the Surviving Corporation in the Merger (from and after the Effective Time to honor all of the Company's obligations to indemnify, defend and hold harmless the current and former directors and officers of the Company and its subsidiaries for acts or omissions by any such directors and officers occurring prior to the Effective Time to the maximum extent that such obligations of the Company exist on the date of the Merger Agreement, whether pursuant to the Company's certificate of incorporation or bylaws, the DGCL or otherwise, and such obligations shall survive the Merger and continue in full force and effect until the expiration of the applicable statute of limitations with respect to any claims against such directors or officers arising out of such acts or omissions. In the event a current or former director or officer of the Company or any of its subsidiaries is entitled to such indemnification, such director or officer shall be entitled to reimbursement from the Company or the Surviving Corporation (from and after the Effective Time) for reasonable attorney fees and expenses incurred in pursuing such indemnification, including payment of such fees and expenses by the Surviving Corporation or the Company, as applicable, in advance of the final disposition of such action

upon receipt of an undertaking by such current or former director or officer to repay such payment unless it shall be adjudicated that such current or former director or officer was entitled to such payment.

Directors' and Officers' Insurance. The Merger Agreement also provides that from and after the date on which a majority of directors designated by Parent have been elected to the Board of Directors and for a period of six years after the Effective Time, Parent shall cause to be maintained in effect the current policies of directors' and officers' liability insurance maintained by the Company with respect to claims arising from or related to facts or events which occurred at or before the Effective Time, provided that Parent may either (a) substitute therefor policies with reputable and financially sound carriers or (b) maintain self insurance or similar arrangements through a financially sound insurance affiliate of Parent, in each case of at least the same coverage and amounts and containing terms and conditions no less advantageous. Under the terms of the Merger Agreement, Parent shall not be obligated to make premium payments over such six-year period for such insurance to the extent the aggregate amount of such premiums exceeds $1,300,000. If Parent cannot obtain such insurance or can only obtain such insurance at an aggregate premium in excess of $1,300,000, Parent shall maintain the most advantageous policies of

director's and officers' insurance obtainable at such cost.

ITEM 4. THE SOLICITATION OR RECOMMENDATION

RECOMMENDATION OF THE BOARD. At a meeting held on June 3, 2003, the Board of Directors, by a unanimous vote of all of the Company's Directors, (a) approved the Merger Agreement and the transactions contemplated by the Merger Agreement, including the Offer, the Recapitalization Transactions and the Merger, and declared that they were advisable and (b) determined that the terms of the Offer and the Merger Agreement are fair, from a financial point of view, to the Company and its stockholders. The Board of Directors also unanimously recommended that the stockholders of the Company accept the Offer and tender their Common Stock pursuant to the Offer and that the stockholders of the Company adopt the Merger Agreement, if such adoption is required. At such meeting, the Board of Directors also, among other things, approved consummation of the transactions contemplated by the Merger Agreement and related transactions for purposes of Section 203 of the DGCL and approved, under Rule 16b-3 promulgated under the Exchange Act, certain actions to be taken by certain affiliates of the Company in connection with the Offer.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS ACCEPT THE OFFER AND TENDER COMMON STOCK IN THE OFFER.

A letter to the Company's stockholders communicating the recommendation of the Board of Directors is filed herewith as Exhibit (a)(2)(A) and is incorporated herein by reference.

BACKGROUND OF THE OFFER; CONTACTS WITH PURCHASER. The Company has recently operated under difficult financial circumstances. In seeking solutions to the Company's ongoing financial problems, the Board of Directors and the Company's executive officers have, from time to time, discussed and considered possible strategic alternatives for the Company, including plans to complete an overall recapitalization of the Company. In August 2002, the Company entered into preliminary negotiations with a third party in connection with a potential recapitalization of the Company. The terms of the proposed recapitalization were acceptable to most of the Senior Lenders, in both number of lenders and dollar amount of commitment, but were rejected by a few for not containing sufficient consideration. Such negotiations were, consequently, terminated.

