VALASSIS COMMUNICATIONS INC
Form 10-Q
August 08, 2012
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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 June 30, 2012

¨ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 1-10991

VALASSIS COMMUNICATIONS, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	38-2760940 (IRS Employer Identification Number)

19975 Victor Parkway
Livonia, Michigan 48152
(Address of Principal Executive Offices)
Registrant's Telephone Number: (734) 591-3000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: Yes x No o
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	o
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	o

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 August 3, 2012, there were 39,774,180 shares of the Registrant's Common Stock outstanding.

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Quarter Ended June 30, 2012

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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)

	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$75,237	$101,971
Accounts receivable, net (Note 1)	378,706	448,320
Inventories (Note 1)	30,366	41,120
Prepaid expenses and other	54,269	37,655
Total current assets	538,578	629,066
Property, plant and equipment, net (Note 1)	138,070	148,905
Goodwill (Note 2)	628,886	636,471
Other intangible assets, net (Note 2)	224,666	213,613
Other assets	15,212	16,392
Total assets	$1,545,412	$1,644,447
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion long-term debt (Note 3)	$15,000	$15,000
Accounts payable	257,072	334,378
Progress billings	39,296	39,975
Accrued expenses (Note 4)	90,257	98,409
Total current liabilities	401,625	487,762
Long-term debt (Note 3)	580,061	587,560
Deferred income taxes	66,798	67,404
Other non-current liabilities	53,023	52,187
Total liabilities	1,101,507	1,194,913
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock ($0.01 par value; 25,000,000 shares authorized; no shares issued or outstanding at June 30, 2012 and December 31, 2011)	—	—
Common stock ($0.01 par value; 100,000,000 shares authorized; 65,394,999 and 65,398,539 shares issued at June 30, 2012 and December 31, 2011, respectively; 39,747,117 and 42,347,368 shares outstanding at June 30, 2012 and December 31, 2011, respectively)	654	654
Additional paid-in capital	113,865	123,881
Retained earnings	1,069,694	1,021,566
Accumulated other comprehensive income	2,349	2,775
Treasury stock, at cost (25,647,882 and 23,051,171 shares at June 30, 2012 and December 31, 2011, respectively)	(742,657)	(699,342)
Total stockholders' equity	443,905	449,534

Total liabilities and stockholders' equity	$1,545,412	$1,644,447

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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues	$540,238	$565,252	$1,058,823	$1,112,231
Costs and expenses:				
Cost of sales	403,727	418,040	792,621	826,617
Selling, general and administrative	83,523	80,831	161,140	159,258
Amortization expense	3,156	3,155	6,312	6,311
Goodwill impairment (Note 2)	7,585	—	7,585	—
Total costs and expenses	497,991	502,026	967,658	992,186
Earnings from operations	42,247	63,226	91,165	120,045
Other expenses and income:				
Interest expense	6,755	11,726	13,809	21,501
Interest income	(70)	(122)	(128)	(261)
Loss on extinguishment of debt (Note 3)	—	2,966	—	16,318
Other income, net	(77)	(1,436)	(774)	(2,312)
Total other expenses, net	6,608	13,134	12,907	35,246
Earnings before income taxes	35,639	50,092	78,258	84,799
Income tax expense (Note 1)	13,932	19,840	30,130	33,136
Net earnings	$21,707	$30,252	$48,128	$51,663
Net earnings per common share, basic (Note 6)	$0.53	$0.63	$1.16	$1.06
Net earnings per common share, diluted (Note 6)	$0.51	$0.60	$1.11	$1.01
Weighted-average common shares outstanding, basic (Note 6)	41,170	47,877	41,642	48,903
Weighted-average common shares outstanding, diluted (Note 6)	42,719	50,167	43,382	51,250

