

VALASSIS COMMUNICATIONS INC
Form 10-Q
August 14, 2002

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 June 30, 2002

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)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

38-2760940
(IRS Employer 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

As of August 9, 2002, there were 53,261,967 shares of the Registrant's Common Stock outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VALASSIS COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

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ASSETS	JUNE 30, 2002	DECEMBER 2001
-----	-----	-----
	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 51,469	\$ 10
Accounts receivable (less allowance for doubtful accounts of \$1,794 at June 30, 2002 and \$1,051 at December 31, 2001)	103,524	131
Inventories:		
Raw materials	12,020	13
Work in progress	9,339	13
Prepaid expenses and other	6,543	7
Deferred income taxes	1,479	1
Refundable income taxes	2,060	4
	-----	-----
Total current assets	186,434	183
	-----	-----
Property, plant and equipment, at cost:		
Land and buildings	27,968	22
Machinery and equipment	117,010	120
Office furniture and equipment	34,686	31
Automobiles	984	
Leasehold improvements	1,956	1
	-----	-----
	182,604	178
Less accumulated depreciation and amortization	(112,641)	(113)
	-----	-----
Net property, plant and equipment	69,963	64
	-----	-----
Intangible assets:		
Goodwill	115,756	115
Other intangibles	85,591	85
	-----	-----
	201,347	201
Less accumulated amortization	(123,513)	(123)
	-----	-----
Net intangible assets	77,834	77
	-----	-----
Equity investments and advances to investees	41,870	33
Other assets	2,950	3
	-----	-----
Total assets	\$ 379,051	\$ 363
	=====	=====

VALASSIS COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS, CONTINUED

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(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

LIABILITIES AND STOCKHOLDERS' DEFICIT -----	JUNE 30, 2002 ----- (unaudited)
Current liabilities:	
Current portion long-term debt	\$ -
Accounts payable	74,570
Accrued interest	3,096
Accrued expenses	29,804
Progress billings	36,834

Total current liabilities	144,304

Long-term debt	254,689
Deferred income taxes	3,259
Commitments and contingencies	
Stockholders' deficit:	
Preferred stock of \$.01 par value. Authorized 25,000,000 shares; no shares issued or outstanding at June 30, 2002 and December 31, 2001	
Common stock of \$.01 par value. Authorized 100,000,000 shares; issued 63,041,116 at June 30, 2002 and 62,992,763 at December 31, 2001; outstanding 53,208,740 at June 30, 2002 and 53,698,382 at December 31, 2001	630
Additional paid-in capital	104,744
Deferred compensation	(1,358)
Retained earnings	258,180
Foreign currency translations	(460)
Treasury stock, at cost (9,832,376 shares at June 30, 2002 and 9,294,381 shares at December 31, 2001)	(384,937)

Total stockholders' deficit	(23,201)

Total liabilities and stockholders' deficit	\$ 379,051
	=====

See accompanying notes to condensed consolidated financial statements.

VALASSIS COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

QUARTER ENDED		SIX MONTHS ENDED	
JUNE 30, 2002	JUNE 30, 2001	JUNE 30, 2002	JUN 2
-----	-----	-----	-----

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REVENUES:								
Net sales	\$	202,569	\$	217,192	\$	406,341	\$	4
Other		766		84		1,769		
Total revenues		203,335		217,276		408,110		4
COSTS AND EXPENSES:								
Cost of products sold		124,587		133,845		251,403		2
Selling, general and administrative		22,289		23,130		44,466		
Loss on equity investments		678		687		1,709		
Amortization of intangible assets		52		858		105		
Interest		3,347		4,819		6,569		
Total costs and expenses		150,953		163,339		304,252		3
Earnings before income taxes		52,382		53,937		103,858		1
Income taxes		18,600		20,200		37,500		
Net earnings	\$	33,782	\$	33,737	\$	66,358	\$	
Net earnings per common share, basic	\$	0.63	\$	0.63	\$	1.24	\$	
Net earnings per common share, diluted	\$	0.62	\$	0.62	\$	1.22	\$	
Shares used in computing net earnings per share, basic		53,345,996		53,430,534		53,606,538		53,4
Shares used in computing net earnings per share, diluted		54,061,755		54,418,567		54,316,744		54,4

See accompanying notes to condensed consolidated financial statements.

