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Condensed Consolidated Balance Sheets  
(dollars in thousands)

Assets	June 30, 2001	December 31, 2000
-----	-----	-----
	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 10,908	\$ 11,140
Accounts receivable (less allowance for doubtful accounts of \$2,061 at June 30, 2001 and \$1,322 at December 31, 2000)	103,589	114,554
Inventories:		
Raw materials	16,804	10,542
Work in progress	11,366	17,338
Prepaid expenses and other	5,977	10,729
Deferred income taxes	3,356	3,356
	-----	-----
Total current assets	152,000	167,659
	-----	-----
Property, plant and equipment, at cost:		
Land and buildings	21,722	21,648
Machinery and equipment	127,605	123,043
Office furniture and equipment	33,392	31,638
Automobiles	1,028	1,117
Leasehold improvements	2,050	1,857
	-----	-----
	185,797	179,303
	-----	-----
Less accumulated depreciation and amortization	(122,615)	(119,265)
	-----	-----
Net property, plant and equipment	63,182	60,038
	-----	-----
Intangible assets:		
Goodwill	107,756	107,756
Other intangibles	85,347	85,137
	-----	-----
	193,103	192,893
	-----	-----
Less accumulated amortization	(121,742)	(120,030)
	-----	-----
Net intangible assets	71,361	72,863
	-----	-----
Equity investments and advances to investees	31,138	18,136
Deferred income taxes	3,938	3,938
Other	5,166	3,083
	-----	-----
Total assets	\$ 326,785	\$ 325,717
	=====	=====

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	June 30, 2001	Dec 2000
Liabilities and Stockholders' Deficit	-----	-----
	(unaudited)	
Current liabilities:		
Accounts payable	\$ 70,249	\$
Accrued interest	3,485	
Accrued expenses	23,752	
Progress billings	34,259	
Income taxes payable	7,665	
	-----	
Total current liabilities	139,410	
	-----	
Long-term debt	312,006	
Other non-current liabilities	--	
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock of \$.01 par value. Authorized 25,000,000 shares; no shares issued or outstanding at June 30, 2001 and December 31, 2000		
Common stock of \$.01 par value. Authorized 100,000,000 shares; issued 62,954,223 at June 30, 2001 and 62,932,556 at December 31, 2000; outstanding 53,286,927 at June 30, 2001 and 53,562,676 at December 31, 2000	630	
Additional paid-in capital	88,857	
Deferred compensation	(3,198)	
Retained earnings	140,159	
Foreign currency translations	(562)	
Treasury stock, at cost (9,667,296 shares at June 30, 2001 and 9,369,880 shares at December 31, 2000)	(350,517)	
	-----	
Total stockholders' deficit	(124,631)	
	-----	
Total liabilities and stockholders' deficit	\$ 326,785	\$
	=====	=====

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

See accompanying notes to condensed consolidated financial statements.

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	Quarter Ended		Six Months
	June 30, 2001	June 30, 2000	June 30, 2001
	-----	-----	-----
Revenues:			
Net sales	\$ 217,192	\$ 211,043	\$ 444,921
Other (primarily legal settlement in 2000)	84	42	165
	-----	-----	-----
Total revenues	217,276	211,085	445,086
	-----	-----	-----
Costs and expenses:			
Cost of products sold	133,845	129,571	278,905
Selling, general and administrative	23,130	19,606	46,728
Loss on investments	687	1,148	1,312
Amortization of intangible assets	858	711	1,714
Interest	4,819	5,266	10,532
	-----	-----	-----
Total costs and expenses	163,339	156,302	339,191
	-----	-----	-----
Earnings before income taxes	53,938	54,783	105,895
Income taxes	20,200	20,400	39,700
	-----	-----	-----
Net earnings	\$ 33,738	\$ 34,383	\$ 66,195
	=====	=====	=====
Net earnings per common share, basic	\$ 0.63	\$ 0.63	\$ 1.24
	=====	=====	=====
Net earnings per common share, diluted	\$ 0.62	\$ 0.62	\$ 1.22
	=====	=====	=====
Shares used in computing net earnings per share, basic	53,430,534	54,782,687	53,477,624
	=====	=====	=====
Shares used in computing net earnings per share, diluted	54,418,567	55,820,017	54,423,829
	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

