APOLLO GOLD CORP
Form 10-K
March 16, 2005

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

Commission File Number: 001-31593

Apollo Gold Corporation
(Exact name of registrant as specified in its charter)

Yukon Territory	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

5655 S. Yosemite Street, Suite 200
Greenwood Village, Colorado 80111-3220
(Address of Principal Executive Offices Including Zip Code)
(720) 886-9656
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(B) of the Act: None
Securities registered pursuant to Section 12(G) of the Act: Common Shares, no par value

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 þ No o

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes þ No o

As of June 30, 2004, the approximate aggregate market value of voting stock held by non-affiliates of the registrant was approximately $102,512,882 (based upon the closing price for shares of the registrant s common shares as reported by the American Stock Exchange on that date).

As of March 11, 2005, the registrant had 95,173,126 common shares, no par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2005 Annual Meeting of Shareholders are incorporated by reference to Part III of this Report on Form 10-K.

REPORTING CURRENCY, FINANCIAL AND OTHER INFORMATION

All amounts in this Report are expressed in US dollars, unless otherwise indicated. Canadian currency is denoted as Cdn$.

Financial information is presented in accordance with accounting principles generally accepted in Canada (Cdn GAAP). Differences between accounting principles generally accepted in the US (U.S. GAAP) and those applied in Canada, as applicable to Apollo Gold Corporation, are discussed in Note 20 to the Consolidated Financial Statements.

Information in Part I and II of this report includes data expressed in various measurement units and contains numerous technical terms used in the gold mining industry. To assist readers in understanding this information, a conversion table and glossary are provided below.

References to Apollo , we , our , and us mean Apollo Gold Corporation, its predecessors and consolidated subsidiaries, or any one or more of them, as the context requires.

NON-GAAP FINANCIAL MEASURES

The cash operating, total cash and total production costs are non GAAP financial measures and are used by management to assess performance of individual operations as well as a comparison to other gold producers.

This information differs from measures of performance determined in accordance with generally accepted accounting principles in Canada and the United States and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under GAAP and may not be comparable to similarly titled measures of other companies. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations for a reconciliation of these non-GAAP measures to our Statements of Operations.

STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

This Form 10-K contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Exchange Act of 1934, as amended (the Exchange Act), with respect to our financial condition, results of operations, business prospects, plans, objectives, goals, strategies, future events, capital expenditure, and exploration and development efforts. Words such as anticipates, expects, intends, forecasts, plans, believes, seeks, estimates, may, will, and similar expressions identify forward- statements. These statements include comments regarding:

the establishment and estimates of mineral reserves and resources;

production;

production commencement dates;

production costs;

cash operating costs;

total cash costs;

grade;

processing capacity;

potential mine life;

feasibility studies;

development costs;

expenditures;

exploration;

permits;

expansion plans;

closure costs;

development drilling and its potential results;

surveys of claims;

recovery rates;

geological prospects;

impact of governmental laws;

nonpayment of dividends and use of earnings from operations;

delivery of metals;

cash flows;

future financing;

our ability to fund our capital requirements;

factors impacting our results of operations; and

the impact of adoption of new accounting standards.

Although we believe that our plans, intentions and expectations reflected in these forward-looking statements are reasonable, we cannot be certain that these plans, intentions or expectations will be achieved. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and other factors described in more detail in this Annual Report on Form 10-K:

unexpected changes in business and economic conditions;

significant increases or decreases in gold prices;

changes in interest and currency exchange rates;

timing and amount of production;

unanticipated grade changes;

unanticipated recovery or production problems;

changes in mining and milling costs;

pit slides at our mining properties;

metallurgy, processing, access, availability of materials, equipment, supplies and water;

determination of reserves;

changes in project parameters;

costs and timing of development of new reserves;

results of current and future exploration activities;

results of pending and future feasibility studies;

joint venture relationships;

political or economic instability, either globally or in the countries in which we operate;

local and community impacts and issues;

timing of receipt of government approvals;

accidents and labor disputes;

environmental costs and risks;

competitive factors, including competition for property acquisitions;

availability of external financing at reasonable rates or at all; and

the factors discussed in this Annual Report on Form 10-K under the heading Risk Factors.