VALASSIS COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	SIX MONTHS ENDED	
	JUNE 30, 2002	JUNE 30, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 66,358	\$ 66,195
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of intangibles	5,138	6,572
Amortization of bond discount	2,306	368
Provision for losses on accounts receivable	743	739
Gain on sale of property, plant and equipment	(793)	(88)
Losses on equity investments	1,709	1,312
Stock-based compensation charge	903	1,288
Changes in assets and liabilities which increase (decrease) cash flow:		
Accounts receivable	27,510	10,226

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Inventories	6,541	(290)
Prepaid expenses and other	170	3,835
Other liabilities	-	(1,681)
Other assets	565	(1,486)
Accounts payable	(8,181)	(15,420)
Accrued expenses and interest	5,766	(7,394)
Income taxes	6,677	6,646
Progress billings	(14,932)	(14,770)
	-----	-----
Total adjustments	34,122	(10,143)
	-----	-----
Net cash provided by operating activities	100,480	56,052
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(11,068)	(8,092)
Proceeds from sale of property, plant and equipment	934	192
Investments in and advances to affiliated companies	(9,624)	(15,840)
Payments of additional purchase price for acquisition of PreVision	(8,000)	-
Other	99	(102)
	-----	-----
Net cash used in investing activities	(27,659)	(23,842)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt	-	150,000
Net payments under revolving line of credit	(2,600)	(163,850)
Repurchase of common stock	(52,184)	(27,513)
Proceeds from the issuance of common stock	22,817	8,921
	-----	-----
Net cash used in financing activities	(31,967)	(32,442)
	-----	-----
Net increase/(decrease) in cash	40,854	(232)
Cash at beginning of period	10,615	11,140
	-----	-----
Cash at end of period	\$ 51,469	\$ 10,908
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$ 3,418	\$ 8,135
Cash paid during the period for income taxes	\$ 30,838	\$ 33,135
Non-cash financing activities:		
Stock issued under stock-based compensation plan	\$ 1,138	\$ 1,585

See accompanying notes to condensed consolidated financial statements

VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the information contained herein reflects all adjustments necessary for a fair presentation of the information presented. All such adjustments are of a normal recurring nature.

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The results of operations for the interim periods are not necessarily indicative of results to be expected for the fiscal year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. Certain amounts for 2001 have been reclassified to conform to current period classifications.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires an entity to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the related long-lived asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company does not expect the adoption of SFAS No. 143 to have a material effect on its financial position or results of operations.

During October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which replaces SFAS No. 121 and provisions of APB Opinion No. 30 for the disposal of segments of a business. The statement creates one accounting model, based on the framework established in Statement No. 121, to be applied to all long-lived assets including discontinued operations. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company adopted the provisions of SFAS No. 144 as of January 1, 2002, and it did not have an effect on the Company's financial statements.

3. ADOPTION OF SFAS NO. 141 AND 142

During July 2001, the FASB issued two statements, SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets", that amend APB Opinion No. 16, "Business Combinations," and supersede APB Opinion No. 17, "Intangible Assets." The two statements modify the method of accounting for business combinations and address the accounting for intangible assets. As of January 1, 2002, the Company adopted the provisions of both SFAS No. 141 and SFAS No. 142. The adoption of SFAS No. 141 did not have any effect on the Company's financial statements.

The provisions of SFAS No. 142 allow the Company to cease amortization of goodwill and other intangible assets with indefinite lives. However, goodwill and other intangibles are subject to annual impairment tests in which impairment is defined as fair market value less than the carrying value of the asset on the financial statements. SFAS No. 142 requires the Company to test all goodwill and other intangible assets with indefinite lives for impairment within six months of implementation. The Company has performed the first step of testing for impairment by utilizing the discounted cash flow method which does not indicate any impairment of goodwill or intangible assets with indefinite lives.

