

VALASSIS COMMUNICATIONS INC
Form 10-Q
May 10, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended March 31, 2007
- Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number: 1-10991

VALASSIS COMMUNICATIONS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction)
of Incorporation or Organization)

38-2760940
(IRS Employer
Identification Number)

19975 Victor Parkway

Livonia, Michigan 48152

(address of principal executive offices)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of May 4, 2007, there were 47,879,772 shares of the Registrant's Common Stock outstanding.

Part I Financial Information

Item 1. Financial Statements

VALASSIS COMMUNICATIONS, INC.**Condensed Consolidated Balance Sheets**

(U.S. dollars in thousands)

Assets	March 31, 2007 (unaudited)	Dec. 31, 2006
Current assets:		
Cash and cash equivalents	\$ 139,679	\$ 52,619
Auction-rate securities		102,533
Accounts receivable (less allowance for doubtful accounts of \$20,074 at March 31, 2007 and \$5,001 at December 31, 2006)	470,116	339,079
Inventories:		
Raw materials	11,937	12,729
Work in progress	18,106	13,105
Prepaid expenses and other	26,809	16,681
Deferred income taxes	19,873	1,789
Refundable income taxes	7,397	3,957
Total current assets	693,917	542,492
Property, plant and equipment, at cost:		
Land and buildings	80,622	55,723
Machinery and equipment	215,634	142,085
Office furniture and equipment	175,694	61,903
Automobiles	216	216
Leasehold improvements	26,417	2,949
	498,583	262,876
Less accumulated depreciation and amortization	(158,110)	(153,490)
Net property, plant and equipment	340,473	109,386
Intangible assets:		
Goodwill	868,691	173,134
Other intangibles	351,555	35,555
	1,220,246	208,689
Less accumulated amortization	(76,188)	(75,280)
Net intangible assets	1,144,058	133,409
Investment	5,894	4,899
Other assets	29,208	11,240
Total assets	\$ 2,213,550	\$ 801,426

See accompanying notes to condensed consolidated financial statements.

VALASSIS COMMUNICATIONS, INC.

Condensed Consolidated Balance Sheets, Continued

(U.S. dollars in thousands)

Liabilities and Stockholders' Equity	March 31, 2007 (unaudited)	Dec. 31, 2006
Current liabilities:		
Accounts payable	\$ 318,169	\$ 268,834
Accrued interest	6,203	3,307
Accrued compensation and benefits	57,222	23,671
Accrued other expenses	48,411	17,150
Progress billings	47,687	49,258
Total current liabilities	477,692	362,220
Long-term debt	1,389,939	259,931
Other non-current liabilities	18,615	8,195
Deferred income taxes	151,028	3,506
Stockholders' equity:		
Preferred stock of \$.01 par value. Authorized 25,000,000 shares; no shares issued or outstanding at March 31, 2007 and December 31, 2006		
Common stock of \$0.01 par value. Authorized 100,000,000 shares; issued 63,358,755 at March 31, 2007 and 63,264,925 at December 31, 2006; outstanding 47,877,738 at March 31, 2007 and 47,783,908 at December 31, 2006	634	633
Additional paid-in capital	48,202	45,520
Deferred compensation	(2,226)	(1,295)
Retained earnings	645,494	638,209
Accumulated other comprehensive income	4,399	4,734
Treasury stock, at cost (15,481,017 shares at March 31, 2007 and 15,481,017 shares at December 31, 2006)	(520,227)	(520,227)
Total stockholders' equity	176,276	167,574
Total liabilities and stockholders' equity	\$ 2,213,550	\$ 801,426

See accompanying notes to condensed consolidated financial statements.

VALASSIS COMMUNICATIONS, INC.

Condensed Consolidated Statements of Income

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

(unaudited)

	Three Months Ended	
	March 31, 2007	March 31, 2006
Revenues	\$ 361,304	\$ 247,646
Costs and expenses:		
Cost of products sold	279,017	185,269
Selling, general and administrative	54,526	32,742
Amortization expense	908	138
Total costs and expenses	334,451	218,149
Earnings from operations	26,853	29,497
Other expenses (income):		
Interest expense	10,619	2,855
Other income, net	(2,178)	(1,354)
Total other expenses (income)	8,441	1,501
Earnings before income taxes	18,412	27,996
Income taxes	7,179	9,938
Net earnings	\$ 11,233	\$ 18,058
Net earnings per common share, basic	\$ 0.23	\$ 0.38
Net earnings per common share, diluted	\$ 0.23	\$ 0.38
Shares used in computing net earnings per share, basic	47,877,865	47,652,165
Shares used in computing net earnings per share, diluted	47,849,995	47,769,495

See accompanying notes to condensed consolidated financial statements.