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June 30  
2001  
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Cash flows from operating activities:

Net earnings	\$ 66,1
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization	6,5
Provision for losses on accounts receivable	7
Deferred compensation	(1,2
(Gain)/loss on sale of property, plant and equipment	(
Stock-based compensation charge	1,5
Changes in assets and liabilities which increase (decrease) cash flow:	
Accounts receivable	10,2
Inventories	(2
Prepaid expenses and other	4,7
Other liabilities	(1,6
Other assets	(1,1
Accounts payable	(15,4
Accrued expenses and interest	(7,3
Income taxes	6,6
Progress billings	(14,7
	-----
Total adjustments	(11,4
	-----
Net cash provided by operating activities	54,7
	-----

Cash flows from investing activities:

Additions to property, plant and equipment	(8,0
Proceeds from sale of property, plant and equipment	1
Investments and acquisitions	(14,5
Other	(1
	-----
Net cash used in investing activities	(22,5
	-----

Cash flows from financing activities:

Repayment of long-term debt	
Borrowings of long-term debt	150,0
Net payments under revolving line of credit	(163,8
Repurchase of common stock	(27,5
Proceeds from the issuance of common stock	8,9
	-----
Net cash used in financing activities	(32,4
	-----

Net decrease in cash	(2
Cash at beginning of period	11,1
	-----

Cash at end of period	\$ 10,9
	=====

Supplemental disclosure of cash flow information:

Cash paid during the period for interest	\$ 8,1
Cash paid during the period for income taxes	\$ 33,1
Non-cash financing activities:	
Stock issued under stock-based compensation plan	\$ 1,5

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See accompanying notes to condensed consolidated financial statements.

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

#### 1. Basis of Presentation -----

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the information contained herein reflects all adjustments necessary for a fair presentation of the information presented. All such adjustments are of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of results to be expected for the fiscal year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. Certain amounts for 2000 have been reclassified to conform to current period classifications.

#### 2. Recent Accounting Pronouncements -----

During July 2001, the Financial Accounting Standards Board issued two statements, Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets", that amend APB Opinion No. 16, "Business Combinations," and supersede APB Opinion No. 17, "Intangible Assets." The two statements modify the method of accounting for business combinations entered into after June 30, 2001 and address the accounting for intangible assets. Beginning January 1, 2002, we anticipate the Company will no longer amortize its goodwill and intangible assets, but will, however, evaluate them for impairment annually. We are currently reviewing the statements to determine their effect on the Company.

#### 3. Contingencies -----

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

#### 4. Long-Term Debt -----

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

## 5. Segment Reporting

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

1. Mass-Distributed Products - products which provide mass reach at low cost, including:
  - Free-standing inserts (FSI) - four color booklets containing promotions from multiple advertisers distributed through Sunday newspapers.
  - Run-of-press (ROP) - on-page newspaper promotions
2. Cluster-Targeted Products - products targeted around geographic and demographic clusters, including:
  - Targeted Print and Media Services (TPMS) - formerly Valassis Impact Promotions and Targeted Sampling & Media Solutions (polybag samples and advertising), which have recently been combined into one segment.
3. One-to-One Products - products and services that pinpoint individuals to build loyalty to a brand, including:
  - Customer Relationship Marketing (which includes PreVision)
  - Promotion Watch - security consulting
  - Non-consolidated investments in Internet promotion companies

The Company has two reportable segments, cooperative free-standing inserts (FSIs) and cluster-targeted products. These reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different marketing strategies and caters to a different customer base. Assets are not allocated to reportable segments and are not used to assess the performance of a segment.