In late February 2003, Mr. Christopher Lacovara of Kohlberg contacted the Company to initiate discussions of a possible recapitalization.

On March 4, 2003, Mr. Lacovara met with Fred Drasner, the Chairman of the Board and Chief Executive Officer of the Company, and on March 11, 2003, with Mr. Drasner, Joseph D. Vecchiolla, the President and Chief Operating Officer of the Company and Martin D. Krall, the Executive Vice President, Chief Legal Officer, and Secretary of the Company, to discuss the Company's business, capital structure,

and the goals of a potential recapitalization transaction. The parties had additional discussions regarding a potential transaction over the following two weeks.

On March 20, 2003, the Company and Kohlberg entered into a confidentiality agreement to facilitate Kohlberg being furnished with certain non-public information in connection with a possible transaction.

The Company and Kohlberg Management IV, L.L.C. entered into a non-binding letter of intent on March 26, 2003. The letter of intent outlined the terms of a

recapitalization and the possible allocation of invested funds among the Company's lenders and the holders of various securities of the Company. It also provided for a period of exclusivity through April 30, 2003 to perform due diligence and pursue more definitive agreements with the holders of various securities of the Company. The letter of intent did not obligate either party to ultimately enter into a transaction and provided for reimbursement of up to $250,000 in expenses in the event the letter of intent was terminated for any reason.

Over the following weeks, there were a number of meetings and conversations between the management of the Company and representatives from Kohlberg regarding a possible transaction. During this period, representatives of Kohlberg conducted a due diligence investigation of the Company's various business lines and discussed with Company representatives historical trends in revenue and profit margins for the Company's various business segments.

On April 3, 2003, Mr. Lacovara and Gordon Woodward of Kohlberg met with Ralph Palma, Senior Vice President of Fleet, the administrative agent and a lender under the Senior Credit Agreement, Fleet's counsel and Messrs. Drasner, Krall and Vecchiolla of the Company. The parties discussed the potential recapitalization transactions, the structure of such recapitalization, and the proceeds as they related to Fleet and the other lenders under the Senior Credit Agreement.

Throughout April 2003, representatives of Kohlberg conducted additional due diligence at the Company, including meetings and conference calls with certain division managers and Mr. Vecchiolla. Representatives of Foothill Capital Corporation ("Foothill"), as a potential source of debt financing for the potential transaction, also attended certain of these meetings. During this period, further negotiations also took place among Messrs. Drasner, Krall, Vecchiolla and Lacovara concerning the structure and allocation of invested funds across holders of various Company securities in a potential recapitalization transaction.

During April, Kohlberg held further discussions with Fleet and representatives of the Company, as well as representatives of certain of the holders of the Subordinated Notes and the Wace Preference Shares. During these negotiations, potential terms of the recapitalization transactions were discussed with each group and draft documents intended to secure provisional approval of the recapitalization from the required holders of each of these securities were negotiated.

During April, representatives of the Company and Mr. Lacovara also discussed terms of the potential recapitalization transactions with Foothill and Silver Point Capital, L.P. ("Silver Point") to discuss the possibility of such entities participating in the transactions to provide debt financing for the recapitalization and serve as new lenders to the Company.

On May 6, 2003, representatives of Kohlberg met with certain independent members of the Board of Directors to discuss the proposed recapitalization on terms that would have paid holders of the Company's common stock $0.75 per Share. On May 8, the Board of Directors met with Mr. Lacovara and Mr. Woodward to discuss the Offer and the recapitalization and the possibility of a price in the Offer of $1.00 per Share as proposed by the Board of Directors and $0.85 per Share, as proposed by Mr. Lacovara. The Board of Directors directed the independent directors negotiating with Kohlberg to seek additional compensation to be paid to the common stockholders of the Company.

On May 8, 2003, the Company and Kohlberg entered into a revised letter of intent, extending the period of exclusivity from April 30, 2003 to May 31, 2003. This extension letter provided for the amount available for the reimbursement of certain expenses incurred in the due diligence investigation by Kohlberg to be

increased to $500,000.

