VALASSIS COMMUNICATIONS INC
Form 10-Q
November 14, 2001

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

FORM 10-Q

(Mark One)

X — Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended September 30, 2001

_____ 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	38-2760940
(State or Other Jurisdiction of Incorporation or Organization)	(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 X No _____

As of November 12, 2001, there were 53,548,448 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)

Assets	September 30, 2001	December 2000
	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 10,616	$ 11,1
Accounts receivable (less allowance for doubtful accounts of $1,533 at September 30, 2001 and $1,322 at December 31, 2000)	119,265	114,5
Inventories:		
Raw materials	19,229	10,5
Work in progress	9,575	17,3
Prepaid expenses and other	7,060	10,7
Deferred income taxes	4,735	3,3
Total current assets	170,480	167,6
Property, plant and equipment, at cost:		
Land and buildings	23,185	21,6
Machinery and equipment	130,210	123,0
Office furniture and equipment	33,652	31,6
Automobiles	962	1,1
Leasehold improvements	2,050	1,8
	190,059	179,3
Less accumulated depreciation and amortization	(124,881)	(119,2
Net property, plant and equipment	65,178	60,0
Intangible assets:		
Goodwill	107,756	107,7
Other intangibles	85,347	85,1
	193,103	192,8
Less accumulated amortization	(122,602)	(120,0
Net intangible assets	70,501	72,8
Equity investments and advances to investees	31,412	18,1
Deferred income taxes	3,938	3,9
Other	4,418	3,0
Total assets	$ 345,927	$ 325,7

VALASSIS COMMUNICATIONS, INC.
Condensed Consolidated Balance Sheets, Continued
(dollars in thousands, except per share data)

Liabilities and Stockholders' Deficit	September 30, 2001 (unaudited)	Decemb 200
Current liabilities:		
Accounts payable	$ 64,885	$ 8
Accrued interest	1,480	
Accrued expenses	21,938	3
Progress billings	50,435	4
Income taxes payable	12,226	
Total current liabilities	150,964	17
Long-term debt	274,445	32
Other non-current liabilities	-	
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock of $.01 par value. Authorized 25,000,000 shares; no shares issued or outstanding at September 30, 2001 and December 31, 2000		
Common stock of $.01 par value. Authorized 100,000,000 shares; issued 62,955,405 at September 30, 2001 and 62,932,556 at December 31, 2000; outstanding 53,780,170 at September 30, 2001 and 53,562,676 at December 31, 2000	630	
Additional paid-in capital	97,057	8
Deferred compensation	(2,121)	(
Retained earnings	163,585	7
Foreign currency translations	(511)	
Treasury stock, at cost (9,175,235 shares at September 30, 2001 and 9,369,880 shares at December 31, 2000)	(338,122)	(33
Total stockholders' deficit	(79,482)	(17
Total liabilities and stockholders' deficit	$ 345,927	$ 32

NOTE: The balance sheet at December 31, 2000 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

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		Nine
	September 30, 2001	September 30, 2000	September 2001
Revenues:			
Net sales	$ 197,360	$ 190,839	$ 642,28
Other (primarily legal settlement in 2000)	1,048	234	1,21
Total revenues	198,408	191,073	643,49
Costs and expenses:			
Cost of products sold	127,578	122,181	406,48
Selling, general and administrative	21,018	20,033	67,74
Loss on investments	1,623	858	2,93
Writedown of impaired assets	6,062	-	6,06
Amortization of intangible assets	860	555	2,57
Interest	3,739	5,884	14,27
Total costs and expenses	160,880	149,511	500,07
Earnings before income taxes	37,528	41,562	143,42
Income taxes	12,817	15,900	52,51
Net earnings before extraordinary items	24,711	25,662	90,90
Extraordinary loss, net of tax	(1,285)	-	(1,28
Net earnings	$ 23,426	$ 25,662	$ 89,62
Net earnings per common share before extraordinary loss, basic	$ 0.46	$ 0.47	$ 1.7
Net earnings per common share before extraordinary loss, diluted	$ 0.45	$ 0.47	$ 1.6
Net earnings per common share, basic	$ 0.44	$ 0.47	$ 1.6
Net earnings per common share, diluted	$ 0.43	$ 0.47	$ 1.6
Shares used in computing net earnings per share, basic	53,791,838	54,323,011	53,583,51
Shares used in computing net earnings per share, diluted	54,590,276	55,212,491	54,479,89

See accompanying notes to condensed consolidated financial statements.