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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net earnings	$21,707	$30,252	$48,128	$51,663
Other comprehensive income, net of tax:				
Unrealized changes in fair value of cash flow hedges	(575)	(103)	(979)	(240)
Unrealized changes in fair value of available-for-sale securities	—	20	—	(130)
Realized losses on cash flow hedges reclassified from accumulated other comprehensive income ("AOCI") into earnings	—	2,261	—	3,040
Foreign currency translation adjustment	203	(58)	553	807
Total other comprehensive income (loss)	$(372)	$2,120	$(426)	$3,477
Comprehensive income	$21,335	$32,372	$47,702	$55,140

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)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net earnings	$48,128	$51,663
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	29,097	31,121
Amortization of debt issuance costs	858	1,181
Provision for losses on accounts receivable	883	1,589
Goodwill impairment	7,585	—
Loss on extinguishment of debt	—	5,748
Gain (loss) on derivatives, net	(1,049)	2,345
Loss on sale of property, plant and equipment	405	36
Stock-based compensation expense	4,801	4,367
Deferred income taxes	826	2,159
Changes in assets and liabilities:		
Accounts receivable, net	73,243	46,940
Inventories	10,754	2,768
Prepaid expenses and other	(16,417)	2,874
Other assets	292	(1,116)
Accounts payable	(79,017)	(9,409)
Progress billings	(679)	(8,386)
Accrued expenses	(9,124)	(41,018)
Other non-current liabilities	(783)	(1,829)
Total adjustments	21,675	39,370
Net cash provided by operating activities	69,803	91,033
Cash flows from investing activities:		
Additions to property, plant and equipment	(11,770)	(11,626)
Digital acquisitions, net of cash acquired	(18,362)	—
Proceeds from sale of property, plant and equipment	217	20
Proceeds from sale of available-for-sale securities	—	1,494
Net cash used in investing activities	(29,915)	(10,112)
Cash flows from financing activities:		
Borrowings of long-term debt	—	610,000
Repayments of long-term debt	(7,500)	(706,169)
Debt issuance costs	—	(11,266)
Repurchases of common stock	(65,900)	(105,856)
Proceeds from issuance of common stock	6,305	4,672
Net cash used in financing activities	(67,095)	(208,619)
Effect of exchange rate changes on cash and cash equivalents	473	725
Net decrease in cash and cash equivalents	(26,734)	(126,973)
Cash and cash equivalents at beginning of period	101,971	245,935
Cash and cash equivalents at end of period	$75,237	$118,962

Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$13,675	$17,011
Cash paid during the period for income taxes	$48,744	$58,042
Non-cash financing activities:		
Stock issued under stock-based compensation plans	$—	$2,684

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, 2011, as amended (the "2011 Form 10-K").

Significant Accounting Policies

Accounts Receivable

The allowance for doubtful accounts was $6.9 million as of June 30, 2012 and December 31, 2011.

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)	June 30, 2012	December 31, 2011
Raw materials	$23,241	$28,075
Work in progress	7,125	13,045
Inventories	$30,366	$41,120

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	June 30, 2012	December 31, 2011
	(in years)	(in thousands of U.S. dollars)	
Land, at cost	N/A	$7,176	$7,167
Buildings, at cost	10 - 30	37,742	37,511
Machinery and equipment, at cost	3 - 20	226,823	217,764
Office furniture and equipment, at cost	3 - 10	235,591	236,994
Leasehold improvements, at cost	5 - 10	29,284	28,563
		536,616	527,999
Less accumulated depreciation		(398,546)	(379,094)

Property, plant and equipment, net	$138,070	$148,905

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VALASSIS COMMUNICATIONS, INC.
Notes to Condensed Consolidated Financial Statements
(unaudited)

2. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the six months ended June 30, 2012 are as follows:

(in thousands of U.S. dollars)	Shared Mail	Neighborhood Targeted	Free-standing Inserts	International, Digital Media & Services	Total
Balance as of December 31, 2011					
Total goodwill acquired	$721,384	$5,325	$22,357	$93,405	$842,471
Accumulated impairment losses	(187,200)	—	—	(18,800)	(206,000)
Goodwill	534,184	5,325	22,357	74,605	636,471
Impairment charges	—	(3,985)	—	(3,600)	(7,585)
Balance as of June 30, 2012					
Total goodwill acquired	721,384	5,325	22,357	93,405	842,471
Accumulated impairment losses	(187,200)	(3,985)	—	(22,400)	(213,585)
Goodwill	$534,184	$1,340	$22,357	$71,005	$628,886