Many of these factors are beyond our ability to control or predict. These factors are not intended to represent a complete list of the general or specific factors that may affect us. We may note additional factors elsewhere in this Annual Report on Form 10-K and in any documents incorporated by reference into this Annual Report on Form 10-K. We undertake no obligation to update forward-looking statements.

GLOSSARY OF TERMS

Reserve	The term reserve refers to that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Reserves must be supported by a feasibility study done to bankable standards that demonstrates the economic extraction. (Bankable standards implies that the confidence attached to the costs and achievements developed in the study is sufficient for the project to be eligible for external debt financing.) A reserve includes adjustments to the in-situ tonnes and grade to include diluting materials and allowances for losses that might occur when the material is mined.
Proven Reserve	The term proven reserve refers to reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape depth and mineral content of reserves are well-established.
Probable Reserve	The term probable reserve refers to reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.
Mineralized Material	The term mineralized material refers to material that is not included in the reserve as it does not meet all of the criteria for adequate demonstration for economic or legal extraction.
Exploration Stage	An exploration stage prospect is one which is not in either the development or production stage.
Development Stage	A development stage project is one which is undergoing preparation of an established commercially mineable deposit for its extraction but which is not yet in production. This stage occurs after completion of a feasibility study.
Production Stage	A production stage project is actively engaged in the process of extraction and beneficiation of mineral reserves to produce a marketable metal or mineral product.
Mining	Mining is the process of extraction and beneficiation of mineral reserves to produce a marketable metal or mineral product. Exploration continues during the mining process and, in many cases, mineral reserves are expanded during the life of the mine operations as the exploration potential of the deposit is realized.
Cash Operating Cost per Ounce	is equivalent to direct operating cost expense for the period as found on the Consolidated Statements of Operations, less mining taxes and by-product credits payable for silver, lead, and zinc divided by the number of ounces of gold sold during the period.

Doré	unrefined gold bullion bars containing various impurities such as silver, copper and mercury, which will be further refined to near pure gold.
Fault	a surface or zone of rock fracture along which there has been displacement
Fold	a curve or bend of a planar structure such as rock strata, bedding planes, foliation, or cleavage
Formation	a distinct layer of sedimentary rock of similar composition.
Geochemistry	the study of the distribution and amounts of the chemical elements in minerals, ores, rocks, solids, water, and the atmosphere.
Geophysicist	one who studies the earth; in particular the physics of the solid earth, the atmosphere and the earth s magnetosphere.
Geotechnical	the study of ground stability.
Heap Leach	a mineral processing method involving the crushing and stacking of an ore on an impermeable liner upon which solutions are sprayed that dissolve metals such as gold and copper; the solutions containing the metals are then collected and treated to recover the metals.
Mapped or Geological	the recording of geologic information such as the distribution and nature of rock
Mapping	units and the occurrence of structural features, mineral deposits, and fossil localities.
Mineral	a naturally formed chemical element or compound having a definite chemical composition and, usually, a characteristic crystal form.
Mineralization	a natural occurrence in rocks or soil of one or more metal yielding minerals.
Outcrop	that part of a geologic formation or structure that appears at the surface of the earth.
Put	a financial instrument that provides the right, but not the obligation, to sell a specified number of ounces of gold at a specified price.
Shear	a form of strain resulting from stresses that cause or tend to cause contiguous parts of a body of rock to slide relatively to each other in a direction parallel to their plane of contact.
Strike	the direction or trend that a structural surface, e.g. a bedding or fault plane, takes as it intersects the horizontal.
Strip	to remove overburden in order to expose ore.
Total Cash Cost per Ounce	is equivalent to mining operations expense for the period, less by-product credits payable for silver, lead and zinc, plus royalty expense and mining and property

	taxes, divided by the number of ounces of gold sold during the period.
Total Production Cost per Ounce	is equivalent to total cash cost per ounce plus depreciation and amortization.

Vein	a thin, sheet like crosscutting body of hydrothermal mineralization, principally quartz.
Wall Rock	the rock adjacent to a vein.