VALASSIS COMMUNICATIONS, INC.
Condensed Consolidated Statements of Cash Flows
(dollars in thousands)
(unaudited)

	N
	Septemb 20
Cash flows from operating activities:	
Net earnings	$ 89,6
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization	9,9
Provision for losses on accounts receivable	2
Writedown of impaired assets	6,0
Deferred compensation	(1
(Gain)/loss on sale of property, plant and equipment	(2
Stock-based compensation charge	9
Changes in assets and liabilities which increase (decrease) cash flow:	
Accounts receivable	(4,9
Inventories	(9
Prepaid expenses and other	4,3
Other liabilities	(1,6
Other assets	(2
Accounts payable	(20,7
Accrued expenses and interest	(11,9
Tax benefit from stock option exercises	31,7
Income taxes	9,8
Progress billings	1,4
Total adjustments	23,6
Net cash provided by operating activities	113,3
Cash flows from investing activities:	
Additions to property, plant and equipment	(13,5
Proceeds from sale of property, plant and equipment	1,2
Investments and acquisitions	(20,5
Other	(
Net cash used in investing activities	(32,9
Cash flows from financing activities:	
Repayment of long-term debt	(14,2
Borrowings of long-term debt	150,0
Net (payments)/borrowings under revolving line of credit	(186,8
Repurchase of common stock	(38,2
Proceeds from the issuance of common stock	8,4
Net cash used in financing activities	(80,8
Net decrease in cash	(5
Cash at beginning of period	11,1

Cash at end of period	$ 10,6
Supplemental disclosure of cash flow information:	
Cash paid during the period for interest	$ 16,7
Cash paid during the period for income taxes	$ 33,8
Non-cash financing activities:	
Stock issued under stock-based compensation plan	$ 1,6

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 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. 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, 2000. Certain amounts for 2000 have been reclassified to conform to current period classifications.

2. Recent Accounting Pronouncements

During July 2001, the Financial Accounting Standards Board ("FASB") issued two statements, Statement of Financial Accounting Standards ("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 entered into after September 30, 2001 and address the accounting for intangible assets. Beginning January 1, 2002, we anticipate the Company will no longer amortize its goodwill and certain intangible assets, but will evaluate them for impairment annually. We are currently reviewing the statements to determine their effect on the Company.

In August 2001, the FASB issued 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 does not expect the adoption of SFAS No. 144 to have a material effect on its financial position or results of operations.

3. 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. 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. The jury found Sunflower liable for misappropriating the Company's trade secrets and inducing an individual to breach his duty of loyalty to the Company. The Company will request that the judge enter a judgment on the verdict. 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.

4. Long-Term Debt

On June 6, 2001, the Company issued zero coupon convertible notes due 2021 for $150 million. The net proceeds from such offering were used to repay outstanding indebtedness under the Credit Facility. The issue price of each note represents a yield to maturity of 3.0% per year calculated from the issuance date. In connection with the Company's issuance of its zero coupon convertible notes, the Company reduced the amount permitted to be borrowed under its Revolving Credit Facility from $230 million to $125 million.

During September 2001, the Company retired its 9.55% Senior Notes due 2003 with a face value of $15.8 million prior to maturity. The debt retirement resulted in an extraordinary loss after tax of $1.3 million.