The impairment charges of $7.6 million recognized during the three and six months ended June 30, 2012 resulted from our decision to exit our newspaper polybag advertising and sampling business, a reporting unit within our Neighborhood Targeted reportable segment, and our solo direct mail business, a reporting unit within International, Digital Media & Services.

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

	June 30, 2012				December 31, 2011			
(in thousands of U.S. dollars)	Gross Amount	Accumulated Amortization	Net Amount	Weighted Average Remaining Useful Life (in years)	Gross Amount	Accumulated Amortization	Net Amount	Weighted Average Remaining Useful Life (in years)
Finite-lived intangible assets:								
Mailing lists, non-compete agreements and other	$41,520	$ (10,904)	$30,616	14.3	$40,457	$ (9,894)	$30,563	15.1
Customer relationships	140,000	(49,892)	90,108	8.5	140,000	(44,591)	95,409	9.0
Total	$181,520	(60,796)	120,724		$180,457	(54,485)	125,972	
Indefinite-lived intangible assets:								
Valassis name, tradenames, trademarks and other			103,942				87,641	
			$224,666				$213,613	

Other intangible
assets, net

The increase in the gross amount of mailing lists, non-compete agreements and other finite-lived intangible assets during the six months ended June 30, 2012 reflects the acquisition of technology related to our digital business. The $16.3 million increase in indefinite-lived intangible assets during the six months ended June 30, 2012 relates to the acquisition of Brand.net, which is described in Note 9, Brand.net Acquisition.

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VALASSIS COMMUNICATIONS, INC.
Notes to Condensed Consolidated Financial Statements
(unaudited)

3. LONG-TERM DEBT

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

(in thousands of U.S. dollars)	June 30, 2012	December 31, 2011
Senior Secured Revolving Credit Facility	$50,000	$50,000
Senior Secured Term Loan A	285,000	292,500
Senior Secured Convertible Notes due 2033, net of discount	61	60
6 5/8% Senior Notes due 2021	260,000	260,000
Total debt	595,061	602,560
Current portion long-term debt	15,000	15,000
Long-term debt	$580,061	$587,560

Senior Secured Credit Facility

General

On June 27, 2011, we entered into a 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 "Senior Secured Credit Facility"). The 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 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 from issuance, 10.0% during the third year from issuance, 15.0% during the fourth year from issuance and 11.25% during the fifth year from issuance, with the remaining 53.75% due at maturity (the "Term Loan A");
- a five-year revolving credit facility in an aggregate principal amount of $100.0 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 June 30, 2012 (exclusive of outstanding letters of credit described below); and
- an incremental facility pursuant to which, prior to the maturity of the 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 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 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 Senior Secured Credit Facility. We recognized a pre-tax loss on extinguishment of

debt of $3.0 million during the three and six months ended June 30, 2011, which represents the write-off of related capitalized debt issuance costs. In addition, as further discussed in Note 7, 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 $6.2 million, which will be amortized over the term of the Senior Secured Credit Facility.
All borrowings under our 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 June 30, 2012, we had approximately $40.1 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 $9.9 million in standby letters of credit outstanding as of June 30, 2012).

Interest and Fees

Borrowings under our 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 or one-month LIBOR, in each case, plus an applicable interest rate margin) (the “Base Rate”) or at the Eurodollar Rate (one-, two-, three- or six-month LIBOR, at our election, as defined in the credit agreement governing the Senior Secured Credit Facility), 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 currently 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 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 7, Derivative Financial Instruments and Fair Value Measurements, for discussion regarding our various interest rate swap agreements.