Intangible assets as of June 30, 2002 are comprised of (dollars in thousands):

	INTANGIBLE ASSETS AT COST	ACCUMULATED AMORTIZATION AT JUNE 30, 2002	UNAMORTIZED BALANCE AT JUNE 30, 2002
	-----	-----	-----
Amortizable intangible assets	\$ 52,455	\$ (50,709)	\$ 1,746

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NON-AMORTIZABLE INTANGIBLE ASSETS:

Goodwill:			
FSI	65,401	(47,145)	18,257
Cluster-Targeted	4,195	(209)	3,986
All Others	47,196	(4,692)	42,505
The Valassis name and other	32,100	(20,759)	11,341
Total non-amortizable intangible assets	148,892	(72,805)	76,089
Total	\$ 201,347	\$ (123,514)	\$ 77,835

Amortizable intangible assets include a non-compete agreement, corporate logos and a fully amortized pressroom operating system. The associated amortization expense for the six months ended June 30, 2002 was \$105,000. Amortization expense is expected to be \$210,000 for each of the next five succeeding years including the current year.

The following table presents actual results of operations for the second quarter 2002 and six months ended June 30, 2002 and a reconciliation of reported net income to the adjusted net income for the same periods of 2001:

	QUARTER ENDED		SIX MONTHS ENDED	
	JUNE 30, 2002	JUNE 30, 2001	JUNE 30, 2002	JUNE 30, 2001
Net income:				
Reported net income	\$ 33,782	\$ 33,737	\$ 66,358	\$ 66,358
Add back: goodwill and intangible amortization, after tax	-	504	-	1,000
	\$ 33,782	\$ 34,241	\$ 66,358	\$ 67,358
Basic earnings per share:				
Reported net income	\$ 0.63	\$ 0.63	\$ 1.24	\$ 1.24
Add back: goodwill and intangible amortization	-	0.01	-	-
	\$ 0.63	\$ 0.64	\$ 1.24	\$ 1.24
Diluted earnings per share:				
Reported net income	\$ 0.62	\$ 0.62	\$ 1.22	\$ 1.22
Add back: goodwill and intangible amortization	-	0.01	-	-
	\$ 0.62	\$ 0.63	\$ 1.22	\$ 1.22

4. CONTINGENCIES

On July 27, 2001 a federal court jury returned a verdict against Dennis D. Garberg & Associates, Inc. d/b/a The Sunflower Group (Sunflower) awarding the Company \$16.6 million which included damages for past and future lost profits.

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The lawsuit, brought by the Company against Sunflower in February of 1999, asserted that Sunflower wrongfully obtained proprietary information from the Company's newspaper delivered sampling business. On April 5, 2002, after a series of post-trial motions, the Court entered a total judgment of approximately \$5.4 million. A reasonable estimation of the Company's ultimate recovery can not be made at this time and the Company has not recorded any amount in its financial statements.

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

5. SEGMENT REPORTING

The Company's products are broken into three types, as follows:

1. Mass-Distributed Products - products which provide mass reach at low cost, including:
 - . Free-standing inserts (FSI) - four color booklets containing promotions from multiple advertisers distributed through Sunday newspapers
 - . Run-of-press (ROP) - on-page newspaper advertising and promotions
2. Cluster-Targeted Products - products targeted around geographic and demographic clusters, including:
 - . Solo newspaper inserts
 - . Newspaper-delivered product sampling/advertising
3. One-to-One Products - products and services that pinpoint individuals to build loyalty to a brand, including:
 - . Customer Relationship Marketing (which includes PreVision)
 - . Promotion Watch - security consulting
 - . Non-consolidated investments in one-to-one promotion companies

The Company has two reportable segments, Free-Standing Inserts (FSIs) and Cluster-Targeted Products and three segments which do not meet the quantitative thresholds for reporting separately -- ROP, Customer Relationship Marketing and Promotion Watch. These segments are strategic business units that offer different products and services. They are managed separately because each business requires different marketing strategies and caters to a different customer base.