(in millions)

	Three Months Ended June 30			T
	FSI	Cluster-Targeted	All Others*	
2001				
Revenues from external customers	\$147.6	\$ 51.7	\$ 17.9	\$
Intersegment revenues	\$ -	\$ -	\$ -	\$
Depreciation/amortization	\$ 2.3	\$ 0.5	\$ 0.5	\$
Segment profit	\$ 46.2	\$ 7.4	\$ 0.2	\$
2000				
Revenues from external customers	\$160.7	\$ 28.1	\$ 21.9	\$
Intersegment revenues	\$ -	\$ -	\$ -	\$
Depreciation/amortization	\$ 2.3	\$ 0.5	\$ -	\$
Segment profit	\$ 46.6	\$ 2.9	\$ 4.9	\$

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

Reconciliations to consolidated financial statement totals are as follows:

	Three Months Ended June 30,	
	2001	2000
Profit for reportable segments	\$53.6	\$49.5
Profit for other segments	0.2	4.9
Unallocated amounts:		
Interest income	0.1	0.4
Earnings before taxes	\$53.9	\$54.8

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

	2001	2000
United States	\$215.7	\$209.3
Canada	1.6	1.8
Total	\$217.3	\$211.1

(in millions)

	Six Months Ended June 30		
	FSI	Cluster-Targeted	All Others*
2001			
Revenues from external customers	\$306.6	\$106.3	\$ 32.1
Intersegment revenues	\$ -	\$ -	\$ -
Depreciation/amortization	\$ 4.6	\$ 1.0	\$ 1.0
Segment profit/(loss)	\$ 92.4	\$ 13.5	\$ (0.1)
2000			
Revenues from external customers	\$325.0	\$ 62.2	\$ 35.8
Intersegment revenues	\$ -	\$ -	\$ -
Depreciation/amortization	\$ 4.6	\$ 0.9	\$ -
Segment profit	\$ 97.9	\$ 7.4	\$ 7.5

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



Reconciliations to consolidated financial statement totals are as follows:

	Six Months Ended June 30,	
	2001	2000
Profit for reportable segments	\$105.9	\$105.3
(Loss)/Profit for other segments	(0.1)	7.5
Unallocated amounts:		
Interest income	0.1	0.6
Other income	-	26.5
Earnings before taxes	\$105.9	\$139.9

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

	2001	2000
United States	\$442.3	\$446.9
Canada	2.8	3.2
Total	\$445.1	\$450.1

#### 6. Earnings Per Share

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

	Three Months Ended June 30,	
	2001	2000
Net Earnings	\$ 33,738	\$ 34,383
Basic EPS:		
Weighted average common shares outstanding	53,431	54,783
Earnings per common share - basic	\$ 0.63	\$ 0.63
Diluted EPS:		
Weighted average common shares outstanding	53,431	54,783
Weighted average shares purchased on exercise of dilutive options	4,602	4,018
Shares purchased with proceeds of options	(3,664)	(3,000)
Shares contingently issuable	50	19
Shares applicable to diluted earnings	54,419	55,820

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Earnings per common share - diluted	=====	=====
	\$ 0.62	\$ 0.62
	=====	=====

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	Six Months Ended June 30,	
	2001	2000
	-----	-----
Net Earnings	\$ 66,195	\$ 87,794
	=====	=====
Basic EPS:		
Weighted average common shares outstanding	53,478	55,212
	=====	=====
Earnings per common share - basic	\$ 1.24	\$ 1.59
	=====	=====
Diluted EPS:		
Weighted average common shares outstanding	53,478	55,212
Weighted average shares purchased on exercise of dilutive options	4,525	3,931
Shares purchased with proceeds of options	(3,629)	(2,924)
Shares contingently issuable	50	19
	-----	-----
Shares applicable to diluted earnings	54,424	56,238
	=====	=====
Earnings per common share - diluted	\$ 1.22	\$ 1.56
	=====	=====

7. Subsequent Events

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On July 27, 2001 a federal court jury returned a verdict against Dennis D. Garberg & Associates, Inc. d/b/a The Sunflower Group (Sunflower) awarding the Company \$16.6 million which included damages for past and future lost profits. The lawsuit, brought by the Company against Sunflower in February of 1999, asserted that Sunflower wrongfully obtained proprietary information from the Company's newspaper delivered sampling business. The jury found Sunflower liable for misappropriating the Company's trade secrets and inducing an individual to breach his duty of loyalty to the Company. The Company will request that the judge enter a judgment on the verdict. A reasonable estimation of the Company's ultimate recovery can not be made at this time and the Company has not recorded any amount in its financial statements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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Certain statements under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks and uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: a new competitor in the Company's core free-standing insert business and consequent price war; new technology that would make free-standing inserts less attractive; a shift in customer preference for different promotional materials, promotional strategies or coupon delivery methods, including in-store advertising systems and other forms of coupon delivery; an increase in the Company's paper costs; or general business and economic conditions. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### Results of Operations