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 promotions
2. Cluster-Targeted Products - products targeted around geographic and demographic clusters, including:
   - Targeted Print and Media Services (formerly Valassis Impact Promotions) and Targeted Sampling & Media Solutions (polybag samples and advertising), which have recently been combined into one segment, known as Targeted Print and Media Services

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, cooperative free-standing inserts (FSIs) and Targeted Print & Media Services (TP&MS). These reportable 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. Assets are not allocated to reportable segments and are not used to assess the performance of a segment.

(in millions)	Three Months Ended September 30			
	FSI	TP&MS	All Others*	Total
2001				
Revenues from external customers	$ 141.0	$ 37.3	$ 19.1	$ 197.4
Intersegment revenues	$ -	$ -	$ -	$ -
Depreciation/amortization	$ 2.4	$ 0.5	$ 0.5	$ 3.4
Segment profit	$ 39.7	$ 3.0	$ (6.2)	$ 36.5
2000				
Revenues from external customers	$ 134.6	$ 49.2	$ 7.2	$ 191.0
Intersegment revenues	$ -	$ -	$ -	$ -
Depreciation/amortization	$ 2.0	$ 0.4	$ 0.1	$ 2.5
Segment profit	$ 33.4	$ 7.2	$ 0.9	$ 41.5

* Segments below the quantitative thresholds are primarily attributable to three segments of the Company. Those include a customer relationship marketing segment 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 September 30,	
	2001	2000
Profit for reportable segments	$ 42.7	$ 40.6
Profit for other segments	(6.2)	0.9
Unallocated amounts:		
Interest income	-	0.1
Other income	1.0	-
Earnings before taxes	$ 37.5	$ 41.6

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

	2001	2000
United States	$ 197.4	$ 189.4
Canada	1.0	1.7
Total	$ 198.4	$ 191.1

(in millions)	Nine Months Ended September 30			
	FSI	TP&MS	All Others*	Total
2001				
Revenues from external customers	$ 447.4	$ 143.7	$ 51.3	$ 642.4
Intersegment revenues	$ -	$ -	$ -	$ -
Depreciation/amortization	$ 7.0	$ 1.5	$ 1.5	$ 10.0
Segment profit/(loss)	$ 132.1	$ 16.5	$ (6.4)	$ 142.2
2000				
Revenues from external customers	$ 459.5	$ 134.5	$ 20.2	$ 614.2
Intersegment revenues	$ -	$ -	$ -	$ -
Depreciation/amortization	$ 6.6	$ 1.3	$ 0.1	$ 8.0
Segment profit	$ 131.5	$ 21.5	$ 1.5	$ 154.5

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

	Nine Months Ended September 30,	
	2001	2000
Profit for reportable segments	$ 148.6	$ 153.0
(Loss)/Profit for other segments	(6.4)	1.5
Unallocated amounts:		
Interest income	0.1	0.5
Other income	1.1	26.5
Earnings before taxes	$ 143.4	$ 181.5

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

	2001	2000
United States	$ 639.6	$ 636.3
Canada	3.9	4.9

Total	$ 643.5	$ 641.2

6. Earnings Per Share

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

	Three Mo Ended Septem
	2001
Net Earnings	$ 23,426
Basic EPS:	
Weighted average common shares outstanding	53,792
Earnings per common share - basic	
Before extraordinary item	$ 0.46
Extraordinary item	(0.02)
Total	$ 0.44
Diluted EPS:	
Weighted average common shares outstanding	53,792
Weighted average shares purchased on exercise of dilutive options	4,166
Shares purchased with proceeds of options	(3,418)
Shares contingently issuable	50
Shares applicable to diluted earnings	54,590
Earnings per common share - diluted	
Before extraordinary item	$ 0.45
Extraordinary item	(0.02)
Total	$ 0.43

Nine Mont Ended Septemb
2001

Net Earnings	$ 89,622
Basic EPS:	
Weighted average common shares outstanding	53,584
Earnings per common share - basic	
Before extraordinary item	$ 1.70
Extraordinary item	(0.03)
Total	$ 1.67
Diluted EPS:	
Weighted average common shares outstanding	53,584
Weighted average shares purchased on exercise of dilutive options	4,480
Shares purchased with proceeds of options	(3,634)
Shares contingently issuable	50
Shares applicable to diluted earnings	54,480
Earnings per common share - diluted	
Before extraordinary item	$ 1.67
Extraordinary item	(0.02)
Total	$ 1.65