(IN MILLIONS)	THREE MONTHS ENDED JUNE 30			
-----	FSI	CLUSTER-TARGETED	ALL OTHERS*	TOT
-----	-----	-----	-----	-----
2002				
Revenues from external customers	\$ 141.6	\$ 45.2	\$ 15.8	\$
Intersegment revenues	-	-	-	
Depreciation/amortization	2.0	0.5	-	
Segment profit	45.9	4.2	1.3	
2001				
Revenues from external customers	\$ 147.6	\$ 51.7	\$ 17.9	\$
Intersegment revenues	-	-	-	
Depreciation/amortization	2.3	0.5	0.5	

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Segment profit 46.2 7.4 0.2

* Segments below the quantitative thresholds are primarily attributable to three segments of the Company. Those include a customer relationship marketing business, a run-of-press business, and a promotion security service. None of these segments has met any of the quantitative thresholds for determining reportable segments.

Reconciliations to consolidated financial statement totals are as follows:

	THREE MONTHS ENDED JUNE 30,	
	2002	2001
Profit for reportable segments	\$ 50.1	\$ 53.6
Profit for other segments	1.3	0.2
Unallocated amounts:		
Interest income	0.2	0.1
Other income	0.8	-
Earnings before taxes	\$ 52.4	\$ 53.9

Domestic and foreign revenues for each of the three-month periods ended June 30 were as follows:

	2002	2001
United States	\$ 201.7	\$ 215.7
Canada	1.6	1.6
Total	\$ 203.3	\$ 217.3

(IN MILLIONS)

	SIX MONTHS ENDED JUNE 30			
	FSI	CLUSTER-TARGETED	ALL OTHERS*	TOTAL
2002				
Revenues from external customers	\$ 289.9	\$ 83.0	\$ 33.4	\$ 406.3
Intersegment revenues	-	-	-	-
Depreciation/amortization	4.0	1.0	0.1	5.1
Segment profit	92.1	8.0	1.7	101.8
2001				
Revenues from external customers	\$ 306.6	\$ 106.3	\$ 32.1	\$ 445.0
Intersegment revenues	-	-	-	-
Depreciation/amortization	4.6	1.0	1.0	6.6
Segment profit/(loss)	92.4	13.5	(0.1)	105.8

* Segments below the quantitative thresholds are primarily attributable to three segments of the Company. Those include a customer relationship

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marketing business, a run-of-press business, and a promotion security service. None of these segments has met any of the quantitative thresholds for determining reportable segments.

Reconciliations to consolidated financial statement totals are as follows:

	SIX MONTHS ENDED JUNE 30,	
	2002	2001
	-----	-----
Profit for reportable segments	\$ 100.1	\$ 105.9
(Loss)/Profit for other segments	1.7	(0.1)
Unallocated amounts:		
Interest income	0.3	0.1
Other income	1.8	-
	-----	-----
Earnings before taxes	\$ 103.9	\$ 105.9
	=====	=====

Domestic and foreign revenues for each of the six-month periods ended June 30 were as follows:

	2002	2001
	-----	-----
United States	\$ 405.4	\$ 442.3
Canada	2.7	2.8
	-----	-----
Total	\$ 408.1	\$ 445.1
	=====	=====

6. EARNINGS PER SHARE

Earnings per common share ("EPS") data were computed as follows:

	THREE MONTHS ENDED JUNE 30,	
	2002	2001
	-----	-----
Net Earnings	\$ 33,782	\$ 33,737
	=====	=====
Basic EPS:		
Weighted average common shares outstanding	53,346	53,431
	=====	=====
Earnings per common share - basic	\$ 0.63	\$ 0.63
	=====	=====
Diluted EPS:		
Weighted average common shares outstanding	53,346	53,431
Weighted average shares purchased on exercise of dilutive options	4,882	4,602
Shares purchased with proceeds of options	(4,224)	(3,664)
Shares contingently issuable	58	50
	-----	-----
Shares applicable to diluted earnings	54,062	54,419
	=====	=====
Earnings per common share - diluted	\$ 0.62	\$ 0.62
	=====	=====

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	SIX MONTHS ENDED JUNE 30,	
	2002	2001
Net Earnings	\$ 66,358	\$ 66,358
Basic EPS:		
Weighted average common shares outstanding	53,607	53,607
Earnings per common share - basic	\$ 1.24	\$ 1.24
Diluted EPS:		
Weighted average common shares outstanding	53,607	53,607
Weighted average shares purchased on exercise of dilutive options	5,381	4,729
Shares purchased with proceeds of options	(4,729)	(3,607)
Shares contingently issuable	58	58
Shares applicable to diluted earnings	54,317	54,317
Earnings per common share - diluted	\$ 1.22	\$ 1.22