Three Months Ended June 30, 2001 and June 30, 2000  
-----

Net sales increased 2.9% from \$211.0 million for the second quarter of 2000 to \$217.2 million for the second quarter of 2001. Free-standing insert (FSI) revenues were down from \$160.7 million for the quarter ended June 30, 2000 to \$147.6 million for the same quarter of 2001. This decrease is primarily the result of a reduction in direct response pages as part of a price improvement strategy, as well as lower levels of e-commerce client participation. Revenues for cluster-targeted products increased 20.5% to \$51.7 million for the quarter, driven primarily by strong demand in sampling/advertising polybag programs and solid results from solo inserts. Net sales of the Company included revenues of \$7.5 million from PreVision, which was acquired in August 2000.

Gross profit margin was 38.4% in the second quarter of 2001, down from 38.6% in the second quarter of 2000. The decline in average pages per book due to our strategy to reduce direct response pages in an effort to improve pricing resulted in increased media and print costs on a per-thousand-page basis offset by lower paper costs. Also, revenue increases in non-FSI products which command lower margins contributed to the overall decrease.

Selling, general and administrative expenses increased 18.0% from \$19.6 million in the second quarter of 2000 to \$23.1 million in the second quarter of 2001. This increase is primarily the result of the significant SG&A expenses of PreVision, and initiatives commenced during the later part of 2000 to increase the sales force.

Net earnings were \$33.7 million for the second quarter of 2001 versus \$34.4 million for the same period last year.

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Six Months Ended June 30, 2001 and June 30, 2000  
-----

For the six months ended June 30, 2001, net sales increased 5.2% to \$444.9 million from \$423.0 million for the comparable period in 2000. Free-standing insert (FSI) revenues were down from \$325.0 million for the first six months of 2000 to \$306.6 million for the first six months of 2001. This decrease is

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primarily the result of a reduction in direct response pages as part of a price improvement strategy, as well as lower levels of e-commerce client participation. Revenues for cluster-targeted products increased 24.9% to \$106.3 million for the six month period, driven primarily by strong demand in sampling/advertising polybag programs. Net sales of the Company included revenues of \$14.0 million from PreVision, which was acquired in August 2000. Other revenues decreased to \$0.2 million for the six months ended June 30, 2001, from \$27.1 million for the comparable period as a result of the recording of the settlement of a lawsuit in 2000.

Gross margin decreased to 37.3% for the first six months of 2001, from 39.0% for the same period in 2000 (excluding the impact of a lawsuit settlement included in other revenues in the first six months of 2000). The decline in average pages per book due to our strategy to reduce direct response pages in an effort to improve pricing resulted in increased media and print costs on a per-thousand-page basis. Also, revenue increases in non-FSI products which command lower margins contributed to the overall decrease.

Selling, general and administrative expenses were \$46.7 million, versus \$37.9 million for the comparable prior-year period. This increase is primarily the result of the significant SG&A expenses of PreVision, and initiatives commenced during the later part of 2000 to increase the sales force.

Net earnings were \$66.2 million for the six months ended June 30, 2001 versus \$87.8 million for the same period last year. Excluding the impact of the settlement of a lawsuit in the six months ended June 30, 2000, net earnings would have decreased by 7.0%.

### Financial Condition, Liquidity and Sources of Capital

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

Cash and cash equivalents totaled \$10.9 million at June 30, 2001 versus \$11.1 million at December 31, 2000. This was the result of cash provided by operating activities of \$54.7 million, and cash used in investing activities and financing activities of \$22.5 million and \$32.4 million, respectively, during the first six months of 2001.