On May 13, 2003, David Parker, a director of the Company, wrote Mr. Lacovara on behalf of the Company, to communicate the Board of Directors' belief that, given all of the circumstances, $1.00 per share would represent a fair price to holders of the Common Stock and seeking an increase in the amount of consideration to be offered by Kohlberg & Company, L.L.C. to such holders.

During May 2003, representatives of the Company negotiated preliminary terms of the Merger Agreement with Kohlberg.

On May 21, 2003, representatives of Kohlberg contacted the Company to state that, based upon its arrangement with Foothill and Silver Point, the negotiations with the Senior Lenders and its due diligence investigations, Kohlberg would be willing to proceed with a transaction at $0.85 per Share. Between May 26, 2003 and June 12, 2003, representatives of Kohlberg and the Company and their respective counsel negotiated the final terms of the Merger Agreement.

On June 3, 2003 the Board of Directors met to consider the tender offer, Merger and related transactions. Messrs. Krall and Drasner updated the Board of Directors on the course of negotiations regarding the transaction. A representative of Weil, Gotshal & Manges LLP, the Company's outside law firm, reviewed with the Board of Directors the terms of the proposed merger agreement and tender agreements and the timetable and various approvals that would be required to close the transaction and discussed various other aspects of the proposed transaction with the Board of Directors and responded to questions posed by directors. On that same day, the Board of Directors unanimously authorized the Company's management to execute the Merger Agreement.

Between April 29, 2003 and June 9, 2003, the Company entered into agreements with holders of approximately 59% of the outstanding Subordinated Notes of the Company to repurchase, subject to the terms and conditions set forth therein, the Subordinated Notes held by such holders through a tender offer and/or redemption.

On June 12, 2003, the Company and Wace entered into agreements with holders of approximately 88% of the outstanding Wace Preference Shares to repurchase and/or redeem, subject to the terms and conditions set forth therein, the outstanding Wace Preference Shares held by such holders (other then those held by Applied Graphics Technologies (UK) Limited) and obligating such holders to vote in favor of a proposal permitting Wace to make redemptions of all of the Wace Preference Shares (other than those held by Applied Graphics Technologies (UK) Limited).

On June 12, 2003, the parties executed the Merger Agreement. On June 13, 2003, the Company issued a press release announcing the transaction.

On June 20, 2003, in accordance with the Merger Agreement, the Purchaser commenced the Offer.

REASONS FOR THE RECOMMENDATION OF THE BOARD OF DIRECTORS

In approving the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger, and making its recommendation that all stockholders tender their Common Stock pursuant to the Offer, approve the Merger and approve and adopt the Merger Agreement, if required, the Board of Directors considered a number of factors, including, but not limited to, the following:

A. The amount of consideration to be received by the holders of shares of Common Stock pursuant to the Offer and the Merger;

B. The process leading to the Offer and the Merger and the possible alternatives thereto, the range of possible benefits to the Company's stockholders and other constituencies of such alternatives and the expected timing and likelihood of accomplishing any of such alternatives;

C. Information with regard to the financial condition, results of operations, business and prospects of the Company, the regulatory approvals required to consummate the Offer and the Merger as well as current economic and market conditions;

D. The historical and recent market prices of the Common Stock and the fact that the Offer and the Merger will enable the holders of the shares to realize an 89.9% premium over the $0.45 closing price of the Common Stock on June 2, 2003, the last trading day prior to the meeting of the Board of Directors to approve the Merger Agreement;

E. The likelihood that the Merger would be consummated, in light of (1) the Tender Agreements pursuant to which Applied Printing Technologies, L.P., Fred Drasner, Martin Krall, Joseph Vecchiolla, David Parker, Marne Obernauer, Jr. and the Senior Lenders, who beneficially own approximately 33.9% of the outstanding fully diluted shares of Common Stock (including in-the-money options), agreed, among other things, to tender all of their Common Stock in the Offer and vote all of their Common Stock in favor of the Merger, and (2) the experience, reputation and financial capabilities of Kohlberg and its affiliates; and