Guarantees and Security

Our 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 Senior Secured Convertible Notes due 2033 on an equal and ratable basis with the indebtedness under our Senior Secured Credit Facility to the extent required by the indenture governing such notes.

Prepayments

The 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 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.

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VALASSIS COMMUNICATIONS, INC.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Covenants

Subject to customary and otherwise agreed upon exceptions, our 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 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 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 Senior Secured Credit Facility as of June 30, 2012:

	Required Ratio	Actual Ratio
Maximum consolidated leverage ratio	No greater than 3.50:1.00	1.97:1.00
Minimum consolidated interest coverage ratio	No less than 3.00:1.00	10.90:1.00

In addition, we are required to give notice to the administrative agent and the lenders under our 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 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 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 Senior Secured Credit Facility.

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VALASSIS COMMUNICATIONS, INC.
Notes to Condensed Consolidated Financial Statements
(unaudited)

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 (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 six months ended June 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.
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 are being 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.

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.

VALASSIS COMMUNICATIONS, INC.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Additional Provisions

The indenture governing the Senior Secured Convertible Notes due 2033 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.

Repurchases of Debt

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, in privately negotiated transactions or otherwise.

Covenant Compliance

As of June 30, 2012, we were in compliance with all of our indenture and 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)	June 30, 2012	December 31, 2011
Accrued interest	$7,305	$7,205
Accrued compensation and benefits	45,408	55,030
Other accrued expenses	37,544	36,174
Accrued expenses	$90,257	$98,409

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 June 30, 2012, we have recorded a liability of $6.8 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.

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6. EARNINGS PER SHARE

Earnings per common share data were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2012	2011	2012	2011
Net earnings	$21,707	$30,252	$48,128	$51,663
Weighted-average common shares outstanding, basic	41,170	47,877	41,642	48,903
Shares issued on exercise of dilutive options	4,350	5,591	4,622	6,142
Shares purchased with assumed proceeds of options and unearned restricted shares	(2,801)	(3,305)	(2,883)	(3,799)
Shares contingently issuable	—	4	1	4
Weighted-average common shares outstanding, diluted	42,719	50,167	43,382	51,250
Net earnings per common share, diluted	$0.51	$0.60	$1.11	$1.01
Anti-dilutive options excluded from calculation of weighted-average common shares outstanding, diluted	3,521	3,285	3,403	2,915

7. 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:

	Notional Amounts		Fair Values		
(in millions of U.S. dollars)	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	Balance Sheet Location
Derivatives designated as cash flow hedging instruments:					
Interest rate swap contract	$186.3	$186.3	$(6.2)	$(4.6)	Other non-current liabilities
Derivatives not receiving hedge accounting treatment:					
Interest rate swap contract	—	140.0	—	(0.8)	Accrued expenses
Foreign exchange contracts	10.7	11.7	(0.1)	(1.0)	Accrued expenses
Total derivative financial instruments	$197.0	$338.0	$(6.3)	$(6.4)	

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.

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

	Three Months Ended June 30,					
	2012	2011	2012	2011	2012	2011
(in millions of U.S. Dollars)	Amount of Pre-tax 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	$—	$—	$(0.9)	$(0.2)	$—	$(3.7)
Derivatives not receiving hedge accounting treatment:						
Interest rate swap contracts	$—	$(0.1)	$—	$—	$—	$—
Foreign exchange contracts	(0.2)	(0.2)	—	—	—	—
	$(0.2)	$(0.3)	$(0.9)	$(0.2)	$—	$(3.7)

	Six Months Ended June 30,					
	2012	2011	2012	2011	2012	2011
(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	$—	$—	$(1.6)	$(0.4)	$—	$(5.0)
Derivatives not receiving hedge accounting treatment:						
Interest rate swap contracts	$(0.1)	$(0.1)	$—	$—	$—	$—
Foreign exchange contracts	0.9	—	—	—	—	—
	$0.8	$(0.1)	$(1.6)	$(0.4)	$—	$(5.0)

* Amounts recognized in earnings related to interest rate swap contracts are included in interest expense in the unaudited condensed consolidated statements of income and amounts recognized in earnings related to foreign exchange contracts are included in cost of sales in the unaudited condensed consolidated statements of income.

