

VALASSIS COMMUNICATIONS INC

Form 10-Q

November 10, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the Quarterly Period Ended September 30, 2008
- Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
Commission File Number: 1-10991

**VALASSIS COMMUNICATIONS, INC.**

(Exact Name of Registrant as Specified in its Charter)

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**Delaware**  
(State or Other Jurisdiction of

**38-2760940**  
(IRS Employer

Incorporation or Organization)

Identification Number)

**19975 Victor Parkway**

**Livonia, Michigan 48152**

(address of principal executive offices)

**Registrant's Telephone Number: (734) 591-3000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and, (2) has been subject to such filing requirements for the past 90 days: Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes  No

As of November 1, 2008, there were 48,054,523 shares of the Registrant's Common Stock outstanding.

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**Valassis Communications, Inc.**

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**on Form 10-Q**

**Quarter Ended September 30, 2008**

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Item 1. Financial Statements

**VALASSIS COMMUNICATIONS, INC.****Condensed Consolidated Balance Sheets****(U.S. dollars in thousands)****(unaudited)**

|   | Sept. 30,<br>2008 | Dec. 31,<br>2007 |
|---|-------------------|------------------|
| <b>Assets</b>   |                   |                  |
| Current assets:   |                   |                  |
| Cash and cash equivalents   | \$ 147,560        | \$ 125,239       |
| Accounts receivable (less allowance for doubtful accounts of \$9,885 at September 30, 2008 and \$16,460 at December 31, 2007) | 417,490           | 515,490          |
| Inventories   | 47,717            | 43,591           |
| Refundable income taxes   | 6,631             | 6,553            |
| Prepaid expenses and other  | 21,535            | 19,379           |
| Deferred income taxes   | 11,694            |                  |
| Total current assets  | 652,627           | 710,252          |
| Property, plant and equipment, at cost:   |                   |                  |
| Land and buildings  | 53,542            | 79,662           |
| Machinery and equipment   | 215,343           | 227,141          |
| Office furniture and equipment  | 203,040           | 176,425          |
| Automobiles   | 237               | 221              |
| Leasehold improvements  | 22,930            | 22,934           |
|   | 495,092           | 506,383          |
| Less accumulated depreciation and amortization  | (242,583)         | (201,832)        |
| Net property, plant and equipment   | 252,509           | 304,551          |
| Intangible assets:  |                   |                  |
| Goodwill  | 897,586           | 897,569          |
| Other intangibles   | 331,555           | 331,555          |
|   | 1,229,141         | 1,229,124        |
| Less accumulated amortization   | (90,112)          | (83,195)         |
| Net intangible assets   | 1,139,029         | 1,145,929        |
| Investments   | 6,956             | 7,159            |
| Other assets  | 22,879            | 22,562           |
| Total assets  | \$ 2,074,000      | \$ 2,190,453     |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****VALASSIS COMMUNICATIONS, INC.****Condensed Consolidated Balance Sheets, Continued**

(U.S. dollars in thousands)

(unaudited)

|  | Sept. 30,<br>2008 | Dec. 31,<br>2007 |
|--|-------------------|------------------|
| <b>Liabilities and Stockholders Equity</b>   |                   |                  |
| Current liabilities:   |                   |                  |
| Current portion, long-term debt  | \$ 106,244        | \$ 30,900        |
| Accounts payable   | 269,263           | 333,749          |
| Accrued interest   | 5,093             | 18,157           |
| Accrued compensation and benefits  | 51,794            | 51,951           |
| Accrued other expenses   | 41,804            | 58,553           |
| Progress billings  | 53,750            | 45,616           |
| Deferred income taxes  |                   | 2,470            |
| Total current liabilities  | 527,948           | 541,396          |
| Long-term debt   | 1,146,079         | 1,279,640        |
| Other non-current liabilities  | 35,645            | 29,026           |
| Deferred income taxes  | 123,134           | 120,500          |
| Stockholders equity:   |                   |                  |
| Preferred stock of \$0.01 par value. Authorized 25,000,000 shares; no shares issued or outstanding at September 30, 2008 and December 31, 2007   |                   |                  |
| Common stock of \$0.01 par value. Authorized 100,000,000 shares; issued 63,533,640 at September 30, 2008 and 63,416,039 at December 31, 2007; outstanding 48,054,523 at September 30, 2008 and 47,935,022 at December 31, 2007 | 635               | 634              |
| Additional paid-in capital   | 56,719            | 51,482           |
| Retained earnings  | 706,776           | 692,263          |
| Accumulated other comprehensive income   | (2,767)           | (4,261)          |
| Treasury stock, at cost (15,479,117 shares at September 30, 2008 and 15,481,017 shares at December 31, 2007)   | (520,169)         | (520,227)        |
| Total stockholders equity  | 241,194           | 219,891          |
| Total liabilities and stockholders equity  | \$ 2,074,000      | \$ 2,190,453     |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****VALASSIS COMMUNICATIONS, INC.****Condensed Consolidated Statements of Income****(U.S. dollars in thousands, except per share data)****(unaudited)**

