VALASSIS COMMUNICATIONS INC
Form 10-Q
November 08, 2011
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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, 2011

¨ **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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes x 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer x	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 x

As of November 1, 2011, there were 44,754,756 shares of the Registrant s Common Stock outstanding.

VALASSIS COMMUNICATIONS, INC.

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Quarter Ended September 30, 2011

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VALASSIS COMMUNICATIONS, INC.

Condensed Consolidated Balance Sheets

(U.S. dollars in thousands)

(unaudited)

	September 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 91,034	$ 245,935
Accounts receivable, net (Note 1)	407,286	459,952
Inventories (Note 1)	36,135	41,987
Prepaid expenses and other	63,408	38,657
Total current assets	**597,863**	**786,531**
Property, plant and equipment, net (Note 1)	157,000	175,567
Goodwill (Note 2)	636,471	636,471
Other intangible assets, net (Note 2)	224,350	233,817
Other assets	16,764	13,272
Total assets	**$ 1,632,448**	**$ 1,845,658**
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion long-term debt (Note 3)	$ 15,000	$ 7,058
Accounts payable	295,112	329,602
Progress billings	52,608	53,001
Accrued expenses (Note 4)	93,591	99,612
Total current liabilities	**456,311**	**489,273**
Long-term debt (Note 3)	591,310	699,169
Deferred income taxes	78,258	78,764
Other non-current liabilities	39,738	49,568
Total liabilities	**1,165,617**	**1,316,774**
Commitments and contingencies (Note 5)		
Stockholders equity:		
Preferred stock ($0.01 par value; 25,000,000 shares authorized; no shares issued or outstanding at September 30, 2011 and December 31, 2010)		
Common stock ($0.01 par value; 100,000,000 shares authorized; 65,389,749 and 65,283,749 shares issued at September 30, 2011 and December 31, 2010, respectively; 45,058,606 and 50,361,749 shares outstanding at September 30, 2011 and December 31, 2010, respectively)	654	653
Additional paid-in capital	125,507	124,988
Retained earnings	987,293	908,136
Accumulated other comprehensive income	2,784	3,299

Treasury stock, at cost (20,331,143 and 14,922,000 shares at September 30, 2011 and December 31, 2010, respectively)	(649,407)	(508,192)
Total stockholders equity	**466,831**	**528,884**
Total liabilities and stockholders equity	**$ 1,632,448**	**$ 1,845,658**

See accompanying notes to condensed consolidated financial statements.

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VALASSIS COMMUNICATIONS, INC.

Condensed Consolidated Statements of Income

(U.S. dollars in thousands, except per share data)

(unaudited)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues	**$ 528,391**	**$ 572,406**	**$ 1,640,622**	**$ 1,702,358**
Costs and expenses:				
Cost of sales	395,728	421,510	1,222,345	1,248,664
Selling, general and administrative	80,520	91,800	239,778	275,421
Amortization expense	3,156	3,156	9,467	9,467
Total costs and expenses	479,404	516,466	1,471,590	1,533,552
Gain from litigation settlement, net (Note 6)				490,085
Earnings from operations	**48,987**	**55,940**	**169,032**	**658,891**
Other expenses and income:				
Interest expense	8,148	14,091	29,649	52,084
Interest income	(54)	(116)	(315)	(510)
Loss on extinguishment of debt (Note 3)			16,318	23,873
Other income, net	(3,856)	(2,120)	(6,168)	(4,471)
Total other expenses, net	4,238	11,855	39,484	70,976
Earnings before income taxes	**44,749**	**44,085**	**129,548**	**587,915**
Income tax expense (Note 1)	17,255	17,106	50,391	227,303
Net earnings	**$ 27,494**	**$ 26,979**	**$ 79,157**	**$ 360,612**
Net earnings per common share, basic (Note 7)	**$ 0.60**	**$ 0.55**	**$ 1.65**	**$ 7.33**
Net earnings per common share, diluted (Note 7)	**$ 0.58**	**$ 0.52**	**$ 1.58**	**$ 6.93**
Weighted-average common shares outstanding, basic (Note 7)	**45,689**	**49,138**	**47,831**	**49,216**
Weighted-average common shares outstanding, diluted (Note 7)	**47,766**	**51,995**	**50,089**	**52,033**

See accompanying notes to condensed consolidated financial statements.

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VALASSIS COMMUNICATIONS, INC.

Condensed Consolidated Statements of Comprehensive Income

(U.S. dollars in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Net earnings	**$ 27,494**	**$ 26,979**	**$ 79,157**	**$ 360,612**
Other comprehensive income, net of tax:				
Unrealized changes in fair value of cash flow hedges and available-for-sale securities	(2,738)	(789)	(3,108)	(3,159)
Realized losses on cash flow hedges reclassified from AOCI into earnings			3,040	
Amortization of realized losses and unrealized changes in fair value of discontinued cash flow hedges		2,659		8,197
Foreign currency translation adjustment	(1,254)	1,221	(447)	(195)
Total other comprehensive income (loss)	**(3,992)**	**3,091**	**(515)**	**4,843**
Comprehensive income	**$ 23,502**	**$ 30,070**	**$ 78,642**	**$ 365,455**

See accompanying notes to condensed consolidated financial statements.

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VALASSIS COMMUNICATIONS, INC.

Condensed Consolidated Statements of Cash Flows

(U.S. dollars in thousands)

(unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash flows from operating activities:		
Net earnings	$ 79,157	$ 360,612
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	45,487	45,919
Amortization of debt issuance costs	1,785	1,855
Provision for losses on accounts receivable	2,515	3,577
Loss on extinguishment of debt	5,748	3,429
Loss on derivatives, net	6,952	14,586
Loss on sale of property, plant and equipment	13	62
Earnings on equity investments	(3,228)	(3,963)
Stock-based compensation expense	6,564	22,371
Deferred income taxes	2,356	10,749
Changes in assets and liabilities:		
Accounts receivable, net	50,151	6,000
Inventories	5,852	(3,289)
Prepaid expenses and other	(24,333)	697
Other assets	2,834	1,484
Accounts payable	(34,490)	(44,606)
Progress billings	(393)	10,921
Accrued expenses	(10,253)	(22,374)
Other non-current liabilities	(13,519)	14,177
Total adjustments	44,041	61,595
Net cash provided by operating activities	**123,198**	**422,207**
Cash flows from investing activities:		
Additions to property, plant and equipment	(18,127)	(16,447)
Additions to intangible assets		(7,581)
Proceeds from sale of property, plant and equipment	46	59
Proceeds from sale of available-for-sale securities	1,494	
Net cash used in investing activities	**(16,587)**	**(23,969)**
Cash flows from financing activities:		
Borrowings of long-term debt	610,000	
Repayments of long-term debt	(709,919)	(303,079)
Debt issuance costs	(11,580)	
Repurchases of common stock	(155,817)	(58,225)
Proceeds from issuance of common stock	5,646	41,603
Net cash used in financing activities	**(261,670)**	**(319,701)**

Effect of exchange rate changes on cash and cash equivalents	158	137
Net increase (decrease) in cash and cash equivalents	(154,901)	78,674
Cash and cash equivalents at beginning of period	245,935	129,846
Cash and cash equivalents at end of period	**$ 91,034**	**$ 208,520**
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 28,567	$ 63,894
Cash paid during the period for income taxes	$ 72,026	$ 188,804
Non-cash financing activities:		
Stock issued under stock-based compensation plans	$ 3,184	$ 1,592

See accompanying notes to condensed consolidated financial statements.

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VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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 (GAAP) 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 GAAP 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 Valassis Communications, Inc. (Valassis, we, and our) Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 Form 10-K).

Significant Accounting Policies

Accounts Receivable

The allowance for doubtful accounts was $5.9 million and $12.1 million as of September 30, 2011 and December 31, 2010, respectively.

Income Taxes

We are required to adjust our effective tax rate each quarter to be consistent with our estimated annual effective tax rate. We are also required to record the tax impact of certain unusual or infrequently occurring items, including the effects of changes in tax laws or rates, in the interim period in which they occur. The effective tax rate during a particular quarter may be higher or lower as a result of the timing of actual earnings versus annual projections.

Inventories

Inventories are accounted for at the lower of cost, determined on a first in, first out (FIFO) basis, or market. Inventories included on the condensed consolidated balance sheets consisted of:

(in thousands of U.S. dollars)	September 30, 2011	December 31, 2010
Raw materials	$ 23,771	$ 27,035
Work in progress	12,364	14,952
Inventories	**$ 36,135**	**$ 41,987**

VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

(unaudited)

Property, Plant and Equipment

The following table summarizes the costs and ranges of useful lives of the major classes of property, plant and equipment and the total accumulated depreciation related to Property, plant and equipment, net included on the condensed consolidated balance sheets:

	Useful Lives (in years)	September 30, 2011	December 31, 2010
		(in thousands of U.S. dollars)	
Land, at cost	N/A	$ 7,168	$ 7,195
Buildings, at cost	10 - 30	37,516	37,657
Machinery and equipment, at cost	3 - 20	229,345	225,762
Office furniture and equipment, at cost	3 - 10	234,662	221,804
Leasehold improvements, at cost	5 - 10	28,247	28,174
		536,938	520,592
Less accumulated depreciation		(379,938)	(345,025)
Property, plant and equipment, net		**$ 157,000**	**$ 175,567**

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, which eliminates the option to present the components of other comprehensive income as a part of the statement of stockholders equity. Instead, ASU 2011-05 requires all non-owner transactions that affect an entity s equity be presented either in a single continuous statement of comprehensive income or in two separate, but consecutive, statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present the components of other comprehensive income, total other comprehensive income and the total of comprehensive income. We have adopted the provisions of ASU 2011-05 and retrospectively applied herein the two-statement approach described above.

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements*, which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. The adoption of ASU 2009-13, applied prospectively for revenue arrangements entered into or materially modified beginning on or after January 1, 2011, did not have a material impact on our financial position or results of operations.

2. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill included on the condensed consolidated balance sheets consisted of:

(in thousands of U.S. dollars)	September 30, 2011	December 31, 2010
Shared Mail	$ 534,184	$ 534,184
Neighborhood Targeted	5,325	5,325
Free-standing Inserts	22,357	22,357

International, Digital Media & Services	74,605	74,605
Goodwill	**$ 636,471**	**$ 636,471**

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VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

(unaudited)

The components of other intangible assets, net included on the condensed consolidated balance sheets consisted of:

(in thousands of U.S. dollars)	September 30, 2011 Gross Amount	Accum-ulated Amort-ization	Net Amount	Weighted Average Remaining Useful Life (in years)	December 31, 2010 Gross Amount	Accum-ulated Amort-ization	Net Amount	Weighted Average Remaining Useful Life (in years)
Finite-lived intangible assets:								
Mailing lists, non compete agreements and other	$ 48,037	$ (9,387)	$ 38,650	14.3	$ 48,037	$ (7,871)	$ 40,166	15.0
Customer relationships	140,000	(41,941)	98,059	9.2	140,000	(33,990)	106,010	10.0
Total	188,037	(51,328)	136,709		188,037	(41,861)	146,176	
Indefinite-lived intangible assets:								
Valassis name, tradenames, trademarks and other	87,641		87,641		87,641		87,641	
Other intangible assets, net	**$ 275,678**		**$ 224,350**		**$ 275,678**		**$ 233,817**	

3. LONG-TERM DEBT

Long-term debt included on the condensed consolidated balance sheets consisted of:

(in thousands of U.S. dollars)	September 30, 2011	December 31, 2010
New Senior Secured Revolving Credit Facility	$ 50,000	$
Prior Senior Secured Revolving Credit Facility		
Senior Secured Term Loan A	296,250	
Senior Secured Convertible Notes due 2033, net of discount	60	58
8 1/4% Senior Notes due 2015		242,224
6 5/8% Senior Notes due 2021	260,000	
Senior Secured Term Loan B		347,723
Senior Secured Delayed Draw Term Loan		116,222
Total debt	606,310	706,227
Current portion long-term debt	**15,000**	**7,058**
Long-term debt	**$ 591,310**	**$ 699,169**

Senior Secured Credit Facility

General

On June 27, 2011, we entered into a new senior secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a syndicate of lenders jointly arranged by J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBS Securities Inc. (the new senior secured credit facility). The new senior secured credit facility and related loan documents replaced and terminated our prior credit agreement, dated as of March 2, 2007, as amended (the prior senior secured credit facility), by and among Valassis, Bear Stearns Corporate Lending Inc., as Administrative Agent, and a syndicate of lenders jointly arranged by Bear, Stearns & Co. Inc. and Banc of America Securities LLC. In connection with the termination of the prior senior secured credit facility, all obligations and rights under the related guarantee, security and collateral agency agreement, dated as of March 2, 2007, as amended (the Prior Security Agreement), by Valassis and certain of its domestic subsidiaries signatory thereto, as grantors, in favor of Bear Stearns Corporate Lending Inc., in its capacity as collateral agent for the benefit of the Secured Parties (as defined in the Prior Security Agreement), were also simultaneously terminated.

VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

(unaudited)

The new senior secured credit facility consists of:

- a five-year term loan A in an aggregate principal amount equal to $300.0 million, with principal repayable in quarterly installments at a rate of 5.0% during each of the first two years, 10% during the third year, 15% during the fourth year and 11.25% during the fifth year, with the remaining 53.75% due at maturity (the Term Loan A);

- a five-year revolving credit facility in an aggregate principal amount of $100 million (the revolving line of credit), including $15.0 million available in Euros, Pounds Sterling or Canadian Dollars, $50.0 million available for letters of credit and a $20.0 million swingline loan subfacility, of which $50.0 million was drawn at closing and remains outstanding as of September 30, 2011 (exclusive of outstanding letters of credit described below); and

- an incremental facility pursuant to which, prior to the maturity of the new senior secured credit facility, we may incur additional indebtedness in an amount up to $150.0 million under the revolving line of credit or the term loan A or a combination thereof, subject to certain conditions, including receipt of additional lending commitments for such additional indebtedness. The terms of the incremental facility will be substantially similar to the terms of the new senior secured credit facility, except with respect to the pricing of the incremental facility, the interest rate for which could be higher than that for the revolving line of credit and the Term Loan A.

We used the initial borrowing under the revolving line of credit, the proceeds from the Term Loan A and existing cash of $120.0 million to repay the $462.2 million outstanding under the Term Loan B and Delayed Draw Term Loan portions of our prior senior secured credit facility (reflecting all outstanding borrowings thereunder), to pay accrued interest with respect to such loans and to pay the fees and expenses related to the new senior secured credit facility. We recognized a pre-tax loss on extinguishment of debt of $3.0 million during the nine months ended September 30, 2011, which represents the write-off of related capitalized debt issuance costs. In addition, as further discussed in Note 8, *Derivative Financial Instruments and Fair Value Measurements*, we recorded in interest expense a pre-tax loss of $2.6 million related to the discontinuation of hedge accounting on the related interest rate swap. We capitalized related debt issuance costs of approximately $6.5 million, which will be amortized over the term of the new senior secured credit facility.

All borrowings under our new senior secured credit facility, including, without limitation, amounts drawn under the revolving line of credit, are subject to the satisfaction of customary conditions, including absence of a default and accuracy of representations and warranties. As of September 30, 2011, we had approximately $41.1 million available under the revolving line of credit portion of our senior secured credit facility (after giving effect to the reductions in availability pursuant to $8.9 million in standby letters of credit outstanding as of September 30, 2011).

Interest and Fees

Borrowings under our new senior secured credit facility bear interest, at our option, at either the alternate base rate (defined as the higher of the prime rate announced by the Administrative Agent, the federal funds effective rate plus 0.5% or one-month LIBOR plus 1%) (the Base Rate) or at an Adjusted LIBO Rate (as defined in the credit agreement governing the new senior secured credit facility) (the Eurodollar Rate), except for borrowings made in alternate currencies which may not accrue interest based upon the alternate base rate, in each case, plus an applicable interest rate margin. The applicable margins are initially 0.75% per annum for Base Rate loans and 1.75% per annum for Eurodollar Rate loans. The margins applicable to the borrowings under our new senior secured credit facility may be adjusted based on our consolidated leverage ratio, with 1.00% being the maximum Base Rate margin and 2.00% being the maximum Eurodollar Rate. See Note 8, *Derivative Financial Instruments and Fair Value Measurements*, for discussion regarding our various interest rate swap agreements.

Guarantees and Security

Our new senior secured credit facility is guaranteed by certain of our existing and future domestic restricted subsidiaries pursuant to a Guarantee and Collateral Agreement. In addition, our obligations under our senior secured credit facility and the guarantee obligations of the subsidiary guarantors are secured by first priority liens on substantially all of our and our subsidiary guarantors present and future assets and by a pledge of all of the equity interests in our domestic subsidiary guarantors and 65% of the capital stock of certain of our existing and future foreign subsidiaries.

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VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

(unaudited)

The Guarantee and Collateral Agreement also secures our Senior Secured Convertible Notes due 2033 on an equal and ratable basis with the indebtedness under our new senior secured credit facility to the extent required by the indenture governing such notes.

Prepayments

The new senior secured credit facility also contains a requirement that we make mandatory principal prepayments on the Term Loan A and revolving line of credit in certain circumstances, including, without limitation, with 100% of the aggregate net cash proceeds from certain asset sales, casualty events or condemnation recoveries (in each case, to the extent not otherwise used for reinvestment in our business or related business and subject to certain other exceptions). The new senior secured credit facility further provides that, subject to customary notice and minimum amount conditions, we may make voluntary prepayments without payment of premium or penalty.

Covenants

Subject to customary and otherwise agreed upon exceptions, our new senior secured credit facility contains affirmative and negative covenants, including, but not limited to:

- the payment of other obligations;
- the maintenance of organizational existences, including, but not limited to, maintaining our property and insurance;
- compliance with all material contractual obligations and requirements of law;
- limitations on the incurrence of indebtedness;
- limitations on creation and existence of liens;
- limitations on certain fundamental changes to our corporate structure and nature of our business, including mergers;
- limitations on asset sales;
- limitations on restricted payments, including certain dividends and stock repurchases and redemptions;
- limitations on capital expenditures;

- limitations on any investments, provided that certain permitted acquisitions and strategic investments are allowed;
- limitations on optional prepayments and modifications of certain debt instruments;
- limitations on modifications to organizational documents;
- limitations on transactions with affiliates;
- limitations on entering into certain swap agreements;
- limitations on negative pledge clauses or clauses restricting subsidiary distributions;
- limitations on sale-leaseback and other lease transactions; and
- limitations on changes to our fiscal year.

Our new senior secured credit facility also requires us to comply with:

- a maximum consolidated leverage ratio, as defined in our senior secured credit facility (generally, the ratio of our consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization, or EBITDA, for the most recent four quarters), of 3.50:1.00; and
- a minimum consolidated interest coverage ratio, as defined in our new senior secured credit facility (generally, the ratio of our consolidated EBITDA to consolidated interest expense for the most recent four quarters), of 3.00:1.00.

The following table shows the required and actual financial ratios under our new senior secured credit facility as of September 30, 2011:

	Required Ratio	Actual Ratio
Maximum consolidated leverage ratio	No greater than 3.50:1.00	1.95:1.00
Minimum consolidated interest coverage ratio	No less than 3.00:1.00	7.94:1.00

VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

(unaudited)

In addition, we are required to give notice to the administrative agent and the lenders under our new senior secured credit facility of defaults under the facility documentation and other material events, make any new wholly-owned domestic subsidiary (other than an immaterial subsidiary) a subsidiary guarantor and pledge substantially all after-acquired property as collateral to secure our and our subsidiary guarantors obligations in respect of the facility.

Events of Default

Our new senior secured credit facility contains customary events of default, including upon a change in control. If such an event of default occurs, the lenders under our new senior secured credit facility would be entitled to take various actions, including in certain circumstances increasing the effective interest rate and accelerating the amounts due under our new senior secured credit facility.

8 $^{1}/4$% Senior Notes due 2015

On January 13, 2011, we commenced a cash tender offer and consent solicitation to purchase any and all of our outstanding 8 $^{1}/4$% Senior Notes due 2015 (the 2015 Notes) and to amend the indenture governing the 2015 Notes, which we refer to as the 2015 Indenture, to eliminate substantially all of the restrictive covenants and certain events of default. We used the net proceeds from the 2021 Notes (described below) to fund the purchase of the 2015 Notes, the related consent payments pursuant to the tender offer and consent solicitation, and the subsequent redemption of the 2015 Notes that were not tendered and remained outstanding after the expiration of the tender offer and consent solicitation. We recognized a pre-tax loss on extinguishment of debt of $13.3 million during the nine months ended September 30, 2011, which represents the difference between the aggregate purchase price and the aggregate principal amount of the 2015 Notes purchased and the write-off of related capitalized debt issuance costs.

During the nine months ended September 30, 2010, we purchased $297.8 million aggregate principal amount of the 2015 Notes pursuant to a cash tender offer and open market repurchases. We recognized a pre-tax loss on extinguishment of debt of $23.9 million during the nine months ended September 30, 2010, which represents the difference between the aggregate purchase price and the aggregate principal amount of the 2015 Notes purchased and the proportionate write-off of related capitalized debt issuance costs.

6 $^{5}/8$% Senior Notes due 2021

On January 28, 2011, we issued in a private placement $260.0 million aggregate principal amount of our 6 $^{5}/8$% Senior Notes due 2021 (the 2021 Notes). The net proceeds were used to fund the purchase of the outstanding 2015 Notes and the related consent payments in a concurrent tender offer and consent solicitation as described above and the redemption of the remaining outstanding 2015 Notes. We capitalized related debt issuance costs of approximately $5.1 million, which will be amortized over the term of the 2021 Notes.

Interest on the 2021 Notes is payable every six months on February 1 and August 1. The 2021 Notes are fully and unconditionally guaranteed, jointly and severally, by substantially all of our existing and future domestic restricted subsidiaries on a senior unsecured basis.

In July 2011, in accordance with the terms of the registration rights agreement between us and the initial purchasers of the 2021 Notes, we completed an exchange offer to exchange the original notes issued in the private placement for a like principal amount of exchange notes registered under the Securities Act of 1933, as amended. An aggregate principal amount of $260.0 million, or 100%, of the original notes were exchanged for exchange notes in the exchange offer. The exchange notes are substantially identical to the original notes, except that the exchange notes are not subject to certain transfer restrictions.

The 2021 Notes were issued under an indenture with Wells Fargo Bank, National Association, as trustee (the 2021 Indenture). Subject to a number of exceptions, the 2021 Indenture restricts our ability and the ability of our restricted subsidiaries (as defined in the 2021 Indenture) to incur or guarantee additional indebtedness, transfer or sell assets, make certain investments, pay dividends or make distributions or other restricted payments, create certain liens, merge or consolidate, repurchase stock, create or permit restrictions on the ability of our restricted subsidiaries to pay dividends or make other distributions to us and enter into transactions with affiliates.

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VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

(unaudited)

We may redeem all or a portion of the 2021 Notes at our option at any time prior to February 1, 2016, at a redemption price equal to 100% of the principal amount of 2021 Notes to be redeemed, plus a make-whole premium as described in the 2021 Indenture, plus accrued and unpaid interest to the redemption date, if any. At any time on or after February 1, 2016, we may redeem all or a portion of the 2021 Notes at our option at the following redemption prices (expressed as percentages of the principal amount thereof) if redeemed during the twelve-month period commencing on February 1 of the years set forth below:

Year	Percentage
2016	103.313%
2017	102.208%
2018	101.104%
2019 and thereafter	100.000%

In addition, we must pay accrued and unpaid interest to the redemption date, if any. On or prior to February 1, 2014, we may also redeem at our option up to 35% of the principal amount of the outstanding 2021 Notes with the proceeds of certain equity offerings at the redemption price specified in the 2021 Indenture, plus accrued and unpaid interest to the date of redemption, if any. Upon the occurrence of a change of control, as defined in the 2021 Indenture, we must make a written offer to purchase all of the 2021 Notes for cash at a purchase price equal to 101% of the principal amount of the 2021 Notes, plus accrued and unpaid interest to the date of repurchase, if any.