CONVERSION FACTORS AND ABBREVIATIONS

For ease of reference, the following conversion factors are provided:

1 acre	= 0.4047 hectare	1 mile	= 1.6093 kilometers
1 foot	= 0.3048 meter	1 troy ounce	= 31.1035 grams
1 gram per metric tonne	= 0.0292 troy ounce/short ton	1 square mile	= 2.59 square kilometers
1 short ton (2000 pounds)	= 0.9072 tonne	1 square kilometer	= 100 hectares
1 tonne	= 1,000 kg or 2,204.6 lbs	1 kilogram	= 2.204 pounds or 32.151 troy oz
1 hectare	= 10,000 square meters	1 hectare	= 2.471 acres

The following abbreviations could be used herein:

Au	= gold	m^2	= square meter
g	= gram	m^3	= cubic meter
Au g/t	= grams of gold per tonne	Mg or mg	= milligram
ha	= hectare	mg/m^3	= milligrams per cubic meter
km	= kilometer	T	= tonnes
km^2	= square kilometers	t	= ton
kg	= kilogram	Oz	= troy ounce
lbs	= pounds	Ppb	= parts per billion
m	= meter	Ma	= million years

Note: All units in this report are stated in metric measurements unless otherwise noted.

PART I

ITEM 1. ***DESCRIPTION OF BUSINESS***

OVERVIEW OF APOLLO GOLD

The earliest predecessor to Apollo Gold Corporation was incorporated under the laws of the Province of Ontario in 1936. We are the result of the Plan of Arrangement that resulted in the amalgamation of International Pursuit Corporation and Nevoro Gold Corporation in June 2002. Pursuant to the terms of the Plan of Arrangement, Pursuit acquired Nevoro and continued operations under the name of Apollo Gold Corporation. Through our wholly-owned subsidiary, Apollo Gold, Inc. (acquired by Nevoro in March 2002), we own the majority of our assets and operate the majority of our business. In May 2003, Apollo Gold Corporation reincorporated under the laws of the Yukon Territory. Apollo Gold Corporation maintains its registered office at 204 Black Street, Suite 300, Whitehorse, Yukon Territory, Canada Y1A 2M9, and the telephone number at that office is (867) 668-5252. Apollo Gold Corporation maintains its principal executive office at 5655 S. Yosemite Street, Suite 200, Greenwood Village, Colorado 80111-3220, and the telephone number at that office is (720) 886-9656. Our internet address is http://www.apollogold.com. Information contained on our website is not a part of this Annual Report on Form 10-K.

We are principally engaged in the exploration, development and mining of gold. We have focused our mining efforts to date on two principal properties: Florida Canyon Mine in Nevada and Montana Tunnels Mine in Montana. In 2004, we completed construction of the Standard Mine, located in Nevada near Florida Canyon.

Our development activities involve our Black Fox property in Ontario and our exploration activities include the Pirate Gold, Nugget Field and newly acquired Willow Creek and Huizopa properties.

We are a reporting issuer, or the equivalent, in Canada and the United States and we file disclosure documents with Canadian securities regulatory authorities and the United States Securities and Exchange Commission (the SEC).

BACKGROUND

Apollo Gold Corporation

The following chart illustrates our operations and principal operating subsidiaries and their jurisdictions of incorporation. We own 100% of the voting securities of each subsidiary.

APOLLO GOLD CORPORATION: American Stock Exchange and Toronto Stock Exchange listed holding company which owns and operates the Black Fox development property.

APOLLO GOLD, INC.: Holding company, employs executive officers and furnishes corporate services.

MINERA SOL DE ORO S.A. de C.V.: Holds our rights to the Huizopa exploration property.

MONTANA TUNNELS MINING, INC.: Owns and operates the Montana Tunnels Mine and owns the Diamond Hill Mine.

FLORIDA CANYON MINING, INC.: Owns and operates the Florida Canyon Mine.

APOLLO GOLD EXPLORATION, INC.: Holds United States exploration properties not related to any existing operation.

STANDARD GOLD MINING, INC.: Owns and operates the Standard Mine.

MINE DEVELOPMENT FINANCE INC.: Provides intercompany loans and other financial services to affiliated companies.

Products

Our mines primarily produce gold but also produce silver, zinc and lead. We sell our products principally to custom smelters, refiners and metals traders. The percentage of sales contributed by each class of product is reflected in the following table.

	Year Ended December 31,		
Product Category	**2004**	**2003**	**2002**
Gold	62%	79%	85%
Zinc	20%	13%	11%
Silver, lead and other metals	18%	8%	4%

The table below summarizes our metals production and average metals prices for the periods indicated.