|  | <b>Three Months Ended Sept. 30,</b> |             | <b>Nine Months Ended Sept. 30,</b> |              |
|--|-------------------------------------|-------------|------------------------------------|--------------|
|  | <b>2008</b>                         | <b>2007</b> | <b>2008</b>                        | <b>2007</b>  |
| Revenues   | \$ 563,651                          | \$ 607,233  | \$ 1,755,657                       | \$ 1,580,684 |
| Costs and expenses:                                      |                                     |             |                                    |              |
| Cost of products sold                                    | 453,045                             | 459,553     | 1,369,372                          | 1,211,392    |
| Selling, general and administrative                      | 93,872                              | 96,327      | 287,920                            | 247,217      |
| Amortization expense                                     | 2,306                               | 2,389       | 6,917                              | 5,609        |
| Total costs and expenses                                 | 549,223                             | 558,269     | 1,664,209                          | 1,464,218    |
| Earnings from operations                                 | 14,428                              | 48,964      | 91,448                             | 116,466      |
| Other expenses (income):                                 |                                     |             |                                    |              |
| Interest expense   | 23,948                              | 24,575      | 71,972                             | 60,422       |
| Interest income  | (755)                               | (1,098)     | (2,123)                            | (3,483)      |
| Other expense (income), net                              | 120                                 | (934)       | (2,047)                            | (2,212)      |
| Total other expenses (income)                            | 23,313                              | 22,543      | 67,802                             | 54,727       |
| (Loss) Earnings before income taxes                      | (8,885)                             | 26,421      | 23,646                             | 61,739       |
| Income taxes   | (3,682)                             | 9,978       | 9,133                              | 24,287       |
| Net (loss) earnings                                      | \$ (5,203)                          | \$ 16,443   | \$ 14,513                          | \$ 37,452    |
| Net (loss) earnings per common share, basic              | \$ (0.11)                           | \$ 0.34     | \$ 0.30                            | \$ 0.78      |
| Net (loss) earnings per common share, diluted            | \$ (0.11)                           | \$ 0.34     | \$ 0.30                            | \$ 0.78      |
| Shares used in computing net earnings per share, basic   | 47,874,976                          | 47,818,200  | 47,869,460                         | 47,784,809   |
| Shares used in computing net earnings per share, diluted | 47,874,976                          | 47,912,843  | 47,995,188                         | 47,902,801   |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****VALASSIS COMMUNICATIONS, INC.****Condensed Consolidated Statements of Cash Flows**

(U.S. dollars in thousands)

(unaudited)

|   | <b>Nine Months Ended Sept. 30,</b> |             |
|---|------------------------------------|-------------|
|   | <b>2008</b>                        | <b>2007</b> |
| <b>Cash flows from operating activities:</b>  |                                    |             |
| Net earnings  | \$ 14,513                          | \$ 37,452   |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                                    |             |
| Depreciation and amortization of intangibles  | 52,155                             | 44,088      |
| Amortization of bond discount and debt issue costs                                  | 2,591                              | 2,111       |
| Provision for losses on accounts receivable   | 6,277                              | 3,653       |
| Asset impairment  |                                    | 1,963       |
| Loss on sale of property, plant and equipment                                       | 386                                | 48          |
| Gain on equity and other investments  | (923)                              | (1,405)     |
| Stock-based compensation charge   | 5,363                              | 5,298       |
| Deferred income taxes   | (12,098)                           |             |
| Changes in assets and liabilities which increase (decrease) cash flow:              |                                    |             |
| Accounts receivable   | 87,186                             | 44,726      |
| Inventories   | (4,126)                            | (5,639)     |
| Prepaid expenses and other  | (2,252)                            | 1,217       |
| Other liabilities   | (2,218)                            | (18,259)    |
| Other assets  | 4,040                              | 24,569      |
| Accounts payable  | (65,731)                           | 11,129      |
| Accrued expenses and interest   | (28,313)                           | (35,502)    |
| Income taxes  | (246)                              | 12,220      |
| Progress billings   | 8,134                              | (10,236)    |
| Total adjustments   | 50,225                             | 79,981      |
| Net cash provided by operating activities   | 64,738                             | 117,433     |
| <b>Cash flows from investing activities:</b>  |                                    |             |
| Additions to property, plant and equipment  | (19,395)                           | (20,124)    |
| Proceeds from sale of property, plant and equipment                                 | 28,876                             |             |
| Net proceeds from sale of French subsidiary   | 3,605                              |             |
| Acquisition of ADVO, net of cash acquired   |                                    | (1,187,873) |
| Purchases of auction-rate securities  |                                    | (156,335)   |
| Proceeds from sales of auction-rate securities                                      |                                    |             |