Cash flow from operating activities decreased from \$60.5 million at June 30, 2000 to \$54.7 million at June 30, 2001, primarily due to decreased net earnings for the comparable period.

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As of June 30, 2001, the Company's debt has been reduced to \$312.0, which consists of \$46.2 million under its Revolving Credit Facility and \$265.8 million in public debt. As discussed in Note 3, the Company issued \$150 million of zero coupon convertible notes 2021 in June 2001. The net proceeds from such offering were used to repay outstanding indebtedness under the Revolving Credit Facility.

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

As of June 30, 2001, the Company had authorization to repurchase an additional 2.0 million shares of its common stock under its existing share repurchase program.

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

Capital Expenditures - The Company operates three printing facilities. Capital expenditures were \$8.1 million for the six month period ended June 30, 2001. Management expects future capital expenditure requirements of approximately \$15 million over each of the next three to five years to meet increased capacity needs and to replace or rebuild equipment as required. It is expected that equipment will be purchased using funds provided by operations.

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### Part II - Other Information

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

- a. The Company held its Annual Meeting of Stockholders on May 15, 2001.
- b. The election of the nominees for directors who will serve for a term to expire at the next Annual Meeting of Stockholders or until their respective successors have been duly elected and qualified was voted on by the stockholders. The nominees, all of whom were elected were: Richard N. Anderson, Patrick F. Brennan, Seth Goldstein, Brian J. Husselbee, Robert L. Recchia, Marcella A. Sampson, Alan F. Schultz and Faith Whittlesey. The Inspector of Election certified the following vote tabulations with respect thereto:

Director -----	For ---	Withheld -----	Broker Non-Votes -----
Richard N. Anderson	43,610,672	4,963,286	0
Patrick F. Brennan	48,545,482	28,476	0
Seth Goldstein	48,544,832	29,126	0
Brian J. Husselbee	48,540,482	33,476	0
Robert L. Recchia	43,578,844	4,995,114	0
Marcella A. Sampson	47,281,357	1,292,601	0
Alan F. Schultz	44,869,519	3,704,839	0
Faith Whittlesey	48,540,332	33,626	0

- c. A proposal to re-approve and extend the Company's Executive Restricted Stock Plan, as amended to satisfy certain Internal Revenue Code requirements was approved by the stockholders.

The Inspector of Election certified the following vote tabulations:

For ---	Against -----	Abstain -----	Broker Non-Votes -----
44,994,198	3,541,981	37,779	0

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- d. A proposal to re-approve the Company's Senior Executives Bonus Plan, as amended to satisfy certain Internal Revenue Code requirements was approved by the stockholders.

The Inspector of Election certified the following vote tabulations:

For	Against	Abstain	Broker Non-Votes
---	-----	-----	-----
47,872,604	661,473	39,881	0

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- e. A proposal to ratify the selection of Deloitte & Touche LLP, as independent auditors of the Company for the 2001 fiscal year was approved by the stockholders.

The Inspector of Election certified the following vote tabulations:

For	Against	Abstain	Broker Non-Votes
---	-----	-----	-----
48,161,430	383,578	28,950	0

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

- (4.1) Indenture between Valassis Communications, Inc. and The Bank of New York dated as of June 6, 2001 relating to its Zero Coupon Convertible Senior Notes due 2021 (incorporated by reference to Valassis Communications, Inc.'s Registration Statement No. 333-30254).
- (4.2) Form of Zero Coupon Convertible Senior Note due 2021 (included in Exhibit 4.1).
- (4.3) Registration Rights Agreement, dated June 6, 2001 between Valassis Communications, Inc. and Bear, Stearns & Co., Inc. (incorporated by reference to Valassis Communications, Inc.'s Registration Statement No. 333-30254).

b. Form 8-K

The Company filed a report on Form 8-K, dated May 24, 2001, announcing its intent to raise approximately \$150 million through an offering of 20-year, zero coupon convertible senior notes to qualified investors.

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Signatures

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

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Dated: August 8, 2001

Valassis Communications, Inc.  
(Registrant)

By: /s/ Robert L. Recchia

-----  
Robert L. Recchia  
Executive Vice President and Chief  
Financial Officer

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

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