F. The Board of Directors belief that consummation of the Offer would present stockholders with the best opportunity to receive a premium to current market prices for their shares of Common Stock. This belief is based upon:

- The Board of Directors' belief that the Company will be unable to pay when due the outstanding principal amount of its Senior Indebtedness, which would also be a default under the Subordinated Notes and could result in acceleration of such indebtedness;

- The necessity that the Company consummate a restructuring or recapitalization on or before July 15, 2003 to avoid the automatic acceleration of its outstanding Senior Indebtedness absent an agreement by the Senior Lenders to waive such default;

- The Company's inability, prior to the execution of the Merger Agreement and related documents, to obtain agreements of its Senior Lenders sufficient to effect any previously proposed restructuring or recapitalization and sufficient to avoid the acceleration of the Company's Senior Indebtedness;

- The Board of Directors' belief that the assets of the Company would not be sufficient to repay the Company's indebtedness, all of which has a claim superior to that of the Common Stock and, as a consequence, its belief that no proceeds would be paid to holders of Common Stock in the event of a bankruptcy or liquidation of the Company. The Board of Directors can give no assurance that bankruptcy or liquidation would not result from an acceleration of the Company's

Senior Indebtedness;

- The Board of Directors' belief that the significant discounts that holders of the Company's Senior Indebtedness, Subordinated Notes and holders of the Wace Preference Shares have committed to accept in exchange for such instruments demonstrate that the Offer represents the most favorable terms obtainable by the Company and the Stockholders;

- The Board of Directors' belief, after consultation with its legal advisors, that the terms of the Merger Agreement, including amounts payable to the Parent in the event of termination, do not preclude a superior proposal to acquire the Company. In this regard, the Board of Directors recognized that certain provisions of the Merger Agreement relating to termination fees and non-solicitation of acquisition proposals were insisted upon by Kohlberg as a condition to entering into the Merger Agreement. Although the Board of Directors considered that these provisions could have the effect of deterring third parties who might be interested in exploring an acquisition of the Company, the Board of Directors concluded that the advantages of entering into the Merger Agreement outweighed the possibility that another company might be willing to pay a higher price for the Company, but would be unwilling to present an unsolicited proposal after the Merger Agreement was announced; and

- The efforts of the Company's management to solicit indications of interest in acquiring the Company from other potential buyers, and the fact that no other proposal that was both meaningful and acceptable to the Company's Senior Lenders resulted from that process.

In view of these many considerations, the Board of Directors did not assign relative weights to the above factors or determine that any factor was of special importance. Rather, the Board of Directors viewed its position and recommendations as being based on the totality of the information presented to and considered by it, both positive and negative. In addition, it is possible that different members of the Board of Directors assigned different weights to the various factors described above. After weighing all of these considerations, the Board of Directors was unanimous in approving the Offer, the Merger, the Merger Agreement and the transactions contemplated thereby and recommending that the stockholders of the Company tender their shares of Common Stock in the Offer.

INTENT TO TENDER

After reasonable inquiry and to the best knowledge of the Company, each executive officer, director, affiliate and subsidiary of the Company who owns shares of Common Stock intends to tender in the Offer all such shares that each person owns of record or beneficially, other than such shares, if any, that any such persons may have an unexercised right to purchase by exercising stock options. Upon consummation of the Offer, outstanding options to purchase Common Stock will be canceled and the Company will pay holders thereof, in respect of each Share subject thereto, cash equal to the excess, if any, of the price per Share to be paid in the Offer over the exercise price per share of such option. See "Item 3. Past Contacts, Transactions, Negotiations and Agreements -- Effects of the Offer and the Merger under Company Stock Plans and Agreements Between the Company and its Officers." Messrs. Fred Drasner, Martin Krall and Joseph Vecchiolla, the Chairman of the Board and Chief Executive Officer, Executive Vice President, Chief Legal Officer and Secretary, and President and Chief Operating Officer, respectively, of the Company and each a director of the

Company and David Parker and Marne Obernauer, Jr., directors of the Company, Applied Printing Technologies, L.P., an affiliate of the Company, and the Senior Lenders each entered into a Tender Agreement with Purchaser and Parent on June 12, 2003, pursuant to which each such person committed, among other things, to tender in the Offer all Common Stock held or subsequently acquired by such person. Such persons own, in the aggregate, approximately 33.9% of the outstanding fully diluted shares of Common Stock (including in-the-money options).