	Year Ended December 31,		
	2004	2003	2002
Production Summary			
Gold ounces	106,825	145,935	62,699
Silver ounces	1,031,156	471,241	275,925
Lead pounds	10,064,265	10,843,184	5,481,230
Zinc pounds	26,222,805	21,792,452	15,328,392
Average metals prices			
Gold London Bullion Mkt. ($/ounce)	$ 409	$ 364	$ 310
Silver London Bullion Mkt. ($/ounce)	$ 6.66	$ 4.88	$ 4.59
Lead LME Cash ($/pound)	$ 0.40	$ 0.23	$ 0.20
Zinc LME Cash ($/pound)	$ 0.48	$ 0.38	$ 0.35

Gold

Gold Production

We produced 106,825, 145,935, and 62,699 ounces of gold during the years ended December 31, 2004, 2003, and 2002, respectively. For the year ended December 31, 2004, 68% of our gold production came from our Florida Canyon Mine and 32% from our Montana Tunnels Mine. In 2003, 70% of our gold production came from our Florida Canyon Mine, and 30% from our Montana Tunnels Mine. Approximately 82% of our gold production in 2002 came from our Florida Canyon Mine and the remaining 18% from our Montana Tunnels Mine.

Most of our revenue is derived from the sale of refined gold in the international market. However, our end product is doré bars. Because doré is an alloy consisting primarily of gold but also containing silver and other metals, doré bars are sent to refiners to produce bullion that meets the required market standard of 99.99% pure gold. Under the terms of our refining contracts, the doré bars are refined for a fee, and our share of the refined gold and the separately recovered silver is paid to us.

Gold Uses

Gold has two primary uses: product fabrication and bullion investment. Fabricated gold has a variety of end uses, including jewelry, electronics, dentistry, industrial and decorative uses, medals, medallions and official coins. Gold investors purchase gold bullion, official coins and high-carat jewelry.

Gold Supply

The worldwide supply of gold consists of a combination of new production from mining and existing stocks of bullion and fabricated gold held by governments, financial institutions, industrial organizations and private individuals.

Gold Price History

The price of gold is volatile and is affected by numerous factors beyond our control such as the sale or purchase of gold by various central banks and financial institutions, inflation or deflation, fluctuation in the value of the US dollar and foreign currencies, global and regional demand, and the political and economic conditions of major gold-producing countries throughout the world.

The following table presents the high, low and average afternoon fixing prices for gold per ounce on the London Bullion Market over the past ten years.

Year	High	Low	Average
1995	$ 396	$ 372	$ 384
1996	415	367	388
1997	362	283	331
1998	313	273	294
1999	326	253	279
2000	313	264	279
2001	293	256	271
2002	349	278	310
2003	416	320	364
2004	454	375	409

Data Source: www.kitco.com

As of March 10, 2005, the high, low, and afternoon fixing prices for gold per ounce on the London Bullion Market were $443, $439 and $440.90 per ounce, respectively.

Zinc

Production from the Montana Tunnels Mine also includes the extraction, processing and sale of zinc and lead contained in sulfide concentrates. We produced 26.2, 21.8 and 15.3 million pounds of zinc in 2004, 2003 and 2002, respectively.

Due to its corrosion resisting property, zinc is used primarily as the coating in galvanized steel. Galvanized steel is widely used in construction of infrastructure, housing and office buildings. In the automotive industry, zinc is used for galvanizing and die-casting, and in the vulcanization of tires. Smaller quantities of various forms of zinc are used in the chemical and pharmaceutical industries, including fertilizers, food supplements and cosmetics, and in specialty electronic applications such as satellite receivers.

Annual Global Supply/ Demand Balance for Zinc, 2000-2004

	2004	2003	2002	2001	2000
			(000 s tonnes)		
Refined Consumption	10,208	9,738	9,388	8,917	8,997
Refined Production	10,005	9,863	9,712	9,228	8,981
Release of Inv. Stocks	12	7	3	23	39
Increase (Decrease) World Stock	-191	132	327	334	23
LME Stocks Total	629	740	651	433	195
Weeks consumption	3.2	4.0	3.6	2.5	1.1
Reported Stocks Total	1,011	1,202	1,095	946	662
Weeks consumption	5.2	6.4	6.1	5.5	3.8
LME cash price $/tonne	1,048	828	779	886	1,128
cents/lb	47.5	37.6	35.3	40.2	51.2

Data Source: Standard Bank Metals Report.