Interest Rate Swaps

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 an equivalent portion 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 amortized by $40.0 million at the end of every quarter until it reached $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. Changes in the fair value of this swap subsequent to the termination of hedge accounting were recognized in earnings as a component of interest expense until expiration of the swap.

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 was June 30, 2012. 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 our Senior Secured Credit Facility, is 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 ending September 30, 2013, (ii) $5,625,000 from September 30, 2013 through the quarter ending 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 June 30, 2012, we had a commitment to purchase $10.2 million in Mexican pesos and $0.5 million in Polish zlotys over the next year.

Long-Term Debt

The estimated fair market value of our long-term debt was $14.3 million and $25.0 million below carrying value as of June 30, 2012 and December 31, 2011. Our 2021 Notes are traded in an active market with the fair value determined based on quoted active market prices, which represents a Level 1 fair value input. Borrowings under our 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, which represent Level 3 fair value inputs.

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.

8. REPURCHASES OF COMMON STOCK

The following table summarizes our repurchases of common stock during the indicated periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
in thousands, except per share data	2012	2011	2012	2011
Shares repurchased	3,236	2,144	3,295	3,767
Aggregate repurchase price	$64,535	$60,326	$65,900	$105,856
Average price paid per share	$19.94	$28.14	$20.00	$28.10

As of June 30, 2012, we had authorization to repurchase an additional 4.2 million shares of our common stock under the share repurchase program approved by our Board of Directors.

9. BRAND.NET ACQUISITION

On June 20, 2012, we acquired, through a wholly-owned subsidiary, Brand.net, an online display, video and mobile advertising platform. The acquisition was accounted for as a purchase under the acquisition method in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") No. 805, Business Combinations. The total purchase price was approximately $18.0 million and is subject to adjustment for the indebtedness, transaction expenses and net working capital of Brand.net. The purchase price did not include direct acquisition costs of approximately $0.7 million. The acquisition was recorded by allocating the purchase price to the assets acquired, including identifiable intangible assets and liabilities assumed, based on their estimated fair values at the date of acquisition. The acquisition of Brand.net did not have a material impact on our revenues or net earnings for the three and six months ended June 30, 2012, and would not have had a material impact on our revenues or net earnings for any of the periods included in the unaudited, condensed consolidated statements of income if the acquisition had been consummated at the beginning of such periods.

In accordance with FASB ASC No. 805, the preliminary purchase price allocation is subject to adjustment within one year after the acquisition as additional information on asset and liability valuations becomes available.

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., our coupon clearing and analytics business, as well as our digital and in-store businesses. 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 2011 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 to reportable segments and are not used to assess the performance of a reportable segment.

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

(in millions of U.S. dollars)	Three Months Ended June 30, Shared Mail	Neighborhood Targeted	FSI	International, Digital Media & Services	Total
2012					
Revenues from external customers	$348.8	$77.5	$70.5	$ 43.4	$540.2
Intersegment revenues	$3.9	$13.6	$10.1	$ —	$27.6
Depreciation/amortization	$8.2	$1.0	$3.2	$ 2.0	$14.7
Segment profit (loss)	$52.3	$(2.4)	$7.3	$ 2.3	$59.5
2011					
Revenues from external customers	$337.2	$88.8	$89.2	$ 50.0	$565.3
Intersegment revenues	$4.1	$12.9	$9.8	$ 0.1	$26.9
Depreciation/amortization	$9.5	$1.0	$3.0	$ 1.9	$15.4
Segment profit	$47.7	$0.8	$8.3	$ 6.4	$63.2