ITEM 5. PERSONS/ASSETS RETAINED, EMPLOYED, COMPENSATED OR USED

Neither the Company nor any person acting on its behalf has directly or indirectly employed, retained or compensated, or currently intends to employ, retain or compensate, any person to make solicitations or recommendations to the stockholders of the Company on its behalf with respect to the Offer or the Merger.

ITEM 6. INTEREST IN SECURITIES OF THE SUBJECT COMPANY

Except as set forth in this Statement, no transactions in shares of Common Stock have been effected during the past 60 days by the Company or, to the knowledge of the Company, by any executive officer, director, affiliate or subsidiary of the Company, other than the execution and delivery of the Merger Agreement and the Tender Agreements and exercise of the call option held by the Senior Lenders to purchase 680,067 Shares.

ITEM 7. PURPOSES OF THE TRANSACTION AND PLANS OR PROPOSALS

Except as set forth in this Statement, the Company is not currently undertaking or engaged in any negotiations in response to the Offer that relate to: (a) a tender offer for or other acquisition of the Company's securities by the Company, any subsidiary of the Company or any other person; (b) an extraordinary transaction, such as a merger, reorganization or liquidation, involving the Company or any subsidiary of the Company; (c) a purchase, sale or transfer of a material amount of assets of the Company or any subsidiary of the Company; or (d) any material change in the present dividend rate or policy, or indebtedness or capitalization of the Company.

Except as set forth in this Statement, there are no transactions, resolutions of the Board of Directors, agreements in principle, or signed contracts in response to the Offer that relate to one or more of the events referred to in the preceding paragraph.

ITEM 8. ADDITIONAL INFORMATION

PURCHASER'S DESIGNATION OF PERSONS TO BE ELECTED TO THE BOARD

The Information Statement attached as Annex A to this Statement is being furnished in connection with the possible designation by Purchaser, pursuant to the terms of the Merger Agreement, of certain persons to be elected to the Board of Directors other than at a meeting of the Company's stockholders.

GENERAL CORPORATION LAW OF THE STATE OF DELAWARE

The Company is incorporated under the laws of the State of Delaware.

Short Form Merger. Under Section 253 of the DGCL, if Purchaser acquires, pursuant to the Offer (including any extension thereof) or otherwise, at least 90% of the outstanding shares of Common Stock, Purchaser will be able to effect

the Merger after consummation of the Offer without a vote by the Company's stockholders. However, if Purchaser does not acquire at least 90% of the outstanding Common Stock pursuant to the Offer (including any extension thereof) or otherwise, a vote by the Company's stockholders will be required under the DGCL to effect the Merger. As a result, the Company will also have to comply with the Federal securities laws and regulations governing the solicitation of proxies. Among other things, the Company will be required to prepare and distribute a proxy statement and, as a consequence, a longer period of time will be required to effect the Merger and, consequently, to pay stockholders who do not tender their Shares in the Offer. However, it is a condition to consummation of the Offer that more than 50% of the outstanding fully diluted shares of Common Stock be tendered. Parent and Purchaser have agreed, however, to cause all of the Common Stock owned by them, if any, to be voted in favor of the adoption of the Merger Agreement. If the minimum tender condition shall have been satisfied, Common Stock owned by Parent and Purchaser would represent a majority of the outstanding shares of Common Stock, comprising voting power sufficient to approve the Merger Agreement. Accordingly, adoption of the Merger Agreement would be assured.