Zinc Price History

The following table sets forth for the periods indicated the London Metals Exchange s high and low settlement prices of zinc in U.S. dollars per pound.

	Zinc	
Year	**High**	**Low**
2000	0.58	0.46
2001	0.48	0.33
2002	0.42	0.33
2003	0.46	0.34
2004	0.56	0.42
2005*	0.65	0.53

* Through March 10, 2005

Silver

We produced 1,031,156, 471,241, and 275,925 ounces of silver in the years ended December 31, 2004, 2003 and 2002, respectively. Our silver production is a by-product of our gold mining operation. For the year ended December 31, 2004, 94% of our silver production came from our Montana Tunnels Mine and 6% from the Florida Canyon Mine. Approximately 87% of our silver production came from our Montana Tunnels Mine and the remaining 13% from our Florida Canyon Mine in the year ended December 31, 2003.

Silver has traditionally served as a medium of exchange, much like gold. While silver continues to be used for currency, the current principal uses of silver are for industrial uses, primarily for electrical and electronic components, photography, jewelry and silverware. Silver s strength, malleability, ductility, thermal and electrical conductivity, sensitivity to light and ability to endure extreme changes in temperature combine to make silver a widely used industrial metal. Specifically, it is used in photography, batteries, computer chips, electrical contacts, and high technology printing. Silver s anti-bacterial properties also make it valuable for use in medicine and in water purification.

The following table sets forth for the periods indicated the London Metals Exchange s high and low settlement prices of silver in U.S. dollars per pound.

Silver Price History

	Silver	
Year	**High**	**Low**
2000	5.57	4.62
2001	4.83	4.03
2002	5.13	4.22
2003	5.99	4.35
2004	8.29	5.49
2005*	7.60	6.45

* Through March 10, 2005

Lead

Production from the Montana Tunnels Mine also includes the extraction, processing and sale of lead contained in sulfide concentrates. We produced approximately 10.1, 10.8 and 5.5 million pounds of lead in 2004, 2003 and 2002, respectively.

The primary use of lead is in motor vehicle batteries, but it is also used in cable sheathing, solder in printed wiring circuits, shot for ammunition and alloying. Lead in chemical form is used in alloys, glass and plastics.

Annual Global Supply/ Demand Balance for Lead, 2000-2004

	2004	2003	2002	2001	2000
			(000 s tonnes)		
Refined Consumption	6,939	6,814	6,641	6,503	6,518
Refined Production	6,726	6,761	6,665	6,575	6,655
Release of Stock	48	60	6	41	32
Increase (Decrease) Stock	-165	7	30	113	169
LME Stocks Total	40	109	184	98	131
Weeks consumption	0.3	0.8	1.4	0.8	1.0
Reported Stocks Total	228	393	483	436	440
Weeks consumption	1.7	3.0	3.8	3.5	3.5
LME cash price $/tonne	887	516	453	476	454
cents/lb	40.2	23.4	20.5	21.6	20.6

Data Source: Standard Bank Metals Report.

Lead Price History

The following table sets forth for the periods indicated the London Metals Exchange s high and low settlement prices for lead in U.S. dollars per pound.

	Lead	
Year	**High**	**Low**
2000	0.26	0.18
2001	0.24	0.20
2002	0.24	0.18
2003	0.34	0.19
2004	0.45	0.29
2005*	0.47	0.41

* Through March 10, 2005

The price of silver, lead and zinc is affected by numerous factors that are beyond our control. See Risk Factors.

Refining Process

We have an annual evergreen agreement with Johnson Matthey to refine our gold doré to a final finished product. Johnson Matthey receives $0.50 for each ounce of gold it refines, in addition to receiving a fee of 0.50% of the payable metal for silver and 0.10% of the payable metal for gold.

Our lead and zinc concentrates are shipped by train to Teck Cominco Metals Ltd. in Trail, British Columbia, Canada, approximately five hours from the Montana Tunnels Mine. Our contract with Teck Cominco expires in March 2007. For further information see Florida Canyon Mine and Montana Tunnels Mine.