(in millions of U.S. dollars)	Six Months Ended June 30, Shared Mail	Neighborhood Targeted	FSI	International, Digital Media & Services	Total
2012					
Revenues from external customers	$676.9	$149.7	$146.8	$ 85.4	$1,058.8
Intersegment revenues	$8.4	$26.6	$20.1	$ —	$55.1
Depreciation/amortization	$16.5	$2.1	$6.4	$ 4.1	$29.1
Segment profit (loss)	$94.8	$(4.0)	$12.7	$ 5.0	$108.5
2011					
Revenues from external customers	$659.8	$178.9	$178.4	$ 95.1	$1,112.2
Intersegment revenues	$8.6	$22.2	$19.6	$ 0.2	$50.6
Depreciation/amortization	$19.5	$2.0	$6.0	$ 3.6	$31.1
Segment profit	$89.8	$2.7	$15.7	$ 11.8	$120.0

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The following table provides reconciliations of total segment profit to earnings from operations for the indicated periods (nonoperating expenses are not allocated to reportable segments and are not used to assess the performance of a reportable segment):

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions of U.S. dollars)	2012	2011	2012	2011
Total segment profit	$59.5	$63.2	$108.5	$120.0
Unallocated amounts:				
Goodwill impairment	$7.6	$—	$7.6	$—
Restructuring and other charges	$9.7	$—	$9.7	$—
Earnings from operations	$42.2	$63.2	91.2	$120.0

The $9.7 million of restructuring and other charges recognized during the three and six months ended June 30, 2012 consisted of $5.3 million of severance and related costs and $0.7 million of Brand.net acquisition costs, both of which were included in selling, general and administrative expenses in the unaudited, condensed consolidated statements of income, and $3.7 million of lease termination, severance, asset impairment and other costs associated with our decision to exit our solo direct mail business and our newspaper polybag advertising and sampling business, which were included in cost of sales in the unaudited, condensed consolidated statements of income. The results of operations of these businesses were immaterial to our consolidated results of operations for each of the three and six months ended June 30, 2012 and 2011.

Domestic and foreign revenues were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions of U.S. dollars)	2012	2011	2012	2011
United States	$529.7	$550.4	$1,035.9	$1,085.2
Foreign	10.5	14.9	22.9	27.0
Revenues	$540.2	$565.3	$1,058.8	$1,112.2

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

(in millions of U.S. dollars)	June 30, 2012	December 31, 2011
United States	$130.3	$140.7
Foreign	7.8	8.2
Property, plant and equipment, net	$138.1	$148.9

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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, subject to certain customary exceptions. Pursuant to the terms of the 2021 Indenture, the Guarantor Subsidiaries are subject to release under certain customary conditions as described below. 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 2021 Indenture provides for a Guarantor Subsidiary to be automatically and unconditionally released and discharged from its guarantee obligations in certain circumstances, including:

- The sale or other transfer or disposition of all of the Guarantor Subsidiary's capital stock to any person that is not an affiliate of the Parent Company;
- The sale or other transfer of all or substantially all the assets or capital stock of a Guarantor Subsidiary, by way of merger, consolidation or otherwise, to any person that is not an affiliate of the Parent Company;
- If a Guarantor Subsidiary ceases to be a “Domestic Restricted Subsidiary” for purposes of the indenture covenants; and
- Legal defeasance or covenant defeasance of the indenture obligations when provision has been made for them to be fully satisfied.