7. Reverse Repurchase Agreement

During September 2001, the Company entered into a reverse repurchase agreement transaction relating to $234.5 million of U.S. Treasury Securities. The related receivable and payable from the transaction have been offset on the consolidated balance sheet. As a result of the transaction, the Company released $3.7 million of its deferred tax valuation allowance and recorded a $1.4 million reduction in income taxes.

8. Writedown of Impaired Assets

During September 2001, the Company took a one-time charge of $6.1 million relating to the closedown of Save.com, its approximately 50% owned investment, and resulting reorganization costs.

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. Such factors include, among others, the following: a new competitor in the Company's core free-standing insert business and consequent price war; 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; or general business and economic conditions. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Results of Operations

Three Months Ended September 30, 2001 and September 30, 2000

Net sales increased 3.5% from $190.8 million for the third quarter of 2000 to $197.4 million for the third quarter of 2001. Free-standing insert (FSI) revenues were up from $134.6 million for the quarter ended September 30, 2000 to $141.0 million for the same quarter of 2001. The increase is driven primarily by an increase in volume for the quarter with two extra insert dates. Revenues for cluster-targeted products decreased 24.2% to $37.3 million for the quarter, largely due to heavy competition from commercial printers. Additionally, net sales included a 109% increase to $9.4 million in ROP (run-of-press) sales attributable to additional sales focus and an increase in demand for this product in the current economic climate.

Gross profit margin was 35.4% in the third quarter of 2001, down from 36.0% in the third quarter of 2000. The decline in average pages per book due to two more insert dates in the third quarter of 2001 and our strategy to reduce direct response pages in an effort to improve pricing resulted in increased media and print costs on a per-thousand-page basis which was partially offset by lower paper costs.

Selling, general and administrative expenses increased 4.9% from $20.0 million in the third quarter of 2000 to $21.0 million in the third quarter of 2001. The increase was due to the inclusion of PreVision for the entire quarter in the current year. PreVision was purchased during the third quarter of 2000.

During September 2001, the Company took a one-time charge of $6.1 million relating to the closedown of Save.com, its 50% owned investment, and resulting reorganization costs.

Interest expense was down for the quarter ended September 30, 2001 to $3.7 million from $5.9 million for the same quarter in 2000. The Company issued zero coupon convertible notes in June 2001 for $150 million. The proceeds were used to repay outstanding indebtedness under The Revolving Credit Facility. During the third quarter of 2001, the Company retired $15.8 million in aggregate principal amount of its 9.55% Senior Notes due 2003.

The effective tax rate was 34.2% for the quarter ended September 30, 2001, compared with 38.3% for the same period in 2000. The effective tax rate decrease is primarily the result of tax benefits associated with the reverse repurchase agreement described in Note 7 and resulting utilization of the Company's capital losses.

In connection with the retirement of the 9.55% Senior Notes due 2003 discussed above, in September 2001, the Company paid a premium in an amount equal to $2.0 million. Accordingly, the Company incurred extraordinary charges of $1.3 million (net of tax) due to the early extinguishment of $15.8 million of debt in the third quarter of 2001.

Earnings before extraordinary items were $24.7 million for the third quarter of 2001 versus $25.7 million for the same period last year.