Covenant Compliance

As of September 30, 2011, we were in compliance with all of our indenture and new senior secured credit facility covenants.

4. ACCRUED EXPENSES

Accrued expenses included on the condensed consolidated balance sheets consisted of:

(in thousands of U.S. dollars)	September 30, 2011	December 31, 2010
Accrued interest	$ 4,414	$ 6,710
Accrued compensation and benefits	41,316	57,781
Other accrued expenses	47,861	35,121
Accrued expenses	**$ 93,591**	**$ 99,612**

5. COMMITMENTS AND CONTINGENCIES

The application and interpretation of applicable state sales tax laws to certain of our products is uncertain. Accordingly, we may be exposed to additional sales tax liability to the extent various state jurisdictions determine that certain of our products are subject to such jurisdictions sales tax. As of September 30, 2011, we have recorded a liability of $9.9 million, reflecting our best estimate of our potential sales tax liability.

In addition to the above matter, we are 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 effect on our financial position, results of operations or liquidity.

6. GAIN FROM LITIGATION SETTLEMENT

On January 30, 2010, we announced that we had reached an agreement to settle our outstanding lawsuits against News America Incorporated, a/k/a News America Marketing Group, News America Marketing, FSI, Inc. a/k/a News America Marketing FSI, LLC and News America Marketing In-Store Services, Inc. a/k/a News America Marketing In-Store Services, LLC (collectively News). The operative complaint alleged violations of the Sherman Act and various state competitive statutes and the commission of torts by News in connection with the marketing and sale of FSI space and in-store promotion and advertising services.

VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

(unaudited)

On February 4, 2010, we executed a settlement agreement and release (the Settlement Agreement) with News, and pursuant to the terms of the Settlement Agreement, News paid us $500.0 million. News America, Inc. also entered into a 10-year shared mail distribution agreement with our subsidiary, Valassis Direct Mail, Inc., which provides for our sale of certain shared mail services to News on specified terms.

In connection with the settlement, the parties worked with the United States District Court for the Eastern District of Michigan (the Court), under the Honorable Arthur J. Tarnow, on a set of procedures to handle future disputes among the parties with respect to conduct at issue in the litigation. The Court issued the order on this matter on June 15, 2011.

The settlement resolves all outstanding claims between us and News as of February 4, 2010. As a result, the parties agreed to dismiss all outstanding litigation between them and release all existing and potential claims against each other that were or could have been asserted in the litigation as of the date of the Settlement Agreement.

During the nine months ended September 30, 2010, in connection with the successful settlement of these lawsuits, we made $9.9 million in related payments, including special bonuses to certain of our employees (including our named executive officers in our proxy statement) in an aggregate amount of $8.1 million. These expenses were netted against the $500.0 million of proceeds received, and the net proceeds of $490.1 million were recorded as a separate line item Gain from litigation settlement, net in our condensed consolidated statement of income for the nine months ended September 30, 2010.

7. EARNINGS PER SHARE

Earnings per common share data were as follows:

(in thousands, except per share data)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net earnings	$ 27,494	$ 26,979	$ 79,157	$ 360,612
Weighted-average common shares outstanding, basic	45,689	49,138	47,831	49,216
Shares issued on exercise of dilutive options	4,981	8,368	5,756	8,303
Shares purchased with assumed proceeds of options and unearned restricted shares	(2,908)	(5,520)	(3,502)	(5,495)
Shares contingently issuable	4	9	4	9
Weighted-average common shares outstanding, diluted	**47,766**	**51,995**	**50,089**	**52,033**
Net earnings per common share, diluted	**$ 0.58**	**$ 0.52**	**$ 1.58**	**$ 6.93**
Anti-dilutive options excluded from calculation of weighted- average common shares outstanding, diluted	3,681	1,409	3,170	2,069

VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

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8. DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

We are exposed to market risks arising from adverse changes in foreign exchange rates and interest rates. We manage these risks through a variety of strategies which include the use of derivatives. Certain derivatives are designated as cash flow hedges and qualify for hedge accounting treatment, while others do not qualify or have not been designated as hedges and are marked to market through earnings. The notional amounts of derivative financial instruments and related fair values measured on a recurring basis and included in the condensed consolidated balance sheets were as follows:

(in millions of U.S. Dollars)	Notional Amounts September 30, 2011	Notional Amounts December 31, 2010	Fair Values September 30, 2011	Fair Values December 31, 2010	Balance Sheet Location
Derivatives designated as cash flow hedging instruments:					
Interest rate swap contract	$ 186.3	$ 300.0	$ (4.5)	$ (4.6)	Other non-current liabilities
Derivatives not receiving hedge accounting treatment:					
Interest rate swap contract	180.0		(1.6)		Accrued expenses
Foreign exchange contracts	12.6	11.4	(1.3)	0.7	Accrued expenses/Prepaid expenses and other
Total derivative financial instruments	$ 378.9	$ 311.4	$ (7.4)	$ (3.9)	

The fair values of our interest rate swap contracts and foreign exchange contracts are determined based on third-party valuation models and observable foreign exchange forward contract rates, respectively, both of which represent Level 2 fair value inputs.

The following tables summarize the impact of derivative financial instruments on the condensed consolidated financial statements for the indicated periods:

	Three Months Ended September 30,					
	2011	2010	2011	2010	2011	2010
(in millions of U.S. Dollars)	Amount of Pre-tax Gain (Loss) Recognized in Earnings*		Amount of Pre-tax Loss Recognized in OCI		Amount of Pre-tax Loss Reclassified from AOCI into Earnings*	
Derivatives designated as cash flow hedging instruments:						
Interest rate swap contract	$	$	$ (4.5)	$ (1.5)	$	$
Derivatives not receiving hedge accounting treatment:						
Interest rate swap contracts	$ 0.1	$ (0.4)	$	$	$	$ (4.3)
Foreign exchange contracts	(2.0)	0.2				
	$ (1.9)	$ (0.2)	$ (4.5)	$ (1.5)	$	$ (4.3)

* Amount recognized in earnings related to interest rate swap contracts included in Interest expense and amounts recognized in earnings related to foreign exchange contracts included in Cost of sales.

	Nine Months Ended September 30,					
	2011	2010	2011	2010	2011	2010
(in millions of U.S. Dollars)	Amount of Pre-tax Gain (Loss) Recognized in Earnings*		Amount of Pre-tax Loss Recognized in OCI		Amount of Pre-tax Loss Reclassified from AOCI into Earnings*	
Derivatives designated as cash flow hedging instruments:						
Interest rate swap contract	$	$	$ (4.9)	$ (5.3)	$ (5.0)	$
Derivatives not receiving hedge accounting treatment:						
Interest rate swap contracts	$	$ (1.4)	$	$	$	$ (13.2)
Foreign exchange contracts	(2.0)					
	$ (2.0)	$ (1.4)	$ (4.9)	$ (5.3)	$ (5.0)	$ (13.2)

* Amount recognized in earnings related to interest rate swap contracts included in Interest expense and amounts recognized in earnings related to foreign exchange contracts included in Cost of sales.

VALASSIS COMMUNICATIONS, INC.

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Interest Rate Swaps

During the second quarter of 2007, we entered into two interest rate swap agreements with an aggregate notional principal amount of $480.0 million. These interest rate swaps effectively fixed three-month LIBOR at 5.045%, for a then-effective interest rate of 6.795%, including the applicable margin, for $480.0 million of our variable rate debt under our senior secured credit facility. In February 2009, we reduced the notional principal amount of the interest rate swaps by $32.8 million and paid termination fees of approximately $2.6 million. The termination fees, or deferred losses, related to the terminated portion of the swaps were amortized to interest expense over the original life of the interest rate swaps, through December 31, 2010. As a result of the reduced notional amount of the swaps, three-month LIBOR was effectively fixed at 5.026%, for a then-effective interest rate of 6.776%, including the applicable margin. We initially designated the swaps as hedging instruments and recorded changes in the fair value of these interest rate swaps as a component of accumulated other comprehensive income. We discontinued cash flow hedge accounting treatment for the interest rate swap agreements effective April 1, 2009. The deferred losses on the interest rate swaps previously charged to accumulated other comprehensive income were amortized to interest expense and subsequent changes in the fair value of the swaps were recognized in earnings as a component of interest expense until the swaps expired on December 31, 2010.

On December 17, 2009, we entered into an interest rate swap agreement with an initial notional amount of $300.0 million to fix three-month LIBOR at 2.005%, for an effective rate of 4.255%, including the applicable margin, for $300.0 million of our variable rate debt under our prior senior secured credit facility. The effective date of this agreement was December 31, 2010. The notional amount of $300.0 million amortizes by $40.0 million at the end of every quarter until it reaches $100.0 million for the quarter ended June 30, 2012, the expiration date. The swap was designated as, and qualified as, a cash flow hedge through the termination of the prior senior secured credit facility on June 27, 2011. During the nine months ended September 30, 2011, as a result of the termination of the prior senior secured credit facility, pre-tax losses of $2.6 million were reclassified from accumulated other comprehensive income to earnings as a component of interest expense. This interest rate swap remains in effect and subsequent changes in the fair value of this swap will be recognized in earnings as a component of interest expense until the swap expires.

On July 6, 2011, we entered into an interest rate swap agreement with an initial notional amount of $186.3 million. The effective date of this agreement is June 30, 2012, the expiration date of our existing interest rate swap. Under the swap agreement, we are required to make quarterly payments at a fixed interest rate of 1.8695% per annum to the counterparty on an amortizing notional amount in exchange for receiving variable payments based on the three-month LIBOR interest rate for the same notional amount. After giving effect to the swap agreement, our effective interest rate for the notional amount, based on the current applicable margin under the new senior secured credit facility of 1.75% per annum, will be 3.6195% per annum. The initial notional amount of $186.3 million amortizes quarterly by (i) $2,812,500 from the effective date through the quarter ended September 30, 2013, (ii) $5,625,000 from September 30, 2013 through the quarter ended September 30, 2014, and (iii) $8,437,500 from September 30, 2014 until June 30, 2015, the expiration date of the agreement. The swap is designated as and qualifies as a cash flow hedge.

Foreign Currency

Currencies to which we have exposure are the Mexican peso, Canadian dollar, British pound, Polish zloty and Euro. Currency restrictions are not expected to have a significant effect on our cash flows, liquidity, or capital resources. We purchase the Mexican peso and Polish zloty under two to twelve-month forward foreign exchange contracts to stabilize the cost of production. As of September 30, 2011, we had a commitment to purchase $11.7 million in Mexican pesos and $0.9 million in Polish zlotys over the next 12 months.

Long-Term Debt

The estimated fair market value of our long-term debt was $26.2 million below carrying value and $10.6 million above carrying value as of September 30, 2011 and December 31, 2010, respectively. Our 2021 Notes are traded in an active market with the fair value determined based on quoted active market prices. Borrowings under our new senior secured credit facility are not traded in an active market and are valued based on an implied price derived from industry averages and relative loan performance.

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VALASSIS COMMUNICATIONS, INC.

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Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents and accruals approximate fair value due to the near-term maturity of these instruments.

9. REPURCHASES OF COMMON STOCK

The following table summarizes our repurchases of common stock during the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Shares repurchased	2,094,028	114,072	5,860,880	1,733,672
Aggregate repurchase price	$ 49,960,683	$ 3,601,798	$ 155,817,128	$ 58,224,769
Average price paid per share	$ 23.86	$ 31.57	$ 26.59	$ 33.58

As of September 30, 2011, we had authorization to repurchase an additional 4,496,273 shares of our common stock under the share repurchase program approved by our Board of Directors.

10. SEGMENT REPORTING

Our segments meeting the quantitative thresholds to be considered reportable are Shared Mail, Neighborhood Targeted and Free-standing Inserts (FSI). All other lines of business fall below a materiality threshold and are, therefore, combined together in an other segment named International, Digital Media & Services. These business lines include NCH Marketing Services, Inc., direct mail, software analytics, security services, digital and in-store. Our reportable segments are strategic business units that offer different products and services and are subject to regular review by our chief operating decision-maker. They are managed separately because each business requires different executional strategies and caters to different client marketing needs.