2005 OPERATING OUTLOOK

Total Mutual Funds			
	161,016,810		161,016,810
Common Stock - VCI			
	33,734,971		33,734,971
Brokerage Accounts			
Corporate stock - common			
	14,003,563		14,003,563
Corporate stock - preferred			
	123,787		123,787
Interest bearing cash			
	6,668,642		6,668,642
Registered investment companies			
	1,354,112		1,354,112
Other			
	1,384,696		1,384,696
Total Brokerage Accounts			
	22,150,104	1,384,696	23,534,800
Total Assets			
	$216,901,885	$162,829,711	$ $379,731,596

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Valassis Employees Retirement Savings Plan

Notes to Financial Statements

	As of December 31, **2009**			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Collective investment trusts	$	$ 141,868,035	$	$ 141,868,035
Mutual Funds				
Large cap	$ 63,635,443	$	$	$ 63,635,443
International growth fund	30,748,946			30,748,946
Fixed Income fund	4,703,011			4,703,011
Small cap	17,339,244			17,339,244
Mid cap	14,164,740			14,164,740
Total Mutual Funds	130,591,384			130,591,384
Common Stock - VCI	28,821,733			28,821,733
Brokerage Accounts				
Corporate stock -common	8,176,965			8,176,965
Interest bearing cash	8,998,677			8,998,677
Registered investment companies	2,177,812			2,177,812
Other	194,869			194,869
Total Brokerage Accounts	19,548,323			19,548,323
Total Assets	$ 178,961,440	$ 141,868,035	$	$ 320,829,475

6. Termination of the Plan

Although it has not expressed any intention to do so, the Company has the right, under the Plan to discontinue its contributions and to terminate the Plan under the provisions of the Employee Retirement Income Security Act (ERISA). In the event the Plan is terminated, participants would become 100 percent vested in their accounts. Participants will be entitled to the amount credited to their accounts, plus a pro rata share of any unallocated funds or assets of the Plan.

7. Internal Revenue Service Status

The Plan received a determination letter dated May 11, 2010 in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code (IRC). The Plan s prototype document has been amended since applying for the determination letter. The Plan administrator and legal counsel believe that the Plan is currently designed and is being operated in compliance with the applicable requirements of the IRC. Therefore, they believe that the Plan was qualified and the related trust was tax-exempt as of the financial statement date.

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Valassis Employees Retirement Savings Plan

Notes to Financial Statements

8. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for plan benefits per the financial statements to the Form 5500:

Year ended December 31,	**2010**	2009
Net Assets Available for Benefits, per the financial statements	**$ 399,530,579**	$ 343,515,070
Adjustment from contract value to fair value for fully benefit-responsive investment contracts	**(592,823)**	(2,406,776)
Net Assets Available for Benefits, per the Form 5500	**$ 398,937,756**	$ 341,108,294

The following is a reconciliation of the total additions per the financial statements to total income per the Form 5500:

Year ended December 31,	**2010**	2009
Increase in Net Assets Available for Benefits, per the financial statements	**$ 56,015,509**	$ 107,227,921
Adjustment from contract value to fair value for fully benefit-responsive investment contracts as of December 31, 2009 and 2008, respectively	**2,406,776**	5,845,722
Adjustment from contract value to fair value for fully benefit-responsive investment contracts as of December 31, 2010 and 2009, respectively	**(592,823)**	(2,406,776)
Total Income, per the Form 5500	**$ 57,829,462**	$ 110,666,867

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Supplemental Schedule

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Valassis Employees Retirement Savings Plan

Schedule of Assets (Held at End of Year)