Appraisal Rights. Stockholders do not have appraisal rights in connection with the Offer. However, if the Merger is consummated, each holder of shares of Common Stock who has neither voted in favor of the Merger nor consented thereto in writing, and who otherwise under the DGCL complies with the applicable statutory procedures will be entitled to receive a judicial determination of the fair value of their shares of Common Stock (exclusive of any element of value arising from the accomplishment or expectation of such merger or similar business combination) and to receive payment of such fair value in cash, together with a fair rate of interest, if any, for shares held by such holders. Any such judicial determination of the fair value of the shares could be based upon considerations other than or in addition to the price paid in the Offer and the market value of the Common Stock. Stockholders should recognize that the value so determined could be higher or lower than the price per share paid pursuant to the Offer.

If any holder of Common Stock who demands appraisal under Section 262 of the DGCL fails to perfect, or effectively withdraws or loses his rights to appraisal as provided in the DGCL, the Common Stock of such stockholder will be converted into the right to receive the price paid for each share of Common Stock in accordance with the Merger Agreement. A stockholder's demand for appraisal may be withdrawn by delivering to the Company a written withdrawal of his demand for appraisal and acceptance of the Merger. Failure to follow the steps required by Section 262 of the DGCL for perfecting appraisal rights may result in the loss of such rights. Stockholders who will be entitled to appraisal rights in connection with the Merger will receive additional information concerning appraisal rights and the procedures to be followed in connection therewith before such stockholders have to take any action relating thereto.

Delaware Business Combination Statute. In general, Section 203 of the DGCL prevents an "interested stockholder" (including a person who owns or has the right to acquire 15% or more of a corporation's outstanding voting stock) from engaging in a "business combination" (defined to include mergers and certain other actions) with a Delaware corporation for a period of three years following the date such person became an interested stockholder unless, among other things, the "business combination" is approved by the board of directors of such corporation prior to such time. In connection with its approval of the Merger and the Merger Agreement, the Board of Directors exempted the Merger Agreement and the transactions contemplated thereby from the restrictions of Section 203 of the DGCL.

Antitrust Laws. Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and the rules and regulations that have been promulgated thereunder by the Federal Trade Commission (the "FTC"), certain reportable acquisition transactions may not be consummated until certain information and documentary material have been furnished for review by the Antitrust Division of the Department of Justice and FTC and certain waiting period requirements have been satisfied. The purchase of the Common Stock pursuant to the Offer is not a reportable transaction under the HSR Act.

ITEM 9. MATERIAL TO BE FILED AS EXHIBITS

The following Exhibits are filed herewith:

EXHIBIT NO.	DESCRIPTION
(a)(1)(A)	Offer to Purchase, dated June 20, 2003 (incorporated by reference to Exhibit (a)(1) to the Schedule TO of Purchaser filed on June 20, 2003).
(a)(1)(B)	Form of Letter of Transmittal (incorporated by reference to Exhibit (a)(2) to the Schedule TO of Purchaser filed on June 20, 2003).
(a)(2)(A)	Letter to the stockholders of the Company, dated June 20, 2003.*
(a)(2)(B)	Press Release issued by the Company on June 13, 2003 (incorporated by reference to press release under cover of Schedule 14D-9 filed by the Company on June 13, 2003).
(e)(1)	Agreement and Plan of Merger, dated as of June 12, 2003, among Parent, Purchaser and the Company (incorporated by reference to Exhibit (d)(1) to the Schedule TO of Purchaser filed on June 20, 2003).
(e)(2)	Lock-Up Agreement dated as of June 12, 2003, by and among the Company, Parent, Fleet National Bank, as Administrative Agent (the "Agent") and the lenders (the "Lenders") party to the Second Amended and Restated Credit Agreement dated as of April 15, 2003, by and among the Company, as borrower, the Agent and the Lenders (incorporated by reference to Exhibit (d)(2) to the Schedule TO of Purchaser filed on June 20, 2003).
(e)(3)	Form of Preference Shares Undertaking, dated as of June 12, 2003, among the Company, Wace Group Limited and each of Aberdeen Asset Managers Ltd, New Star Asset Management Limited and INVESCO Asset Management Limited (incorporated by reference to Exhibit (d)(4) to the Schedule TO of Purchaser filed on June 20, 2003).
(e)(4)	Preference Shares Undertaking, dated as of June 12, 2003, among the Company, Wace Group Limited and Applied Graphics Technologies (UK) Limited (incorporated by reference to Exhibit (d)(5) to the Schedule TO of Purchaser filed on June 20, 2003).
(e)(5)	Form of Subordinated Notes Undertaking, dated as of April 29, 2003 and May 7, 2003, among the Company and each of Ionian Nominees Limited, Securities Management Trust, Vasiliou & Co. Inc., Credit Suisse First Boston Equities Nominees Limited, Merrill Lynch, Maldon Electric Securities Limited, EAP Securities Limited and New Centurion Trust Limited (incorporated by reference to Exhibit (d)(3) to the Schedule TO of Purchaser filed on June 20, 2003).
(e)(6)	Tender Agreement, dated June 12, 2003, among Parent,