Nine Months Ended September 30, 2001 and September 30, 2000

For the nine months ended September 30, 2001, net sales increased 4.6% to $642.3 million from $613.9 million for the comparable period in 2000. Free-standing insert (FSI) revenues were down from $459.5 million for the first nine months of 2000 to $447.4 million for the first nine months of 2001. This decrease is primarily the result of a reduction in direct response pages as part of a price improvement strategy, as well as lower levels of e-commerce client participation. Revenues for cluster-targeted products increased 6.8% to $143.7 million for the nine month period, driven primarily by strong demand in sampling/advertising polybag programs in the first half of 2001. Net sales of the Company included revenues of $20.4 million from PreVision, which was acquired in August 2000. Other revenues decreased to $1.2 million for the nine months ended September 30, 2001, from $27.3 million for the comparable period as a result of the recording of the settlement of a lawsuit in 2000.

Gross margin decreased to 36.7% for the first nine months of 2001, from 38.0% for the same period in 2000 (excluding the impact of a lawsuit settlement included in other revenues in the first nine months of 2000). The decline in average pages per book due to our strategy to reduce direct response pages in an effort to improve pricing resulted in increased media and print costs on a per-thousand-page basis. Also, revenue increases in non-FSI products, which command lower margins, contributed to the overall decrease.

Selling, general and administrative expenses were $67.7 million, versus $57.9 million for the comparable prior-year period. This increase is primarily the result of the SG&A expenses of PreVision, which was acquired in August 2000, and initiatives commenced during the later part of 2000 to increase the sales force.

During September 2001, the Company took a one-time charge of $6.1 million relating to the closedown of Save.com, its 50% owned investment, and resulting reorganization costs.

Interest expense was down 12.8% for the nine months ended September 30, 2001 to $14.3 million from $16.4 million for the same period in 2000. The Company issued zero coupon convertible notes in June 2001 for $150 million. The proceeds were used to repay outstanding indebtedness under The Revolving Credit Facility. During the third quarter of 2001, the Company retired $15.8 million in aggregate principal amount of its 9.55% Senior Notes due 2003.

Earnings before extraordinary items were $90.9 million for the nine months ended September 30, 2001 versus $113.5 million for the same period last year. Excluding the impact of the settlement of a lawsuit in the nine months ended September 30, 2000, earnings before extraordinary items would have decreased by 6.2%.

In connection with the retirement of the 9.55% Senior Notes due 2003 discussed above, in September 2001, the Company paid a premium in an amount equal to $2.0

million. Accordingly, the Company incurred extraordinary charges of $1.3 million (net of tax) due to the early extinguishment of $15.8 million of debt in the nine months ended September 30, 2001.

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 generally 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 $10.6 million at September 30, 2001 versus $11.1 million at December 31, 2000. This was the result of cash provided by operating activities of $113.3 million, and cash used in investing activities and financing activities of $33.0 million and $80.9 million, respectively, during the first nine months of 2001.

Cash flow from operating activities increased from $76.4 million at September 30, 2000 to $113.3 million at September 30, 2001, primarily due from tax benefits received from employee stock option exercises.

As of September 30, 2001, the Company's debt has been reduced to $274.4 million, which consists of $23.2 million under its Revolving Credit Facility and $251.2 million in public debt. As discussed in Note 4, in June 2001, the Company issued zero coupon convertible notes due 2021 for $150 million. The net proceeds from such offering were used to repay outstanding indebtedness under the Revolving Credit Facility. During September 2001, the Company retired its 9.55% Senior Notes due 2003 with a face value of $15.8 million prior to maturity. The retirement resulted in an extraordinary loss of $1.3 million (net of tax).

The Company intends to use cash generated by operations to meet interest and principal repayment obligations, for general corporate purposes, to reduce its indebtedness and from time to time to repurchase stock through the Company's stock repurchase program.

As of September 30, 2001, the Company had authorization to repurchase an additional 2.0 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 $13.6 million for the nine month period ended September 30, 2001. 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.

Part II - Other Information

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

(4.1) Second Supplemental Indenture dated as of August 21, 2001, between Valassis Communications, Inc. and The Bank of New York with respect to the Company's 9.55% Senior Notes due 2003.

b. Form 8-K

The Company filed a report on Form 8-K, dated July 24, 2001, announcing that it has elected Kenneth V. Darish to its Board of Directors.

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: November 14, 2001

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.