7. SUBSEQUENT EVENTS

On July 1, 2002, the Company exercised its option to acquire the remaining shares of Relationship Marketing Group, Inc. ("RMG"). As a result, the Company's interest in Valassis Relationship Marketing Systems, LLC ("VRMS") was increased to 87.9%. Effective July 1, 2002, the Company's consolidated financial statements will include the results of VRMS.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Certain statements under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks and uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements and to cause future results to differ from our operating results in the past. Such factors include, among others, the following: a new competitor in the Company's core free-standing insert business and consequent price war, which has occurred in the past when a new competitor entered the market; new technology that would make free-standing inserts less attractive; a shift in customer preference for different promotional materials, promotional strategies or coupon delivery methods, including in-store advertising systems and other forms of coupon delivery; an increase in the Company's paper costs, a significant cost component of the Company's business; or economic disruptions caused by terrorist activity, armed conflict or changes in general economic conditions, or economic changes which affect the business of our customers and lead to reduced sales promotion spending. The Company disclaims any intention or obligation to update or revise any forward-looking

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statements, whether as a result of new information, future events or otherwise.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2002 AND JUNE 30, 2001

Net sales decreased 6.7% from \$217.2 million for the second quarter of 2001 to \$202.6 million for the second quarter of 2002. Free-standing insert (FSI) revenues were down from \$147.6 million for the quarter ended June 30, 2001 to \$141.6 million for the same quarter 2002. The decrease is primarily a result of lower market share and pricing after the Company's earlier attempted price increase did not take hold. However, this percentage decrease is less than that of the first quarter of 2002, and market share improved as well. Revenues for cluster-targeted products decreased 12.6% to \$45.2 million for the quarter. The decrease is primarily caused by continued weak demand for sampling/advertising polybag programs. Net sales included a 5.5% increase in ROP (run-of-press) sales. This increase is attributable to enhanced capabilities and expansion in business with both new and existing customers.

Gross profit margin increased to 38.7% in the second quarter of 2002, up from 38.4% in the second quarter of 2001. The increase is largely due to a decrease in paper costs for the current quarter. The Company has successfully placed the majority of its paper requirements under multi-year contracts, providing long-term cost stability.

Selling, general and administrative expenses decreased 3.6% from \$23.1 million in the second quarter of 2001 to \$22.3 million in the second quarter of 2002. This decrease is primarily the result of the Company's continued cost containment program implemented in the second half of 2001.

Amortization expense of intangible assets and goodwill decreased from \$858,000 to \$52,000 in the second quarter ended June 30, 2002. The reduction is the result of the Company's adoption of SFAS No. 142 for which the effect on earnings per share was an increase of \$0.01 in the three months ended June 30, 2002.

Net earnings were \$33.8 million for the second quarter of 2002 versus \$33.7 million for the same period last year.

SIX MONTHS ENDED JUNE 30, 2002 AND JUNE 30, 2001

For the six months ended June 30, 2002, net sales decreased 8.7% to \$406.3 million from \$444.9 million for the comparable period in 2001. Free-standing insert (FSI) revenues were down from \$306.6 million for the first six months of 2001 to \$289.9 million for the first six months of 2002. This decrease is primarily the result of a reduction of market share and price as compared to the first half of 2001. However, market share improved in the second quarter versus the first quarter and is expected to be approximately 50% for the year. Cluster-targeted revenues decreased 21.9% to \$83.0 million for the six months ended June 30, 2002. The decrease is driven primarily by decreases in new product introductions in the sampling/advertising polybag programs and continued competition from commercial printers in solo inserts. Net sales included a 36.7% increase in ROP (run-of-press) sales. This increase is attributable to enhanced capabilities and increased demand.

Gross margin increased to 38.4% for the first six months of 2002, from 37.3% for the same period in 2001. The increase is largely due to decreases in paper costs for the first half of the year. The Company has successfully placed the majority of its paper requirements under multi-year contracts, providing long-term cost stability.

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Selling, general and administrative expenses decreased 4.8% from \$46.7 million in 2001 to \$44.5 million for the six months ended June 30, 2002. This decrease is primarily the result of the Company's cost containment program implemented in the second half of 2001.