VALASSIS COMMUNICATIONS, INC.

Condensed Consolidated Statements of Cash Flows

(U.S. dollars in thousands)

(unaudited)

	Three Months Ended	
	March 31, 2007	March 31, 2006
Cash flows from operating activities:		
Net earnings	\$ 11,233	\$ 18,058
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of intangibles	7,406	3,678
Amortization of bond discount	8	114
Provision for losses on accounts receivable	1,011	450
Asset impairment	1,460	
Loss on sale of property, plant and equipment	32	13
Gain on equity investments	(263)	(89)
Stock-based compensation charge	1,753	1,418
Changes in assets and liabilities which increase (decrease) cash flow:		
Accounts receivable	49,890	28,492
Inventories	1,935	(3,264)
Prepaid expenses and other	1,583	831
Other liabilities	(18,742)	(234)
Other assets	21,548	(1,177)
Accounts payable	20,507	(33,608)
Accrued expenses, compensation and interest	(22,747)	(10,083)
Income taxes	3,063	(1,693)
Progress billings	(13,541)	(723)
Total adjustments	54,903	(15,875)
Net cash provided by operating activities	66,136	2,183
Cash flows from investing activities:		
Additions to property, plant and equipment	(5,615)	(1,834)
Acquisition of ADV0, net of cash acquired	(1,185,434)	
Purchases of auction-rate securities	(156,335)	(105,081)
Proceeds from sales of auction-rate securities	258,869	94,718
Investments and advances to affiliated companies	(1,000)	
Other	(465)	(38)
Net cash used in investing activities	(1,089,980)	(12,235)
Cash flows from financing activities:		
Borrowings of long-term debt	1,130,000	
Deferred financing costs	(19,212)	
Repurchase of common stock		(3,913)
Proceeds from the issuance of common stock		2,292
Net cash provided (used) in financing activities	1,110,788	(1,621)
Effect of exchange rate changes on cash	116	332
Net increase (decrease) in cash	87,060	(11,341)

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Cash at beginning of period	52,619	64,320
Cash at end of period	\$ 139,679	\$ 52,979
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 6,576	\$ 3,815
Cash paid during the period for income taxes	\$ 1,430	\$ 14,373
Non-cash financing activities:		
Stock issued under stock-based compensation plan	\$ 1,357	\$ 1,845
See accompanying notes to condensed consolidated financial statements.		

VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the information contained herein reflects all adjustments necessary for a fair presentation of the information presented. All such adjustments are of a normal recurring nature. 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, the Company, we or our) Annual Report on Form 10-K for the year ended December 31, 2006, as amended by Amendment No. 1 thereto on Form 10-K/A (the Amended 2006 10-K).

2. ACQUISITION OF ADVQ

Valassis completed the acquisition of ADVQ, Inc. (ADVQ) on March 2, 2007 for approximately \$1.2 billion, including the refinancing of approximately \$125 million in existing ADVQ debt, which was financed with debt as more fully described in Note 7 Long-Term Debt.

The acquisition was accounted for as a purchase in accordance with Statement of Financial Accounting Standards (SFAS) 141, Business Combinations and ADVQ's results are included in Valassis' consolidated operating results from the acquisition date. The total purchase price reflects transaction costs and is net of cash acquired. Amounts allocated to the assets acquired and liabilities assumed are based upon estimates of fair value as of the acquisition date.

The purchase price allocation for the acquisition is preliminary with respect to finalization of intangible asset and fixed asset valuations, integration accrual, and other minor items. As of March 31, 2007, the preliminary allocation of the purchase price for the acquisition was made to the following major opening balance sheet categories.

(in millions of U.S. dollars)	March 31, 2007
Current assets	\$ 217.9
Property, plant and equipment	233.4
Goodwill	695.6
Intangible assets	316.0
Other non-current assets	20.0
Total assets	\$ 1,482.9
Current liabilities	\$ 120.6
Non-current liabilities	176.7
Total liabilities	\$ 297.3

VALASSIS COMMUNICATIONS, INC.**Notes to Condensed Consolidated Financial Statements**

The operating results for ADVO are included in the accompanying condensed consolidated statements of operations from March 2, 2007, the date of acquisition. The following unaudited pro forma condensed consolidated financial information has been prepared assuming the ADVO acquisition had occurred on January 1, 2007 and January 1, 2006, respectively.

(\$ in thousands, except per share amounts)	Three Months Ended	
	March 31, 2007 (1)	March 31, 2006
Revenue	\$ 584,807	\$ 600,025
Operating income	(3,694)	37,170
Net earnings	(16,885)	9,945
Basic earnings per share	\$ (0.35)	\$ 0.21
Diluted earnings per share	\$ (0.35)	\$