Purchaser and Applied Printing Technologies, L.P. (incorporated by reference to Exhibit (d)(7) to the Schedule TO of Purchaser, filed on June 12, 2003).

EXHIBIT NO.	DESCRIPTION
(e)(7)	Form of Tender Agreement, dated June 12, 2003, among Parent, Purchaser and each of the Senior Lenders (incorporated by reference to Exhibit (d)(8) to the Schedule TO of Purchaser, filed on June 12, 2003).
(e)(8)	Form of Tender Agreement, dated June 12, 2003, among Parent, Purchaser and each of Fred Drasner, Martin Krall, Joseph Vecchiolla, David Parker and Marne Obernauer, Jr. (incorporated by reference to Exhibit (d)(9) to the Schedule TO of Purchaser, filed on June 12, 2003).
(e)(9)	Confidentiality Agreement, dated March 20, 2003, between Kohlberg and the Company (incorporated by reference to Exhibit (d)(6) to the Schedule TO of Purchaser filed on June 20, 2003).
(e)(10)	Information Statement of the Company, dated June 20, 2003 (included as Annex A hereto).*
(g)	None.

ANNEX A -- INFORMATION STATEMENT

* Included with this Statement.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

APPLIED GRAPHICS TECHNOLOGIES, INC.

By: /s/ FRED DRASNER

Name: Fred Drasner
Title: Chairman of the Board and Chief Executive Officer

Dated: June 20, 2003

ANNEX A

APPLIED GRAPHICS TECHNOLOGIES, INC.
450 WEST 33RD STREET

NEW YORK, NEW YORK 10001

INFORMATION STATEMENT PURSUANT TO
SECTION 14(f) OF THE SECURITIES EXCHANGE ACT
OF 1934 AND RULE 14F-1 THEREUNDER

This Information Statement is being mailed on or about June 20, 2003 as part of the Solicitation/ Recommendation Statement on Schedule 14D-9 (the "Statement") of Applied Graphics Technologies, Inc. (the "Company"). You are receiving this Information Statement in connection with the possible election of persons designated by KAGT Acquisition Corp. ("Purchaser"), a Delaware corporation and a wholly owned subsidiary of KAGT Holdings, Inc., a Delaware corporation ("Parent"), to at least a majority of the seats on the board of directors of the Company (the "Board" or the "Board of Directors").

On June 12, 2003, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Parent and Purchaser, pursuant to which Purchaser is required to commence a tender offer to purchase all of the outstanding shares of common stock, par value $0.01 per share, of the Company (the "Shares"), at a price per Share of $0.85, net to the seller in cash, without interest (such price, or the highest price per Share as may be paid in the Offer, is hereinafter referred to as the "Offer Price"), on the terms and subject to the conditions set forth in the Offer to Purchase dated June 20, 2003 (the "Offer to Purchase"), and the related Letter of Transmittal (which, together with any amendments or supplements thereto, collectively constitute the "Offer"). Copies of the Offer to Purchase and the Letter of Transmittal have been mailed to stockholders of the Company and are filed as Exhibit (a)(1) and (a)(2), respectively, to the Tender Offer Statement on Schedule TO filed by Purchaser and Parent and Kohlberg (the "Schedule TO") with the Securities and Exchange Commission (the "SEC") on June 20, 2003.