Amortization expense of intangible assets and goodwill decreased from \$1.7 million to \$105,000 in the six months ended June 30, 2002. The reduction is the result of the Company's adoption of SFAS No. 142 for which the effect on earnings per share was an increase of \$0.02 in the six months ended June 30, 2002.

Net earnings were \$66.4 million for the six months ended June 30, 2002 versus \$66.2 million for the same period last year.

FINANCIAL CONDITION, LIQUIDITY AND SOURCES OF CAPITAL

The Company's liquidity requirements arise mainly from its working capital needs, primarily accounts receivable, inventory and debt service requirements. The Company does not offer financing to its customers. FSI customers are billed for 75% of each order eight weeks in advance of the publication date and are billed for the balance immediately prior to the publication date. The Company inventories its work in progress at cost while it accrues progress billings as a current liability at full sales value. Although the Company receives considerable payments from its customers prior to publication of promotions, revenue is recognized only upon publication dates. Therefore, the progress billings on the balance sheet include any profits in the related receivables and accordingly, the Company can operate with low, or even negative, working capital.

Cash and cash equivalents totaled \$51.5 million at June 30, 2002 versus \$10.6 million at December 31, 2001. This was the result of cash provided by operating activities of \$100.5 million, and cash used in investing activities and financing activities of \$27.7 million and \$32.0 million, respectively, during the first six months of 2002.

Cash flow from operating activities increased from \$56.1 million at June 30, 2001 to \$100.5 million at June 30, 2002, primarily due to a \$27.5 million decrease in accounts receivable and a \$6.5 million decrease in inventories. The decrease in accounts receivable represents a return to a normalized receivable balance as of June 30, 2002, as compared to a relatively higher balance as of December 31, 2001. Inventories decreased as of June 30, 2002, primarily due to a decrease in the cost of paper.

Net cash used in investing activities was \$27.7 million up from \$23.8 million in 2001. Capital expenditures increased \$3.0 million due to timing of payments on the addition of a new printing press. Additionally, the Company paid \$8.0 million in a contingent purchase price payment for PreVision in the first quarter of 2002. The Company made advances to and investments in VRMS of \$9.6 million during the first half of 2002. On July 1, 2002, the Company exercised its option to acquire the remaining shares of RMG for \$4.5 million which will be reflected in the next quarter's cash flows from investing activities.

As of June 30, 2002, the Company's debt has been reduced to \$254.7, which consists of \$100.0 million of its 6-5/8% Senior Notes due 2009 and \$154.7 million of Zero Coupon Convertible Notes due 2021. The Company has \$125.0 million available under its revolving credit facility which expires in October 2002. The Company is currently in discussions to replace the facility.

The Company intends to use cash generated by operations to meet interest and

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principal repayment obligations, for general corporate purposes, to reduce its indebtedness, make acquisitions and from time to time to repurchase stock through the Company's stock repurchase program.

As of June 30, 2002, the Company had authorization to repurchase an additional 4.1 million shares of its common stock under its existing share repurchase program.

Management believes that the Company will generate sufficient funds from operations and will have sufficient lines of credit available to meet currently anticipated liquidity needs, including interest and required payments of indebtedness.

CAPITAL EXPENDITURES - The Company operates three printing facilities. Capital expenditures were \$11.1 million for the six month period ended June 30, 2002, largely representing the addition of a new printing press. Management expects future capital expenditure requirements of approximately \$15 million over each of the next three to five years to meet increased capacity needs and to replace or rebuild equipment as required. It is expected that equipment will be purchased using funds provided by operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that in certain circumstances affect amounts reported in the accompanying consolidated financial statements. The U.S. Securities and Exchange Commission ("SEC") has defined a company's most critical accounting policies as the ones that are most important to the portrayal of the Company's financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the critical accounting policies and estimates addressed below. We also have other key accounting policies, which involve the use of estimates, judgments and assumptions. For additional information see Note 2, "Significant Accounting Policies", of our Annual Report on Form 10-K for the year ended December 31, 2001. The Company does not believe there is a great likelihood that materially different amounts would be reported under different conditions or using different assumptions related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

IMPAIRMENT OF LONG-LIVED ASSETS - Long-lived assets historically have been reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future net cash flows estimated to be generated by such assets. If such assets are considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. There are no events or changes in circumstances of which management is aware indicating that the carrying value of the Company's long-lived assets may not be recoverable. As described in Note 3, "Adoption of SFAS No. 141 and 142" of this Form 10-Q, the accounting treatment for goodwill and other intangible assets changed effective January 1, 2002.