The accounting policies of the segments are the same as those described in the 2010 Form 10-K and Note 1, *Basis of Presentation and Significant Accounting Policies*. We evaluate reportable segment performance based on segment profit, which we define as earnings from operations excluding unusual or infrequently occurring items. Assets are not allocated in all cases to reportable segments and are not used to assess the performance of a segment.

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VALASSIS COMMUNICATIONS, INC.

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(unaudited)

The following table sets forth, by segment, revenues, depreciation/amortization and segment profit for the indicated periods:

	Three Months Ended September 30,				
(in millions of U.S. dollars)	**Shared Mail**	**Neighborhood Targeted**	**FSI**	**International, Digital Media & Services**	**Total**
2011					
Revenues from external customers	$ 330.5	$ 76.9	$ 73.5	$ 47.5	$ 528.4
Intersegment revenues	$ 4.4	$ 13.8	$ 9.6	$ 0.1	$ 27.9
Depreciation/amortization	$ 8.9	$ 1.2	$ 3.6	$ 0.7	$ 14.4
Segment profit (loss)	$ 46.2	$ 0.4	$ (0.8)	$ 3.2	$ 49.0
2010					
Revenues from external customers	$ 326.1	$ 114.0	$ 89.2	$ 43.1	$ 572.4
Intersegment revenues	$ 4.4	$ 6.8	$ 10.9	$ 0.3	$ 22.4
Depreciation/amortization	$ 10.1	$ 1.1	$ 3.3	$ 0.7	$ 15.2
Segment profit	$ 39.3	$ 7.2	$ 4.9	$ 4.5	$ 55.9

	Nine Months Ended September 30,				
(in millions of U.S. dollars)	**Shared Mail**	**Neighborhood Targeted**	**FSI**	**International, Digital Media & Services**	**Total**
2011					
Revenues from external customers	$ 990.3	$ 255.8	$ 251.9	$ 142.6	$ 1,640.6
Intersegment revenues	$ 13.0	$ 36.0	$ 29.2	$ 0.3	$ 78.5
Depreciation/amortization	$ 28.4	$ 3.2	$ 9.6	$ 4.3	$ 45.5
Segment profit	$ 136.0	$ 3.1	$ 14.9	$ 15.0	$ 169.0
2010					
Revenues from external customers	$ 965.3	$ 330.1	$ 281.3	$ 125.7	$ 1,702.4
Intersegment revenues	$ 11.8	$ 19.2	$ 29.8	$ 0.5	$ 61.3
Depreciation/amortization	$ 31.0	$ 3.1	$ 9.5	$ 2.3	$ 45.9
Segment profit	$ 111.5	$ 19.6	$ 24.6	$ 13.1	$ 168.8

The following table provides reconciliations of total segment profit to earnings from operations for the indicated periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions of U.S. dollars)	**2011**	**2010**	**2011**	**2010**
Total segment profit	$ 49.0	$ 55.9	$ 169.0	$ 168.8
Unallocated amounts:				
Gain from litigation settlement				490.1
Earnings from operations	**$ 49.0**	**$ 55.9**	**$ 169.0**	**$ 658.9**

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VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

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Domestic and foreign revenues were as follows:

(in millions of U.S. dollars)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
United States	$ 516.4	$ 562.3	$ 1,601.6	$ 1,665.2
Foreign	12.0	10.1	39.0	37.2
Revenues	**$ 528.4**	**$ 572.4**	**$ 1,640.6**	**$ 1,702.4**

Domestic and foreign long-lived assets (property, plant and equipment, net) were as follows:

(in millions of U.S. dollars)	September 30, 2011	December 31, 2010
United States	$ 148.7	$ 166.8
Foreign	8.3	8.8
Property, plant and equipment, net	**$ 157.0**	**$ 175.6**

11. GUARANTOR AND NON-GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

The following information is presented in accordance with Rule 3-10 of Regulation S-X. The operating and investing activities of the separate legal entities included in the consolidated financial statements are fully interdependent and integrated. Revenues and operating expenses of the separate legal entities include intercompany charges for management and other services. The 2021 Notes issued by Valassis (referred to for purposes of this note only as the Parent Company) are guaranteed by substantially all of the Parent Company s domestic wholly-owned subsidiaries (collectively, the Guarantor Subsidiaries) on a senior unsecured basis. Each of the Guarantor Subsidiaries is 100% owned, directly or indirectly, by the Parent Company and has guaranteed the 2021 Notes on a joint and several, full and unconditional basis. Non-wholly-owned subsidiaries, joint ventures, partnerships and foreign subsidiaries (collectively, the Non-Guarantor Subsidiaries) are not guarantors of these obligations. Substantially all of the Guarantor Subsidiaries also guarantee the Parent Company s senior secured credit facility.

The following tables present the condensed consolidating balance sheets as of September 30, 2011 and December 31, 2010, the condensed consolidating statements of income for the three and nine months ended September 30, 2011 and 2010, and the condensed consolidating statements of cash flows for the nine months ended September 30, 2011 and 2010. As a result of combining our general ledgers of record into an existing, single general ledger module within our enterprise resource planning system on July 1, 2010, the condensed consolidating statement of income for the nine months ended September 30, 2011 below reflects certain revenues and costs and expenses between the Parent Company and the Guarantor Subsidiaries differently than the condensed consolidating statement of income for the nine months ended September 30, 2010. Although it is not practicable to reclassify the amounts presented for the nine months ended September 30, 2010 to reflect these changes in presentation, if such reclassifications could be made they would have no effect on any of the Consolidated Total amounts included below and would have no effect on the net income of the Parent Company or the Non-Guarantor Subsidiaries.

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VALASSIS COMMUNICATIONS, INC.

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Condensed Consolidating Balance Sheet

September 30, 2011

(in thousands of U.S. dollars)

Assets	**Parent Company**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidating Adjustments**	**Consolidated Total**
Current assets:					
Cash and cash equivalents	$ 65,249	$ 1,759	$ 24,026	$	$ 91,034
Accounts receivable, net	107,605	274,747	24,934		407,286
Inventories	25,331	10,801	3		36,135
Prepaid expenses and other (including intercompany)	1,067,181	1,244,125	1,710	(2,249,608)	63,408
Total current assets	1,265,366	1,531,432	50,673	(2,249,608)	597,863
Property, plant and equipment, net	26,373	129,000	1,627		157,000
Goodwill	23,584	605,898	6,989		636,471
Other intangible assets, net	19,145	205,205			224,350
Investments	434,949	20,587		(452,466)	3,070
Intercompany note receivable (payable)	(92,419)	104,867	(12,448)		
Other assets	10,225	(187)	3,656		13,694
Total assets	$ 1,687,223	$ 2,596,802	$ 50,497	$ (2,702,074)	$ 1,632,448

Liabilities and Stockholders Equity	**Parent Company**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidating Adjustments**	**Consolidated Total**
Current liabilities:					
Current portion, long-term debt	$ 15,000	$	$	$	$ 15,000
Accounts payable and intercompany payable	523,939	2,008,714	12,067	(2,249,608)	295,112
Progress billings	25,354	13,310	13,944		52,608
Accrued expenses	50,793	35,875	6,923		93,591
Total current liabilities	615,086	2,057,899	32,934	(2,249,608)	456,311
Long-term debt	591,310				591,310
Deferred income taxes	(5,403)	87,657	(3,996)		78,258
Other non-current liabilities	19,399	18,320	2,019		39,738
Total liabilities	1,220,392	2,163,876	30,957	(2,249,608)	1,165,617
Stockholders equity	466,831	432,926	19,540	(452,466)	466,831

Total liabilities and stockholders equity	$ 1,687,223	$ 2,596,802	$ 50,497	$ (2,702,074)	$ 1,632,448

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VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

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Condensed Consolidating Balance Sheet

December 31, 2010

(in thousands of U.S. dollars)

Assets	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
Current assets:					
Cash and cash equivalents	$ 211,933	$ 8,026	$ 25,976	$	$ 245,935
Accounts receivable, net	175,115	259,001	25,836		459,952
Inventories	33,305	8,679	3		41,987
Prepaid expenses and other (including intercompany)	278,489	630,972	2,083	(872,887)	38,657
Total current assets	698,842	906,678	53,898	(872,887)	786,531
Property, plant and equipment, net	31,475	142,006	2,086		175,567
Goodwill	23,584	605,898	6,989		636,471
Other intangible assets, net	19,161	214,656			233,817
Investments	400,404	12,486		(409,744)	3,146
Intercompany note receivable (payable)	479,365	(460,369)	(18,996)		
Other assets	6,982	3,130	14		10,126
Total assets	$ 1,659,813	$ 1,424,485	$ 43,991	$ (1,282,631)	$ 1,845,658

Liabilities and Stockholders Equity	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
Current liabilities:					
Current portion, long-term debt	$ 7,058	$	$	$	$ 7,058
Accounts payable and intercompany payable	323,277	866,614	12,598	(872,887)	329,602
Progress billings	26,353	11,751	14,897		53,001
Accrued expenses	51,035	41,300	7,277		99,612
Total current liabilities	407,723	919,665	34,772	(872,887)	489,273
Long-term debt	699,169				699,169
Deferred income taxes	(4,044)	86,804	(3,996)		78,764
Other non-current liabilities	28,081	19,575	1,912		49,568
Total liabilities	1,130,929	1,026,044	32,688	(872,887)	1,316,774
Stockholders equity	528,884	398,441	11,303	(409,744)	528,884
Total liabilities and stockholders equity	$ 1,659,813	$ 1,424,485	$ 43,991	$ (1,282,631)	$ 1,845,658

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VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

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Condensed Consolidating Statement of Income

Three Months Ended September 30, 2011

(in thousands of U.S. dollars)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
Revenues	**$ 173,543**	**$ 443,671**	**$ 17,008**	**$ (105,831)**	**$ 528,391**
Cost and expenses:					
Cost of sales	148,817	287,173	12,368	(52,630)	395,728
Selling, general and administrative	30,065	100,223	3,433	(53,201)	80,520
Amortization expense	5	3,151			3,156
Total costs and expenses	178,887	390,547	15,801	(105,831)	479,404
Earnings (loss) from operations	**(5,344)**	**53,124**	**1,207**		**48,987**
Other expenses and income:					
Interest expense	8,148				8,148
Interest income	(28)		(26)		(54)
Intercompany interest	(1,179)	1,179			
Other income, net	(2,877)	(972)	(7)		(3,856)
Total other expenses (income), net	4,064	207	(33)		4,238
Earnings (loss) before income taxes	**(9,408)**	**52,917**	**1,240**		**44,749**
Income tax (benefit) expense	(10)	16,891	374		17,255
Equity in net earnings of subsidiaries	36,892	866		(37,758)	
Net earnings	**$ 27,494**	**$ 36,892**	**$ 866**	**$ (37,758)**	**$ 27,494**

Condensed Consolidating Statement of Income

Three Months Ended September 30, 2010

(in thousands of U.S. dollars)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
Revenues	**$ 273,629**	**$ 421,906**	**$ 15,003**	**$ (138,132)**	**$ 572,406**

Cost and expenses:					
Cost of sales	225,822	275,137	11,231	(90,680)	421,510
Selling, general and administrative	38,596	96,825	3,830	(47,451)	91,800
Amortization expense	6	3,151		(1)	3,156
Total costs and expenses	264,424	375,113	15,061	(138,132)	516,466
Earnings (loss) from operations	**9,205**	**46,793**	**(58)**		**55,940**
Other expenses and income:					
Interest expense	14,091				14,091
Interest income	(98)		(18)		(116)
Intercompany interest	(16,355)	16,356	(1)		
Other income, net	(1,240)	(799)	(81)		(2,120)
Total other expenses (income), net	(3,602)	15,557	(100)		11,855
Earnings before income taxes	**12,807**	**31,236**	**42**		**44,085**
Income tax expense	6,133	10,788	185		17,106
Equity in net earnings (loss) of subsidiaries	20,305	(143)		(20,162)	
Net earnings (loss)	**$ 26,979**	**$ 20,305**	**$ (143)**	**$ (20,162)**	**$ 26,979**

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VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

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Condensed Consolidating Statement of Income