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Condensed Consolidating Balance Sheet
June 30, 2012
(in thousands of U.S. dollars)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
Assets					
Current assets:					
Cash and cash equivalents	$54,185	$4,379	$16,673	$—	$75,237
Accounts receivable, net	98,314	259,624	20,768	—	378,706
Inventories	22,968	7,395	3	—	30,366
Prepaid expenses and other (including intercompany)	1,253,998	2,744,699	1,451	(3,945,879)	54,269
Total current assets	1,429,465	3,016,097	38,895	(3,945,879)	538,578
Property, plant and equipment, net	20,184	116,763	1,123	—	138,070
Goodwill	23,699	598,198	6,989	—	628,886
Other intangible assets, net	11,546	213,120	—	—	224,666
Investments	615,571	15,328	—	(627,303)	3,596
Intercompany note receivable (payable)	346,383	(342,912)	(3,471)	—	—
Other assets	8,721	2,881	14	—	11,616
Total assets	$2,455,569	$3,619,475	$43,550	$(4,573,182)	$1,545,412
Liabilities and Stockholders' Equity					
Current liabilities:					
Current portion, long-term debt	$15,000	$—	$—	$—	$15,000
Accounts payable and intercompany payable	1,324,569	2,865,584	12,798	(3,945,879)	257,072
Progress billings	14,529	10,892	13,875		39,296
Accrued expenses	50,708	33,552	5,997		90,257
Total current liabilities	1,404,806	2,910,028	32,670	(3,945,879)	401,625
Long-term debt	580,061	—	—	—	580,061
Deferred income taxes	(3,446)	74,241	(3,997)	—	66,798
Other non-current liabilities	30,243	22,314	466	—	53,023
Total liabilities	2,011,664	3,006,583	29,139	(3,945,879)	1,101,507
Stockholders' equity	443,905	612,892	14,411	(627,303)	443,905
Total liabilities and stockholders' equity	$2,455,569	$3,619,475	$43,550	$(4,573,182)	$1,545,412

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Condensed Consolidating Balance Sheet
December 31, 2011
(in thousands of U.S. dollars)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
Assets					
Current assets:					
Cash and cash equivalents	$68,887	$7,543	$25,541	$—	$101,971
Accounts receivable, net	123,558	302,096	22,666	—	448,320
Inventories	32,159	8,958	3	—	41,120
Prepaid expenses and other (including intercompany)	1,157,263	1,993,450	23,217	(3,136,275)	37,655
Total current assets	1,381,867	2,312,047	71,427	(3,136,275)	629,066
Property, plant and equipment, net	24,790	122,565	1,550	—	148,905
Goodwill	23,584	605,898	6,989	—	636,471
Other intangible assets, net	11,558	202,055	—	—	213,613
Investments	547,366	21,385	—	(565,261)	3,490
Intercompany note receivable (payable)	359,649	(333,683)	(25,966)	—	—
Other assets	9,710	5,271	(2,079)	—	12,902
Total assets	$2,358,524	$2,935,538	$51,921	$(3,701,536)	$1,644,447
Liabilities and Stockholders' Equity					
Current liabilities:					
Current portion, long-term debt	$15,000	$—	$—	$—	$15,000
Accounts payable and intercompany payable	1,210,296	2,246,381	13,976	(3,136,275)	334,378
Progress billings	15,952	10,358	13,665	—	39,975
Accrued expenses	52,675	38,543	7,191	—	98,409
Total current liabilities	1,293,923	2,295,282	34,832	(3,136,275)	487,762
Long-term debt	587,560	—	—	—	587,560
Deferred income taxes	(2,840)	74,241	(3,997)	—	67,404
Other non-current liabilities	30,347	20,887	953	—	52,187
Total liabilities	1,908,990	2,390,410	31,788	(3,136,275)	1,194,913
Stockholders' equity	449,534	545,128	20,133	(565,261)	449,534
Total liabilities and stockholders' equity	$2,358,524	$2,935,538	$51,921	$(3,701,536)	$1,644,447