EIN: 38-2760940
Plan Number: 004

(a) Identity of Issue	(b) Description of Investment	(d) Cost	(e) Current Value
JPMorgan	Equity Index Fund* - Common Collective Fund	a	$ 47,404,852
JPMorgan	Stable Asset Income Fund* - Common Collective Fund	a	56,932,256
JPMorgan	SmartRetirement 2010* - Common Collective Fund	a	3,073,310
JPMorgan	SmartRetirement 2015* - Common Collective Fund	a	4,316,383
JPMorgan	SmartRetirement 2020* - Common Collective Fund	a	8,929,785
JPMorgan	SmartRetirement 2025* - Common Collective Fund	a	11,567,531
JPMorgan	SmartRetirement 2030* - Common Collective Fund	a	12,266,590
JPMorgan	SmartRetirement 2035* - Common Collective Fund	a	5,475,104
JPMorgan	SmartRetirement 2040* - Common Collective Fund	a	6,476,915
JPMorgan	SmartRetirement 2045* - Common Collective Fund	a	2,265,287
JPMorgan	SmartRetirement Inc. Fund* - Common Collective Fund	a	1,338,715
JPMorgan	SmartRetirement 2050 Fund* - Common Collective Fund	a	1,398,287
Harbor	International - Mutual Fund	a	36,342,539
American Funds	Growth Fund of America - Mutual Fund	a	42,452,675
Wells Fargo	Adv Sml Cap Growth - Mutual Fund	a	9,514,275
American Beacon	Large Cap Value - Mutual Fund	a	11,576,474
Thornburg	Core Growth - Mutual Fund	a	5,427,439
Artisan	Mid Cap Value - Mutual Fund	a	4,148,916
Davis	New York Venture - Mutual Fund	a	12,283,095
Morgan Stanley	US Mid Cap Value - Mutual Fund	a	3,052,027
Oppenheimer	Main Street Small Cap - Mutual Fund	a	8,840,011
Victory	Small Company Opportunity - Mutual Fund	a	887,021
Federated	Total Return Bond Fund	a	26,492,338
Valassis Communications	Company Stock*	a	33,687,008
JPMorgan	Cash in Stock*	a	47,963
CISC	Brokerage Fund	a	22,777,232
Insurance contracts	Policy Number 6568255	a	5,480
Insurance contracts	Policy Number 6404438	a	5,047
Insurance contracts	Policy Number 6568454	a	4,952
Insurance contracts	Policy Number 6060720	a	4,208
Insurance contracts	Policy Number 6400395	a	2,938
Insurance contracts	Policy Number 6567722	a	3,405
Insurance contracts	Policy Number 6568706	a	2,451
Insurance contracts	Policy Number 6567686	a	2,110
Insurance contracts	Policy Number 6404486	a	1,150
Insurance contracts	Policy Number 6229051	a	915
Various Limited Partnership	Alliancebernstein Hldg L P Unit Ltd Partnership	a	18,664
Various Limited Partnership	Boardwalk Pipeline Partners LP Com Unit Ltd	a	3,113
Various Limited Partnership	Calument Specialty Prods Partners L P Common Units Repstg	a	90,140
Various Limited Partnership	Cheniere Energy Partners L P Com Unit Reptg Limited	a	4,262

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Valassis Employees Retirement Savings Plan

Schedule of Assets (Held at End of Year)

EIN: 38-2760940
Plan Number: 004

(a)	(b) Identity of Issue	(c) Description of Investment	(d) Cost	(e) Current Value
	Various Limited Partnership	Chesapeake Midstream Partners Lp Unit	a	5,754
	Various Limited Partnership	Crestwood Midstream Partners Lp Com Units Repstg Ltd.	a	2,698
	Various Limited Partnership	Dcp Midstream Partners Lp Com Units Ltd Partner	a	4,093
	Various Limited Partnership	Energy Transfer Partners Lp Ut Ltd Partnership Int.	a	162,565
	Various Limited Partnership	Ferrellgas Partners L P Unit Ltd Part	a	25,610
	Various Limited Partnership	Genesis Energy L P Unit L.P. Int.	a	5,280
	Various Limited Partnership	Inergy Lp	a	155,408
	Various Limited Partnership	Kinder Morgan Energy Partners L P	a	181,561
	Various Limited Partnership	Linn Energy Lic Unit Repstg Ltd Liability Co. Ints.	a	56,415
	Various Limited Partnership	Terra Nitrogen Co L P Com Unit	a	16,435
	Various Limited Partnership	Regency Energy Part L P Com Units Repstg Ltd Part Int.	a	25,570
	Participants	Participant Loans (3.25% - 10.5% maturing through November 30, 2022)*¿		11,240,427
	Total			$ 391,004,679

* A party-in-interest as defined by ERISA.
a - The cost of participant directed investments is not required to be disclosed.

¿- Includes loans grandfathered in from merged plans

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Valassis Employees Retirement Savings Plan

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the undersigned has duly caused this annual report to be signed on behalf of the Plan by the undersigned thereunto duly authorized in the City of Livonia, State of Michigan on June 22, 2011.

Valassis Communications, Inc.

Valassis Employees Retirement Savings Plan

By: /s/ Robert L. Recchia
Robert L. Recchia, Chief Financial Officer and Plan Administrator