Nine Months Ended September 30, 2011

(in thousands of U.S. dollars)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
Revenues	**$ 572,298**	**$ 1,317,568**	**$ 54,658**	**$ (303,902)**	**$ 1,640,622**
Cost and expenses:					
Cost of sales	483,751	851,885	38,660	(151,951)	1,222,345
Selling, general and administrative	76,040	305,162	10,527	(151,951)	239,778
Amortization expense	16	9,451			9,467
Total costs and expenses	559,807	1,166,498	49,187	(303,902)	1,471,590
Earnings from operations	**12,491**	**151,070**	**5,471**		**169,032**
Other expenses and income:					
Interest expense	29,649				29,649
Interest income	(242)		(73)		(315)
Intercompany interest	(15,533)	15,371	162		
Loss on extinguishment of debt	16,318				16,318
Other income, net	(3,095)	(3,242)	169		(6,168)
Total other expenses, net	27,097	12,129	258		39,484
Earnings (loss) before income taxes	**(14,606)**	**138,941**	**5,213**		**129,548**
Income tax expense	556	48,199	1,636		50,391
Equity in net earnings of subsidiaries	94,319	3,577		(97,896)	
Net earnings	**$ 79,157**	**$ 94,319**	**$ 3,577**	**$ (97,896)**	**$ 79,157**

Condensed Consolidating Statement of Income

Nine Months Ended September 30, 2010

(in thousands of U.S. dollars)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
Revenues	**$ 678,002**	**$ 1,158,915**	**$ 51,959**	**$ (186,518)**	**$ 1,702,358**

Cost and expenses:					
Cost of sales	538,485	813,050	36,195	(139,066)	1,248,664
Selling, general and administrative	110,790	201,115	10,967	(47,451)	275,421
Amortization expense	17	9,451		(1)	9,467
Total costs and expenses	649,292	1,023,616	47,162	(186,518)	1,533,552
Gain from litigation settlement, net	490,085				490,085
Earnings from operations	**518,795**	**135,299**	**4,797**		**658,891**
Other expenses and income:					
Interest expense	52,084				52,084
Interest income	(471)	3	(42)		(510)
Intercompany interest	(49,899)	49,788	111		
Loss on extinguishment of debt	23,873				23,873
Other income, net	(2,053)	(2,215)	(203)		(4,471)
Total other expenses (income), net	23,534	47,576	(134)		70,976
Earnings before income taxes	**495,261**	**87,723**	**4,931**		**587,915**
Income tax expense	194,876	30,966	1,461		227,303
Equity in net earnings of subsidiaries	60,227	3,470		(63,697)	
Net earnings	**$ 360,612**	**$ 60,227**	**$ 3,470**	**$ (63,697)**	**$ 360,612**

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VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

(unaudited)

Condensed Consolidating Statement of Cash Flows

Nine Months Ended September 30, 2011

(in thousands of U.S. dollars)

	000000 Parent Company	000000 Guarantor Subsidiaries	000000 Non-Guarantor Subsidiaries	000000 Consolidating Adjustments	000000 Consolidated Total
Net cash provided by (used in) operating activities	**$ 246,069**	**$ (120,960)**	**$ (1,911)**	**$**	**$ 123,198**
Cash flows from investing activities:					
Additions to property, plant and equipment	(11,101)	(6,829)	(197)		(18,127)
Proceeds from sale of property, plant and equipment	46				46
Proceeds from sale of available-for-sale securities	1,494				1,494
Net cash used in investing activities	**(9,561)**	**(6,829)**	**(197)**		**(16,587)**
Cash flows from financing activities:					
Cash provided by (used in) intercompany activity	(121,522)	121,522			
Borrowings of long-term debt	610,000				610,000
Repayments of long-term debt	(709,919)				(709,919)
Debt issuance costs	(11,580)				(11,580)
Repurchases of common stock	(155,817)				(155,817)
Proceeds from issuance of common stock	5,646				5,646
Net cash provided (used in) by financing activities	**(383,192)**	**121,522**			**(261,670)**
Effect of exchange rate changes on cash and cash equivalents			158		158
Net decrease in cash and cash equivalents	(146,684)	(6,267)	(1,950)		(154,901)
Cash and cash equivalents at beginning of period	211,933	8,026	25,976		245,935
Cash and cash equivalents at end of period	**$ 65,249**	**$ 1,759**	**$ 24,026**	**$**	**$ 91,034**

Condensed Consolidating Statement of Cash Flows

Nine Months Ended September 30, 2010

(in thousands of U.S. dollars)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total

Net cash provided by operating activities	**$ 317,477**	**$ 100,198**	**$ 4,532**	**$**	**$ 422,207**
Cash flows from investing activities:					
Additions to property, plant and equipment	(9,352)	(6,800)	(295)		(16,447)
Additions to intangible assets	(7,581)				(7,581)
Proceeds from sale of property, plant and equipment	59				59
Net cash used in investing activities	**(16,874)**	**(6,800)**	**(295)**		**(23,969)**
Cash flows from financing activities:					
Cash provided by (used in) intercompany activity	99,091	(99,091)			
Repayments of long-term debt	(303,079)				(303,079)
Repurchase of common stock	(58,225)				(58,225)
Proceeds from issuance of common stock	41,603				41,603
Net cash used in financing activities	**(220,610)**	**(99,091)**			**(319,701)**
Effect of exchange rate changes on cash and cash equivalents			137		137
Net increase (decrease) in cash and cash equivalents	79,993	(5,693)	4,374		78,674
Cash and cash equivalents at beginning of period	104,477	7,614	17,755		129,846
Cash and cash equivalents at end of period	**$ 184,470**	**$ 1,921**	**$ 22,129**	**$**	**$ 208,520**

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

Forward-Looking Statements

This document contains 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 our actual results, performance or achievements 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: price competition from our existing competitors; new competitors in any of our businesses; a shift in client preference for different promotional materials, strategies or coupon delivery methods, including, without limitation, as a result of declines in newspaper circulation; an unforeseen increase in paper or postal costs; changes which affect the businesses of our clients and lead to reduced sales promotion spending, including, without limitation, a decrease of marketing budgets which are generally discretionary in nature and easier to reduce in the short-term than other expenses; our substantial indebtedness, and ability to refinance such indebtedness, if necessary, and our ability to incur additional indebtedness, may affect our financial health; the financial condition, including bankruptcies, of our clients, suppliers, senior secured credit facility lenders or other counterparties; certain covenants in our debt documents could adversely restrict our financial and operating flexibility; fluctuations in the amount, timing, pages, weight and kinds of advertising pieces from period to period, due to a change in our clients promotional needs, inventories and other factors; our failure to attract and retain qualified personnel may affect our business and results of operations; a rise in interest rates could increase our borrowing costs; possible governmental regulation or litigation affecting aspects of our business; clients experiencing financial difficulties, or otherwise being unable to meet their obligations as they become due, could affect our results of operations and financial condition; uncertainty in the application and interpretation of applicable state sales tax laws may expose us to additional sales tax liability; and general economic conditions, whether nationally, internationally, or in the market areas in which we conduct our business, including the adverse impact of the ongoing economic downturn on the marketing expenditures and activities of our clients and prospective clients as well as our vendors, with whom we rely on to provide us with quality materials at the right prices and in a timely manner. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. Additional risks include, but are not limited to, those risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2010, or the 2010 Form 10-K, and other filings by us with the United States Securities and Exchange Commission, or the SEC.

Overview

Valassis is one of the nation s leading media and marketing services companies, offering unparalleled reach and scale to more than 15,000 advertisers. Our RedPlum media portfolio delivers value on a weekly basis to over 100 million shoppers across a multi-media platform in-home, in-store and in-motion. Through our digital offering, including redplum.com and save.com, consumers can find compelling national and local deals online.

Our products and services are positioned to help our clients reach their customers through mass-delivered or targeted programs. We provide our clients with blended media solutions, including shared mail, newspaper, in-store and digital delivery. We offer the only national shared mail distribution network in the industry. We utilize a proprietary patent pending targeting tool that provides our clients with multi-media recommendations and optimization. We are committed to providing innovative marketing solutions to maximize the efficiency and effectiveness of promotions for our clients and to deliver value to consumers how, when and where they want.

Global economic uncertainty has negatively affected our business as our clients have reduced their advertising budgets. In addition, the annual consumer promotion budgets of our clients in the consumer packaged goods (CPG) vertical have been prematurely exhausted due to the increased costs of the unexpectedly high rate of coupon redemptions, which has resulted in reduced programs across many of our products (the reduction in CPG programs).

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Consolidated Results of Operations

The following table sets forth our consolidated results of operations for the periods indicated:

(in millions of U.S. dollars, except per share data)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues:				
Shared Mail	$ 330.5	$ 326.1	$ 990.3	$ 965.3
Neighborhood Targeted	76.9	114.0	255.8	330.1
Free-standing Inserts (FSI)	73.5	89.2	251.9	281.3
International, Digital Media & Services	47.5	43.1	142.6	125.7
Total revenues	**528.4**	**572.4**	**1,640.6**	**1,702.4**
Cost of sales	395.7	421.5	1,222.3	1,248.7
Gross profit	**132.7**	**150.9**	**418.3**	**453.7**
Selling, general and administrative	80.5	91.8	239.8	275.4
Amortization expense	3.2	3.2	9.5	9.5
Gain from litigation settlement, net				490.1
Earnings from operations	**49.0**	**55.9**	**169.0**	**658.9**
Other expenses and income:				
Interest expense, net	8.1	14.0	29.3	51.6
Loss on extinguishment of debt			16.3	23.9
Other income, net	(3.9)	(2.2)	(6.2)	(4.5)
Total other expenses, net	4.2	11.8	39.4	71.0
Earnings before income taxes	**44.8**	**44.1**	**129.6**	**587.9**
Income tax expense	17.3	17.1	50.4	227.3
Net earnings	**$ 27.5**	**$ 27.0**	**$ 79.2**	**$ 360.6**
Net earnings per common share, diluted	**$ 0.58**	**$ 0.52**	**$ 1.58**	**$ 6.93**

Revenues

We reported revenues of $528.4 million and $572.4 million for the three months ended September 30, 2011 and 2010, respectively, and $1,640.6 million and $1,702.4 million for the nine months ended September 30, 2011 and 2010, respectively. These declines in revenues resulted from the negative impact of the macroeconomic climate on client advertising budgets, decreased Run-of-Press (ROP) revenues within the Neighborhood Targeted segment and the reduction in CPG programs.

Cost of Sales

Cost of sales was $395.7 million and $421.5 million for the three months ended September 30, 2011 and 2010, respectively. Gross profit as a percentage of revenues for the three months ended September 30, 2011 was 25.1%, compared to 26.4% for the three months ended September 30, 2010. Cost of sales was $1,222.3 million and $1,248.7 million for the nine months ended September 30, 2011 and 2010, respectively. Gross profit as a percentage of revenues for the nine months ended September 30, 2011 was 25.5%, compared to 26.7% for the nine months ended September 30, 2010. These decreases in gross profit as a percentage of revenues resulted primarily from the declines in revenues discussed above and cost increases in paper and energy.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses were $80.5 million and $91.8 million for the three months ended September 30, 2011 and 2010, respectively, and $239.8 million and $275.4 million for the nine months ended September 30, 2011 and 2010, respectively. SG&A expenses for the nine months ended September 30, 2010 included $2.1 million in legal costs associated with our lawsuits against News (as defined and further described in ***Gain from Litigation Settlement*** below). In addition, stock-based compensation expense for the three and nine months ended September 30, 2011 decreased $6.4 million and $15.8 million, respectively, as compared to the three and nine months ended September 30, 2010. The remaining decreases in SG&A expenses primarily reflect reduced incentive compensation expense and our cost containment efforts.

Gain from Litigation Settlement

On February 4, 2010, we executed a settlement agreement and release (the Settlement Agreement) settling our outstanding lawsuits against News America Incorporated, a/k/a News America Marketing Group, News America Marketing, FSI, Inc. a/k/a News America Marketing FSI, LLC and News America Marketing In-Store Services, Inc. a/k/a News America Marketing In-Store Services, LLC (collectively, News). The operative complaint alleged violations of the Sherman Act and various state competitive statutes and the commission of torts by News in connection with the marketing and sale of FSI space and in-store promotion and advertising services. Pursuant to the terms of the Settlement Agreement, News paid us $500.0 million and entered into a 10-year shared mail distribution agreement with our subsidiary, Valassis Direct Mail, Inc., which provides for our sale of certain shared mail services to News on specified terms.