OTHER MATTERS - The Company does not have off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as "special purpose entities."

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PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

- a. The Company voted on the following proposals described in (b), (c) and (d) below at its Annual Meeting of Stockholders on May 14, 2002.
- b. The election of the nominees for directors who will serve for a term to expire at the next Annual Meeting of Stockholders or until their respective successors have been duly elected and qualified was voted on by the stockholders. The nominees, all of whom were elected were: Patrick F. Brennan, Kenneth V. Darish, Seth Goldstein, Barry P. Hoffman, Brian J. Husselbee, Robert L. Recchia, Marcella A. Sampson, Alan F. Schultz and Faith Whittlesey. Votes were cast for election of directors as follows:

Director -----	For -----	Withheld -----	Broker Non-Votes -----
Patrick F. Brennan	46,669,822	233,193	0
Kenneth V. Darish	46,669,822	233,193	0
Seth Goldstein	46,669,822	233,193	0
Barry P. Hoffman	40,899,114	6,003,901	0
Brian J. Husselbee	46,669,822	233,193	0
Robert L. Recchia	40,899,114	6,003,901	0
Marcella A. Sampson	46,669,822	233,193	0
Alan F. Schultz	40,899,114	6,003,901	0
Faith Whittlesey	46,669,822	233,193	0

- c. The proposal to approve the Company's 2002 Long-Term Incentive Plan was approved as follows:

For -----	Against -----	Abstain -----	Broker Non-Votes -----
31,919,837	11,869,189	16,351	0

- d. The proposal to ratify the selection of Deloitte & Touche LLP, as independent auditors of the Company for the 2002 fiscal year was approved as follows:

For -----	Against -----	Abstain -----	Broker Non-Votes -----
44,422,019	2,462,904	18,092	0

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

- 10.3(g) Amendment to Employment Agreement of Robert L. Recchia dated July 8, 2002
- 10.4(g) Amendment to Employment Agreement of Barry P. Hoffman dated June 26, 2002
- 10.5(i) Amendment to Employment Agreement of Richard P. Herpich dated May 13, 2002
- 10.5(j) Amendment to Employment Agreement of Richard P. Herpich dated

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July 8, 2002

- 10.11(g) Amendment to Employment Agreement of Alan F. Schultz dated June 26, 2002
- 10.23 Employment Agreement dated March 18, 1992, between William F. Hogg, Jr. and Valassis Communications, Inc.
- 10.23(a) Amendment to Employment Agreement of William F. Hogg, Jr. dated December 22, 1995
- 10.23(b) Amendment to Employment Agreement of William F. Hogg, Jr. dated January 20, 1997
- 10.23(c) Amendment to Employment Agreement of William F. Hogg, Jr. dated December 23, 1998
- 10.23(d) Amendment to Employment Agreement of William F. Hogg, Jr. dated January 5, 2001
- 10.23(e) Amendment to Employment Agreement of William F. Hogg, Jr. dated January 11, 2002
- 10.23(f) Amendment to Employment Agreement of William F. Hogg, Jr. dated July 8, 2002
- 10.24 Valassis Communications, Inc. Supplemental Benefit Plan dated September 15, 1998
- 10.24(a) First Amendment to Valassis Communications, Inc. Supplemental Benefit Plan dated June 25, 2002

b. Form 8-K

The Company filed a report on Form 8-K, dated May 14, 2002, announcing that the Board of Directors had agreed to increase its share repurchase allocation to a target of 75% of free cash flow for the balance of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 14, 2002

Valassis Communications, Inc.
(Registrant)

By: /s/Robert L. Recchia

Robert L. Recchia
Executive Vice President and Chief Financial
Officer

Signing on behalf of the Registrant and as
principal financial and accounting officer.