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Condensed Consolidating Statement of Comprehensive Income
Three Months Ended June 30, 2012
(in thousands of U.S. dollars)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
Revenues	$171,537	$457,664	$14,504	$(103,467)	$540,238
Costs and expenses:					
Cost of sales	145,141	294,725	13,616	(49,755)	403,727
Selling, general and administrative	33,439	100,689	3,107	(53,712)	83,523
Amortization expense	5	3,151	—	—	3,156
Goodwill impairment	3,985	3,600	—	—	7,585
Total costs and expenses	182,570	402,165	16,723	(103,467)	497,991
Earnings from operations	(11,033)	55,499	(2,219)	—	42,247
Other expenses and income:					
Interest expense	6,755	—	—	—	6,755
Interest income	(38)	—	(32)	—	(70)
Intercompany interest	(1,788)	1,741	47	—	—
Other expenses (income), net	129	(107)	(99)	—	(77)
Total other expenses (income), net	5,058	1,634	(84)	—	6,608
Earnings before income taxes	(16,091)	53,865	(2,135)	—	35,639
Income tax expense	(5,005)	18,548	389	—	13,932
Equity in net earnings of subsidiaries	32,793	(2,524)	—	(30,269)	—
Net earnings (loss)	$21,707	$32,793	$(2,524)	$(30,269)	$21,707
Other comprehensive income (loss)	(372)	203	203	(406)	(372)
Comprehensive income (loss)	$21,335	$32,996	$(2,321)	$(30,675)	$21,335

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Condensed Consolidating Statement of Comprehensive Income
Three Months Ended June 30, 2011
(in thousands of U.S. dollars)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
Revenues	$200,589	$444,629	$20,281	$(100,247)	$565,252
Costs and expenses:					
Cost of sales	168,597	286,880	13,973	(51,410)	418,040
Selling, general and administrative	21,461	104,561	3,646	(48,837)	80,831
Amortization expense	5	3,150	—	—	3,155
Total costs and expenses	190,063	394,591	17,619	(100,247)	502,026
Earnings from operations	10,526	50,038	2,662	—	63,226
Other expenses and income:					
Interest expense	11,726	—	—	—	11,726
Interest income	(96)	—	(26)	—	(122)
Intercompany interest	(3,157)	2,995	162	—	—
Loss on extinguishment of debt	2,966	—	—	—	2,966
Other expenses (income), net	9	(1,481)	36	—	(1,436)
Total other expenses, net	11,448	1,514	172	—	13,134
Earnings (loss) before income taxes	(922)	48,524	2,490	—	50,092
Income tax expense	241	18,844	755	—	19,840
Equity in net earnings of subsidiaries	31,415	1,735	—	(33,150)	—
Net earnings	$30,252	$31,415	$1,735	$(33,150)	$30,252
Other comprehensive income (loss)	2,120	(58)	(58)	116	2,120
Comprehensive income	$32,372	$31,357	$1,677	$(33,034)	$32,372

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Condensed Consolidating Statement of Comprehensive Income
Six Months Ended June 30, 2012
(in thousands of U.S. dollars)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Total
Revenues	$342,828	$887,678	$31,886	$(203,569)	$1,058,823
Costs and expenses:					
Cost of sales	290,283	577,820	25,544	(101,026)	792,621
Selling, general and administrative	53,809	203,483	6,391	(102,543)	161,140
Amortization expense	11	6,301	—	—	6,312
Goodwill impairment	3,985	3,600	—	—	7,585
Total costs and expenses	348,088	791,204	31,935	(203,569)	967,658
Earnings from operations	(5,260)	96,474	(49)	—	91,165
Other expenses and income:					
Interest expense	13,809	—	—	—	13,809
Interest income	(60)	—	(68)	—	(128)
Intercompany interest	(10,755)	10,708	47	—	—
Other income, net	(15)	(723)	(36)	—	(774)
Total other expenses (income), net	2,979	9,985	(57)	—	12,907
Earnings (loss) before income taxes	(8,239)	86,489	8	—	78,258
Income tax expense (benefit)	(2,587)	31,908	809	—	30,130
Equity in net earnings (loss) of subsidiaries	53,780	(801)	—	(52,979)	—
Net earnings (loss)	$48,128	$53,780	$(801)	$(52,979)	$48,128
Other comprehensive income (loss)	(426)	553	553	(1,106)	(426)
Comprehensive income (loss)	$47,702	$54,333	$(248)	$(54,085)	$47,702

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VALASSIS COMMUNICATIONS, INC.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Condensed Consolidating Statement of Comprehensive Income
Six Months Ended June 30, 2011
(in thousands of U.S. dollars)

	Parent Company