The Merger Agreement provides, among other matters, that on the terms and subject to the satisfaction or waiver of the conditions set forth in the Merger Agreement, following consummation of the Offer, and in accordance with the General Corporation Law of the State of Delaware, as amended (the "DGCL"), Purchaser will be merged with and into the Company (the "Merger"). Following the Effective Time, the Company will continue as the surviving corporation and a wholly-owned subsidiary of Parent. At the Effective Time, each issued and outstanding Share (other than Shares held by (i) the Company, (ii) Purchaser or Parent and (iii) stockholders who are entitled to and have properly exercised their dissenters' rights under the DGCL) will be converted into the right to receive the Offer Price, without interest (the "Merger Consideration").

The Offer, the Merger, and the Merger Agreement are more fully described in the Statement to which this Information Statement is annexed as Annex A, which was filed by the Company with the SEC on June 20, 2003 and which is being mailed to stockholders of the Company along with this Information Statement.

This Information Statement is being mailed to you in accordance with Section 14(f) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 14f-1 promulgated thereunder. The information set forth herein supplements certain information set forth in the Statement. Information set forth herein related to Parent, Purchaser or the Parent Designees (as identified herein) has been provided by Parent. You are urged to read this Information Statement carefully. You are not, however, required to take any action in connection with the matters set forth herein. Capitalized terms used but not otherwise defined herein have the meanings set forth in the Statement.

Pursuant to the Merger Agreement, Purchaser commenced the Offer on Friday, June 20, 2003. The Offer is scheduled to expire at 12:00 Midnight, New York City time, on Friday, July 18, 2003, unless extended in accordance with its terms.

GENERAL INFORMATION REGARDING THE COMPANY

The common stock, par value $0.01 per share ("Common Stock"), is the only class of equity securities of the Company outstanding that is entitled to vote at a meeting of the stockholders of the Company. Each share of Common Stock is entitled to one vote. As of June 16, 2003, there were 9,147,565 Shares issued and outstanding, of which Parent and Purchaser own no Shares as of the date hereof.

RIGHTS TO DESIGNATE DIRECTORS AND PARENT DESIGNEES

The Merger Agreement provides that, promptly upon the first acceptance for payment of, and payment by Purchaser for, any Shares tendered pursuant to the Offer, Purchaser will be entitled to designate such number of directors on the Board of Directors, subject to compliance with Section 14(f) of the Exchange Act, as will give Purchaser representation on the Board of Directors equal to at least that number of directors, rounded up to the next whole number, which is the product of (i) the total number of directors on the Board of Directors (giving effect to the directors elected as described in this sentence) multiplied by (ii) the percentage that (a) such number of Shares so accepted for payment and paid for by Purchaser plus the number of Shares otherwise owned by Purchaser or any other subsidiary of Parent bears to (b) the number of Shares then outstanding, and the Company will, at such time, cause Purchaser's designees to be so elected or appointed to the Board of Directors.

Subject to provisions of applicable law, the Merger Agreement obligates the Company to take all action requested by Parent necessary to effect any such election or appointment. In connection with such request, the Company will promptly, at the option of Purchaser, either increase the size of the Board of Directors or obtain the resignation of such number of its current directors as is necessary to enable Purchaser's designees to be elected or appointed to the Board of Directors as described above.

In the event that Purchaser's designees are appointed or elected to the Board of Directors, until the Effective Time, the Board of Directors will have at least three directors who are directors on June 12, 2003 and who are not officers of the Company (the "Independent Directors"). In addition, in that event, if the number of Independent Directors is reduced below three for any reason whatsoever, any remaining Independent Directors (or the Independent Director, if there is only one such director remaining) will be entitled to designate persons to fill the vacancies who shall be deemed Inde