During the nine months ended September 30, 2010, in connection with the successful settlement of these lawsuits, we made $9.9 million in related payments, including special bonuses to certain of our employees (including our named executive officers in our proxy statement) in an aggregate amount of $8.1 million. These expenses were netted against the $500.0 million of proceeds received, and the net proceeds of $490.1 million have been recorded as a separate line item Gain from litigation settlement, net in our condensed consolidated statement of income for the nine months ended September 30, 2010.

Loss on Extinguishment of Debt

On June 27, 2011, we entered into a new senior secured credit facility, which replaced and terminated our prior senior secured credit facility (both of which as described below). We used the proceeds of the new senior secured credit facility along with existing cash to repay all outstanding borrowings under our prior senior secured credit facility, to pay accrued interest with respect to such loans and to pay the fees and expenses related to the new senior secured credit facility. We recognized a pre-tax loss on extinguishment of debt of $3.0 million during the nine months ended September 30, 2011, which represents the write-off of related capitalized debt issuance costs.

On January 13, 2011, we commenced a cash tender offer and consent solicitation to purchase any and all of our outstanding 8 $^{1}/4$% Senior Notes due 2015 (the 2015 Notes) and to amend the indenture governing the 2015 Notes, which we refer to as the 2015 Indenture, to eliminate substantially all of the restrictive covenants and certain events of default. We used the net proceeds from the 2021 Notes (described below) to fund the purchase of the 2015 Notes, the related consent payments pursuant to the tender offer and consent solicitation, and the subsequent redemption of the 2015 Notes that were not tendered and remained outstanding after the expiration of the tender offer and consent solicitation. We recognized a pre-tax loss on extinguishment of debt of $13.3 million during the nine months ended September 30, 2011, which represents the difference between the aggregate purchase price and the aggregate principal amount of the 2015 Notes purchased and the write-off of related capitalized debt issuance costs.

During the nine months ended September 30, 2010, we purchased $297.8 million aggregate principal amount of the 2015 Notes pursuant to a cash tender offer and open market repurchases. We recognized a pre-tax loss on extinguishment of debt of $23.9 million during the nine months ended September 30, 2010, which represents the difference between the aggregate purchase price and the aggregate principal amount of the 2015 Notes purchased and the proportionate write-off of related capitalized debt issuance costs.

Interest Expense, Net

Interest expense, net was $8.1 million and $14.0 million for the three months ended September 30, 2011 and 2010, respectively, and $29.3 million and $51.6 million for the nine months ended September 30, 2011 and 2010, respectively. The decreases in interest expense, net were due to the following:

- A decrease in outstanding indebtedness resulting from our repurchase of $297.8 million aggregate principal amount of the 2015 Notes during the second quarter of 2010;

- The $112.2 million reduction in outstanding indebtedness that resulted from the replacement and termination of our prior senior secured credit facility with the new senior secured credit facility on June 27, 2011; and

The reduced interest rate associated with the 2021 Notes as compared to the 2015 Notes and the reduced margins associated with the new senior secured credit facility as compared to the prior senior secured credit facility.

On December 17, 2009, we entered into an interest rate swap agreement with an initial notional amount of $300.0 million to fix three-month LIBOR at 2.005%, plus the applicable margin, for $300.0 million of our variable rate debt under our prior senior secured credit facility. The swap was designated as and qualified as a cash flow hedge through the termination of the prior senior secured credit facility on June 27, 2011. During the nine months ended September 30, 2011, as a result of the termination of the prior senior secured credit facility, pre-tax losses of $2.6 million were reclassified from accumulated other comprehensive income to earnings as a component of interest expense, which partially offset the decreases in interest expense, net for the nine months ended September 30, 2011 described above.

Income Tax Expense

Income tax expense represented 38.6% and 38.8% of earnings before income taxes for the three months ended September 30, 2011 and 2010, respectively, and 38.9% and 38.7% of earnings before income taxes for the nine months ended September 30, 2011 and 2010, respectively. We are required to adjust our effective tax rate each quarter to be consistent with our estimated annual effective tax rate. We are also required to record the tax impact of certain unusual or infrequently occurring items, including the effects of changes in tax laws or rates, in the interim period in which they occur. The effective tax rate during a particular quarter may be higher or lower as a result of the timing of actual earnings versus annual projections.

Net Earnings and Net Earnings per Common Share, Diluted

Net earnings were $27.5 million and $27.0 million for the three months ended September 30, 2011 and 2010, respectively, or $0.58 and $0.52, respectively, per common share, diluted. As further discussed above, the reduction in gross profit associated with the decline in revenues was neutralized by decreased selling, general and administrative and interest expense. The increase in net earnings per common share, diluted is primarily attributable to repurchases of our common stock during the three months ended September 30, 2011.

Net earnings were $79.2 million and $360.6 million for the nine months ended September 30, 2011 and 2010, respectively, or $1.58 and $6.93, respectively, per common share, diluted. Net earnings and net earnings per common share, diluted for the nine months ended September 30, 2011 and 2010 included certain items affecting the comparability of such periods; specifically, losses on extinguishment of debt and related charges in the nine months ended September 30, 2011 and 2010 and a gain from litigation settlement in the nine months ended September 30, 2010. In ***Non-GAAP Financial Measures*** below, we compare net earnings and net earnings per common share, diluted for the nine months ended September 30, 2011 and 2010 excluding these items. In addition, net earnings per common share, diluted was favorably impacted by repurchases of our common stock during the nine months ended September 30, 2011.

Non-GAAP Financial Measures

We define adjusted net earnings and adjusted net earnings per common share, diluted, as net earnings excluding losses on extinguishment of debt, including the related reclassification of previously unrealized losses on interest rate swaps from accumulated other comprehensive income to earnings, net of tax, and the gain from litigation settlement, net of tax. We present adjusted net earnings and adjusted net earnings per common share, diluted, because we believe these measures are useful to investors as they provide measures of our profitability on a more comparable basis to historical periods because they exclude items we do not believe are indicative of our core operating performance. In addition, we exclude these items when we internally evaluate our company s performance.

Adjusted net earnings and adjusted net earnings per common share, diluted, are not calculated or presented in accordance with U.S. GAAP and have limitations as analytical tools and should not be considered in isolation from, or as alternatives to, operating income, net income, cash flow, EPS or other income or cash flow data prepared in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using these non-GAAP financial measures only supplementally. Further, other companies, including companies in our industry, may calculate adjusted net earnings and adjusted net earnings per common share, diluted, differently and as the differences in the way two different companies calculate these measures increase, the degree of their usefulness as comparative measures correspondingly decreases.

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The following table reconciles net earnings and net earnings per common share, diluted, for the nine months ended September 30, 2011 and 2010 to adjusted net earnings and adjusted net earnings per common share, diluted:

	Nine Months Ended September 30,			
	2011		2010	
	U.S. Dollars in Millions	Per Common Share, Diluted	U.S. Dollars in Millions	Per Common Share, Diluted
Net earnings	**$ 79.2**	**$ 1.58**	**$ 360.6**	**$ 6.93**
Excluding:				
Loss on extinguishment of debt and related charges, net of tax	11.6	0.23	14.7	0.30
Gain from litigation settlement, net of tax			(301.4)	(5.79)
Adjusted net earnings	**$ 90.8**	**$ 1.81**	**$ 73.9**	**$ 1.44**

The increases in adjusted net earnings and adjusted net earnings per common share, diluted, for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 reflect, as further discussed above, decreased selling, general and administrative and interest expense, which were offset, in part, by reduced gross profit associated with the decline in revenues. In addition, adjusted net earnings per common share, diluted was favorably impacted by repurchases of our common stock during the nine months ended September 30, 2011.

Segment Results

We currently operate our business in the following reportable segments:

Shared Mail Products that have the ability to reach 9 out of 10 U.S. households through shared mail distribution. Our Shared Mail programs combine the individual print advertisements of various clients into a single shared mail package delivered primarily through the United States Postal Service (USPS).

Neighborhood Targeted Products that are targeted to specific newspaper zones or neighborhoods based on geographic and demographic characteristics.

Free-standing Inserts Four-color booklets that contain promotions, primarily coupons, from multiple advertisers (cooperative), which we publish and distribute to approximately 60 million households through newspapers and shared mail, as well as customized FSIs (custom co-ops) featuring multiple brands of a single client.

In addition, all other lines of business that are not separately reported are captioned as International, Digital Media & Services, which includes our coupon clearing and analytics business, NCH Marketing Services, Inc. (NCH), Valassis Canada, Inc., Promotion Watch, direct mail, analytics, digital and in-store.

We evaluate reportable segment performance based on segment profit, which we define as earnings from operations excluding unusual or non-recurring items. For additional information, including a reconciliation of total segment profit to earnings from operations, see Note 10 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Shared Mail

Shared Mail revenues were $330.5 million and $326.1 million for the three months ended September 30, 2011 and 2010, respectively, an increase of 1.3%, and $990.3 million and $965.3 million for the nine months ended September 30, 2011 and 2010, respectively, an increase of

2.6%. For the three months ended September 30, 2011, the growth in revenues was due to price increases offset by lighter weight inserts and volume declines. Shared Mail pieces decreased 1.1% to 9.0 billion pieces for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. For the nine months ended September 30, 2011, the growth in revenues was attributable to volume gains in inserts and price increases. Shared Mail pieces increased 1.9 % to 27.3 billion pieces for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010.

Shared Mail packages delivered were 0.9 billion and 2.7 billion, respectively, for the three and nine months ended September 30, 2011, increasing 0.7% and 0.3%, respectively, from the three and nine months ended September 30, 2010. Shared Mail average pieces per package were 9.6 pieces for the three months ended September 30, 2011 decreasing 2.0% from the three months ended September 30, 2010. For the nine months ended September 30, 2011, Shared Mail average pieces per package were 9.8 pieces, increasing 1.6% from the nine months ended September 30, 2010.

Gross margin as a percentage of revenues was 28.6% and 28.2% for the three months ended September 30, 2011 and 2010, respectively, and 28.5% and 28.4% for the nine months ended September 30, 2011 and 2010, respectively. For the three months ended September 30, 2011, gross margin as a percentage of revenues was favorably impacted by lower distribution and operational costs. For the nine months ended September 30, 2011, gross margin as a percentage of revenues was favorably impacted by the flow-through of increased insert volume and related efficiencies in unused postage, which were partially offset by product mix shift toward printed products resulting in an increase in print costs.

Segment profit was $46.2 million and $39.3 million for the three months ended September 30, 2011 and 2010, respectively, an increase of 17.6%, and $136.0 million and $111.5 million for the nine months ended September 30, 2011 and 2010, respectively, an increase of 22.0%. Segment profit as a percentage of revenues was 14.0% and 12.1% for the three months ended September 30, 2011 and 2010, respectively, and 13.7% and 11.6% for the nine months ended September 30, 2011 and 2010, respectively. The increases in segment profit and segment profit as a percentage of revenues were the result of the growth in revenues, gross margin improvement and decreased SG&A costs.

Neighborhood Targeted

Neighborhood Targeted revenues were $76.9 million and $114.0 million for the three months ended September 30, 2011 and 2010, respectively, a decrease of 32.5%, and $255.8 million and $330.1 million for the nine months ended September 30, 2011 and 2010, respectively, a decrease of 22.5%. These decreases resulted from a significant decline in ROP revenues associated with reduced advertising spending by one client in each of the telecommunications and energy verticals and the reduction in CPG programs.

Segment profit was $0.4 million and $7.2 million for the three months ended September 30, 2011 and 2010, respectively, a decrease of 94.4%, and $3.1 million and $19.6 million for the nine months ended September 30, 2011 and 2010, respectively, a decrease of 84.2%. Segment profit was negatively impacted by the reduction in CPG programs and margin pressure associated with a changing client base as we have been strategically targeting larger, higher frequency newspaper insert clients who typically need optimized media solutions that blend newspaper inserts with higher margin shared mail products.

Free-standing Inserts

FSI revenues were $73.5 million and $89.2 million for the three months ended September 30, 2011 and 2010, respectively, a decrease of 17.6%, and $251.9 million and $281.3 million for the nine months ended September 30, 2011 and 2010, respectively, a decrease of 10.5%. The FSI segment experienced a loss of $0.8 million for the three months ended September 30, 2011 and profit of $4.9 million for the three months ended September 30, 2010, and profit of $14.9 million and $24.6 million for the nine months ended September 30, 2011 and 2010, respectively, a decrease of 39.4%. These declines in revenues and segment profit reflect reduced industry volumes resulting from the reduction in CPG programs, particularly during the three months ended September 30, 2011, and decreased market share for the nine months ended September 30, 2011.

International, Digital Media & Services

International, Digital Media & Services revenues were $47.5 million and $43.1 million for the three months ended September 30, 2011 and 2010, respectively, an increase of 10.2%, and $142.6 million and $125.7 million for the nine months ended September 30, 2011 and 2010, respectively, an increase of 13.4%. International, Digital Media & Services segment profit was $3.2 million and $4.5 million for the three months ended September 30, 2011 and 2010, respectively, a decrease of 28.9%, and $15.0 million and $13.1 million for the nine months ended September 30, 2011 and 2010, respectively, an increase of 14.5%. Revenues for the three and nine months ended September 30, 2011 benefitted from strong performance by NCH, which was driven by increased coupon redemptions, and continued growth in our digital business, which were offset, in part, by the reduction in CPG programs. In addition, our in-store business contributed to increased revenues for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. Although revenues related to our new digital and in-store initiatives have increased, the growth has been slower than previously anticipated. Segment profit for the three and nine months ended September 30, 2011 was negatively impacted by the reduction in CPG programs and continued investments in our digital business and the expansion of our in-store network.

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Financial Condition, Liquidity and Sources of Capital

Our operating cash flows are our primary source of liquidity. We believe we will generate sufficient cash flows from operating activities and will have sufficient existing cash balances and lines of credit available to meet currently anticipated liquidity needs, including the working capital requirements of our operations, interest and required repayments of indebtedness and capital expenditures necessary to support growth and productivity improvement. We may consider other uses for our cash flows from operating activities and other sources of cash (such as additional borrowings under our new senior secured credit facility), including, without limitation, future acquisitions and repurchases of our common stock.

The following table presents our available sources of liquidity as of September 30, 2011:

(in millions of U.S. dollars)	Facility Amount	Amount Outstanding	Available
Cash and cash equivalents			$ 91.0
Debt facilities:			
New Senior Secured Revolving Credit Facility	$ 100.0	58.9(a)	41.1
Total Available			$ 132.1

(a) Represents $50.0 million outstanding under the new senior secured revolving line of credit and $8.9 million in outstanding letters of credit.

Sources and Uses of Cash and Cash Equivalents

The following table summarizes the decrease in cash and cash equivalents for the indicated period:

(in millions of U.S. dollars)	Nine Months Ended September 30, 2011
Net cash provided by operating activities	**$ 123.2**
Net cash used in investing activities	**(16.6)**
Net cash used in financing activities	**(261.7)**
Effect of exchange rate changes on cash and cash equivalents	0.2
Net decrease in cash and cash equivalents	(154.9)
Cash and cash equivalents at beginning of period	245.9
Cash and cash equivalents at end of period	**$ 91.0**

Operating Activities Net cash provided by operating activities was $123.2 million for the nine months ended September 30, 2011. In addition to cash received related to our net earnings, the following changes in assets and liabilities affected cash from operating activities for the nine months ended September 30, 2011:

a net cash inflow of $50.2 million associated with the decrease in accounts receivable, net, which was offset, in part, by net cash outflows of $34.5 million related to the decrease in accounts payable;

an increase of $24.3 million in prepaid expenses and other due primarily to an increase in income taxes receivable during the nine months ended September 30, 2011; and

decreases of $10.3 million and $13.5 million in accrued expenses and other non-current liabilities, respectively.

Investing Activities Net cash used in investing activities was $16.6 million for the nine months ended September 30, 2011, which reflects capital acquisitions of property, plant and equipment of $18.1 million, offset by proceeds of $1.5 million related to the sales of property, plant and equipment and available-for-sale securities.

Financing Activities Net cash used in financing activities was $261.7 million for the nine months ended September 30, 2011, which resulted from $350.0 million in proceeds from the new senior secured credit facility (described below), $260.0 million in proceeds related to the issuance of the 2021 Notes (described below) and $5.6 million of proceeds from stock

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option exercises, offset by $709.9 million of principal payments of long-term debt, primarily related to the repayment and termination of the prior senior secured credit facility (described below) and the cash tender offer, consent solicitation and redemption of the 2015 Notes (described in ***Loss on Extinguishment of Debt*** above) and $11.6 million of costs associated with the new senior secured credit facility and issuance of the 2021 Notes. In addition, during the nine months ended September 30, 2011, we repurchased $155.8 million, or 5,860,880 shares, of our common stock at an average price of $26.59 per share.

Current and Long-term Debt

As of September 30, 2011, we had outstanding $606.3 million in aggregate indebtedness, which consisted of $260.0 million of our unsecured $6\,^5/8\%$ Senior Notes due 2021, or the 2021 Notes, $296.2 million and $50.0 million under the term loan A and revolving line of credit portions of our senior secured credit facility, respectively, and $0.1 million of our Senior Secured Convertible Notes due 2033, or the 2033 Secured Notes. As of September 30, 2011, we had total outstanding letters of credit of approximately $8.9 million.

Senior Secured Credit Facility

General On June 27, 2011, we entered into a new senior secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a syndicate of lenders jointly arranged by J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBS Securities Inc. (the new senior secured credit facility). The new senior secured credit facility and related loan documents replaced and terminated our prior credit agreement, dated as of March 2, 2007, as amended (the prior senior secured credit facility), by and among Valassis, Bear Stearns Corporate Lending Inc., as Administrative Agent, and a syndicate of lenders jointly arranged by Bear, Stearns & Co. Inc. and Banc of America Securities LLC. In connection with the termination of the prior senior secured credit facility, all obligations and rights under the related guarantee, security and collateral agency agreement, dated as of March 2, 2007, as amended (the Prior Security Agreement), by Valassis and certain of its domestic subsidiaries signatory thereto, as grantors, in favor of Bear Stearns Corporate Lending Inc., in its capacity as collateral agent for the benefit of the Secured Parties (as defined in the Prior Security Agreement), were also simultaneously terminated.

The new senior secured credit facility consists of:

- a five-year term loan A in an aggregate principal amount equal to $300.0 million, with principal repayable in quarterly installments at a rate of 5.0% during each of the first two years, 10% during the third year, 15% during the fourth year and 11.25% during the fifth year, with the remaining 53.75% due at maturity (the Term Loan A);

- a five-year revolving credit facility in an aggregate principal amount of $100 million (the revolving line of credit), including $15.0 million available in Euros, Pounds Sterling or Canadian Dollars, $50.0 million available for letters of credit and a $20.0 million swingline loan subfacility, of which $50.0 million was drawn at closing and remains outstanding as of September 30, 2011 (exclusive of outstanding letters of credit described below); and

- an incremental facility pursuant to which, prior to the maturity of the new senior secured credit facility, we may incur additional indebtedness in an amount up to $150.0 million under the revolving line of credit or the term loan A or a combination thereof, subject to certain conditions, including receipt of additional lending commitments for such additional indebtedness. The terms of the incremental facility will be substantially similar to the terms of the new senior secured credit facility, except with respect to the pricing of the incremental facility, the interest rate for which could be higher than that for the revolving line of credit and the Term Loan A.

We used the initial borrowing under the revolving line of credit, the proceeds from the Term Loan A and existing cash of $120.0 million to repay the $462.2 million outstanding under the Term Loan B and Delayed Draw Term Loan portions of our prior senior secured credit facility (reflecting all outstanding borrowings thereunder), to pay accrued interest with respect to such loans and to pay the fees and expenses related to the new senior secured credit facility.

All borrowings under our new senior secured credit facility, including, without limitation, amounts drawn under the revolving line of credit, are subject to the satisfaction of customary conditions, including absence of a default and accuracy of representations and warranties. As of September 30, 2011, we had approximately $41.1 million available under the revolving line of credit portion of our senior secured credit facility (after giving effect to the reductions in availability pursuant to $8.9 million in standby letters of credit outstanding as of September 30, 2011).

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Interest and Fees Borrowings under our new senior secured credit facility bear interest, at our option, at either the alternate base rate (defined as the higher of the prime rate announced by the Administrative Agent, the federal funds effective rate plus 0.5% or one-month LIBOR plus 1%) (the Base Rate) or at an Adjusted LIBO Rate (as defined in the credit agreement governing the new senior secured credit facility) (the Eurodollar Rate), except for borrowings made in alternate currencies which may not accrue interest based upon the alternate base rate, in each case, plus an applicable interest rate margin. The applicable margins are initially 0.75% per annum for Base Rate loans and 1.75% per annum for Eurodollar Rate loans. The margins applicable to the borrowings under our new senior secured credit facility may be adjusted based on our consolidated leverage ratio, with 1.00% being the maximum Base Rate margin and 2.00% being the maximum Eurodollar Rate. See Note 8 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for discussion regarding our various interest rate swap agreements.

Guarantees and Security Our new senior secured credit facility is guaranteed by certain of our existing and future domestic restricted subsidiaries pursuant to a Guarantee and Collateral Agreement. In addition, our obligations under our senior secured credit facility and the guarantee obligations of the subsidiary guarantors are secured by first priority liens on substantially all of our and our subsidiary guarantors present and future assets and by a pledge of all of the equity interests in our domestic subsidiary guarantors and 65% of the capital stock of certain of our existing and future foreign subsidiaries.

The Guarantee and Collateral Agreement also secures our 2033 Secured Notes on an equal and ratable basis with the indebtedness under our new senior secured credit facility to the extent required by the indenture governing such notes.

Prepayments The new senior secured credit facility also contains a requirement that we make mandatory principal prepayments on the Term Loan A and revolving line of credit in certain circumstances, including, without limitation, with 100% of the aggregate net cash proceeds from certain asset sales, casualty events or condemnation recoveries (in each case, to the extent not otherwise used for reinvestment in our business or related business and subject to certain other exceptions). The new senior secured credit facility further provides that, subject to customary notice and minimum amount conditions, we may make voluntary prepayments without payment of premium or penalty.

Covenants Subject to customary and otherwise agreed upon exceptions, our new senior secured credit facility contains affirmative and negative covenants, including, but not limited to:

- the payment of other obligations;
- the maintenance of organizational existences, including, but not limited to, maintaining our property and insurance;
- compliance with all material contractual obligations and requirements of law;
- limitations on the incurrence of indebtedness;
- limitations on creation and existence of liens;
- limitations on certain fundamental changes to our corporate structure and nature of our business, including mergers;
- limitations on asset sales;
- limitations on restricted payments, including certain dividends and stock repurchases and redemptions;

- limitations on capital expenditures;
- limitations on any investments, provided that certain permitted acquisitions and strategic investments are allowed;
- limitations on optional prepayments and modifications of certain debt instruments;
- limitations on modifications to organizational documents;
- limitations on transactions with affiliates;
- limitations on entering into certain swap agreements;
- limitations on negative pledge clauses or clauses restricting subsidiary distributions;
- limitations on sale-leaseback and other lease transactions; and
- limitations on changes to our fiscal year.

Our new senior secured credit facility also requires us to comply with:

- a maximum consolidated leverage ratio, as defined in our senior secured credit facility (generally, the ratio of our consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization, or EBITDA, for the most recent four quarters), of 3.50:1.00; and
- a minimum consolidated interest coverage ratio, as defined in our new senior secured credit facility (generally, the ratio of our consolidated EBITDA to consolidated interest expense for the most recent four quarters), of 3.00:1.00.

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The following table shows the required and actual financial ratios under our new senior secured credit facility as of September 30, 2011:

	Required Ratio	Actual Ratio
Maximum consolidated leverage ratio	No greater than 3.50:1.00	1.95:1.00
Minimum consolidated interest coverage ratio	No less than 3.00:1.00	7.94:1.00

In addition, we are required to give notice to the administrative agent and the lenders under our new senior secured credit facility of defaults under the facility documentation and other material events, make any new wholly-owned domestic subsidiary (other than an immaterial subsidiary) a subsidiary guarantor and pledge substantially all after-acquired property as collateral to secure our and our subsidiary guarantors obligations in respect of the facility.

Events of Default Our new senior secured credit facility contains customary events of default, including upon a change in control. If such an event of default occurs, the lenders under our new senior secured credit facility would be entitled to take various actions, including in certain circumstances increasing the effective interest rate and accelerating the amounts due under our new senior secured credit facility.

8 $^{1}/4$% Senior Notes due 2015

On January 13, 2011, we commenced a cash tender offer and consent solicitation to purchase any and all of our outstanding 8 $^{1}/4$% Senior Notes due 2015 (the 2015 Notes) and to amend the indenture governing the 2015 Notes, which we refer to as the 2015 Indenture, to eliminate substantially all of the restrictive covenants and certain events of default. We used the net proceeds from the 2021 Notes (described below) to fund the purchase of the 2015 Notes, the related consent payments pursuant to the tender offer and consent solicitation, and the subsequent redemption of the 2015 Notes that were not tendered and remained outstanding after the expiration of the tender offer and consent solicitation.

During the nine months ended September 30, 2010, we purchased $297.8 million aggregate principal amount of the 2015 Notes pursuant to a cash tender offer and open market repurchases.

6 $^{5}/8$% Senior Notes due 2021

On January 28, 2011, we issued in a private placement $260.0 million aggregate principal amount of our 6 $^{5}/8$% Senior Notes due 2021 (the 2021 Notes). The net proceeds were used to fund the purchase of the outstanding 2015 Notes and the related consent payments in a concurrent tender offer and consent solicitation as described above and the redemption of the remaining outstanding 2015 Notes.

Interest on the 2021 Notes is payable every six months on February 1 and August 1. The 2021 Notes are fully and unconditionally guaranteed, jointly and severally, by substantially all of our existing and future domestic restricted subsidiaries on a senior unsecured basis.

In July 2011, in accordance with the terms of the registration rights agreement between us and the initial purchasers of the 2021 Notes, we completed an exchange offer to exchange the original notes issued in the private placement for a like principal amount of exchange notes registered under the Securities Act of 1933, as amended. An aggregate principal amount of $260.0 million, or 100%, of the original notes were exchanged for exchange notes in the exchange offer. The exchange notes are substantially identical to the original notes, except that the exchange notes are not subject to certain transfer restrictions.

The 2021 Notes were issued under an indenture with Wells Fargo Bank, National Association, as trustee (the 2021 Indenture). Subject to a number of exceptions, the 2021 Indenture restricts our ability and the ability of our restricted subsidiaries (as defined in the 2021 Indenture) to incur or guarantee additional indebtedness, transfer or sell assets, make certain investments, pay dividends or make distributions or other restricted payments, create certain liens, merge or consolidate, repurchase stock, create or permit restrictions on the ability of our restricted subsidiaries to pay dividends or make other distributions to us and enter into transactions with affiliates.

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We may redeem all or a portion of the 2021 Notes at our option at any time prior to February 1, 2016, at a redemption price equal to 100% of the principal amount of 2021 Notes to be redeemed, plus a make-whole premium as described in the 2021 Indenture, plus accrued and unpaid interest to the redemption date, if any. At any time on or after February 1, 2016, we may redeem all or a portion of the 2021 Notes at our option at the following redemption prices (expressed as percentages of the principal amount thereof) if redeemed during the twelve-month period commencing on February 1 of the years set forth below:

Year	Percentage
2016	103.313%
2017	102.208%
2018	101.104%
2019 and thereafter	100.000%

In addition, we must pay accrued and unpaid interest to the redemption date, if any. On or prior to February 1, 2014, we may also redeem at our option up to 35% of the principal amount of the outstanding 2021 Notes with the proceeds of certain equity offerings at the redemption price specified in the 2021 Indenture, plus accrued and unpaid interest to the date of redemption, if any. Upon the occurrence of a change of control, as defined in the 2021 Indenture, we must make a written offer to purchase all of the 2021 Notes for cash at a purchase price equal to 101% of the principal amount of the 2021 Notes, plus accrued and unpaid interest to the date of repurchase, if any.

Senior Secured Convertible Notes due 2033

In May 2003, we issued $239,794,000 aggregate principal amount of the 2033 Secured Notes in a private placement transaction at an issue price of $667.24 per note, resulting in gross proceeds to us of $160.0 million. During the second quarter of 2008, we conducted a cash tender offer for the 2033 Secured Notes that was intended to satisfy the put rights of the holders of such notes that were exercisable on May 22, 2008 under the indenture governing such notes. Pursuant to the tender offer, we repurchased an aggregate principal amount of $239.7 million (or $159.9 million net of discount) for an aggregate of $159.9 million. We used the delayed draw term loan portion of our prior senior secured credit facility to finance the tender offer. As of September 30, 2011, an aggregate principal amount of $85,000 (or approximately $60,000 net of discount) of the 2033 Secured Notes remained outstanding pursuant to the 2033 Secured Notes indenture.

Additional Provisions

The indenture governing the 2033 Secured Notes contains a cross-default provision which becomes applicable if we default under any mortgage, indenture or instrument evidencing indebtedness for money borrowed by us and the default results in the acceleration of such indebtedness prior to its express maturity, and the principal amount of any such accelerated indebtedness aggregates in excess of $25.0 million. The 2021 Indenture contains a cross-default provision which becomes applicable if we (a) fail to pay the stated principal amount of any of our indebtedness at its final maturity date, or (b) default under any of our indebtedness and the default results in the acceleration of indebtedness, and, in each case, the principal amount of any such indebtedness, together with the principal amount of any other such indebtedness under which there has been a payment default or the maturity of which has been so accelerated, aggregates $50.0 million or more. Our credit agreement contains a cross-default provision which becomes applicable if we (a) fail to make any payment under any indebtedness for money borrowed by us (other than the obligations under such credit agreement) in an aggregate outstanding principal amount of at least $50.0 million or, (b) otherwise default under any such indebtedness, or trigger another event which causes such indebtedness to become due or to be repurchased, prepaid, defeased or redeemed or become subject to an offer to repurchase, prepay, defease or redeem such indebtedness prior to its stated maturity.

Subject to applicable limitations in our senior secured credit facility and indentures, we may from time to time repurchase our debt in the open market, through tender offers, through exchanges for debt or equity securities, by exercising rights to call, by satisfying put obligations, or in privately negotiated transactions or otherwise.

Other Indebtedness

We have entered into various interest rate swap agreements. For further detail regarding these agreements, see Note 8 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Covenant Compliance

As of September 30, 2011, we were in compliance with all of our indenture and new senior secured credit facility covenants.

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Off-balance Sheet Arrangements

As of September 30, 2011, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Capital Expenditures

Capital expenditures were $18.1 million for the nine months ended September 30, 2011, and are expected to be an aggregate amount of approximately $27.0 million for the 2011 fiscal year. It is expected these expenditures will be made using funds provided by operations.

Recent Accounting Pronouncements

See Note 1 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further details of new accounting pronouncements.

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 condensed consolidated financial statements. The 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. Our critical accounting policies have not changed materially from those disclosed in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2010 Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal market risks are interest rates on various debt instruments and foreign exchange rates at our international subsidiaries.

Interest Rates

As described above, our borrowings under our new senior secured credit facility are subject to a variable rate of interest. In December 2009, we entered into an interest rate swap agreement with an effective date of December 31, 2010 and an initial notional amount of $300.0 million, which amortizes by $40.0 million at the end of each quarter subsequent to the effective date to $100.0 million for the quarter ended June 30, 2012, the expiration date of the interest rate swap agreement. As of September 30, 2011, the notional amount of this interest rate swap agreement was $180.0. This interest rate swap agreement effectively fixes, at 3.755% (including the current applicable margin), the interest rate for the portion of our variable rate debt outstanding under our new senior secured credit facility equal to the outstanding notional amount of the interest rate swap agreement. In addition, on July 6, 2011, we entered into an interest rate swap agreement with an initial notional amount of $186.3 million. The effective date of this agreement is June 30, 2012, the expiration date of our existing interest rate swap. Once effective, this interest rate swap agreement will effectively fix, at 3.6195% (including the current applicable margin), the interest rate for the portion of our variable rate debt outstanding under our new senior secured credit facility equal to the outstanding notional amount of the interest rate swap agreement. The initial notional amount of $186.3 million amortizes quarterly by (i) $2,812,500 from the effective date through the quarter ended September 30, 2013, (ii) $5,625,000 from September 30, 2013 through the quarter ended September 30, 2014, and (iii) $8,437,500 from September 30, 2014 until June 30, 2015, the expiration date of the agreement.

As of September 30, 2011, the variable rate indebtedness outstanding under our new senior secured credit facility in excess of the outstanding notional amount of the interest rate swap agreement described above was an aggregate principal amount of $166.3 million, and is subject to interest rate risk, as our interest payments will fluctuate as the underlying interest rate changes. If there is a 1% increase in the Eurodollar Rate, the interest rate currently applicable to this variable rate indebtedness, and we do not alter the terms of our current interest rate swap agreements or enter into a new interest rate swap agreement, our debt service obligations on our variable rate indebtedness would increase by a total of $6.9 million between October 1, 2011 and June 27, 2016, the maturity date of the new senior secured credit facility.

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Foreign Currency

Currencies to which we have exposure are the Mexican peso, Canadian dollar, Polish zloty, British pound and Euro. Currency restrictions are not expected to have a significant effect on our cash flows, liquidity, or capital resources. Actual exchange losses or gains are recorded against production expense when the contracts are executed. As of September 30, 2011, we had commitments to purchase $11.7 million in Mexican pesos and $0.9 million in Polish zlotys over the next 12 months.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our Disclosure Committee, including our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, the disclosure controls and procedures are effective in ensuring that the information required to be disclosed in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting during the three months ended September 30, 2011 that has materially affected, or is likely to materially affect, internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

News

We are 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 effect on our financial position, results of operations or liquidity.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, or 2010 Form 10-K, and in Part II, Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011, or Q2 2011 Form 10-Q (which supersede the risk factors included in the 2010 Form 10-K under the same heading), which could materially affect our business, financial condition and future results. The risks described in our 2010 Form 10-K and Q2 2011 Form 10-Q are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table reflects our repurchases of our common stock during the three months ended September 30, 2011:

Period	Total Number of Shares Purchased	Average Price Paid per Share (including broker commissions)	Total Number of Shares Purchased as Part of Publicly Announced Plan (a)	Maximum Number of Shares that May Yet be Purchased under the Plan (b)
July 1, 2011 to July 31, 2011		$		6,590,301
August 1, 2011 to August 31, 2011	1,989,728	$ 23.81	1,989,728	4,600,573
September 1, 2011 to September 30, 2011	104,300	$ 24.78	104,300	4,496,273
	2,094,028	$ 23.86	2,094,028	

(a) On August 25, 2005, our Board of Directors approved the repurchase of 5 million shares of our common stock. This share repurchase plan was suspended in February 2006. On May 6, 2010, our Board of Directors reinstated this share repurchase plan. In May 2011, our Board of Directors approved an increase of 6 million shares to this share repurchase plan.

(b) Our ability to make share repurchases may be limited by the documents governing our indebtedness.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Consulting Agreement by and between Valassis Communications, Inc. and Alan F. Schultz, dated as of August 22, 2011
10.2	Amendment to Employment Agreement of Robert A. Mason, dated as of August 22, 2011
10.3	Consulting Agreement by and between Valassis Communications, Inc. and Richard Herpich, dated as of October 24, 2011
31.1	Section 302 Certification of Alan F. Schultz
31.2	Section 302 Certification of Robert L. Recchia
32.1	Section 906 Certification of Alan F. Schultz
32.2	Section 906 Certification of Robert L. Recchia
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files included as Exhibits 101 hereto (i) shall not be deemed filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, (ii) shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and (iii) otherwise are not subject to liability under those sections.

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SIGNATURE

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 8, 2011

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.

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101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

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