

VALASSIS COMMUNICATIONS INC
Form 10-Q
May 10, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 2004

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)

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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 No

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

As of April 30, 2004, there were 52,101,117 shares of the Registrant's Common Stock outstanding.

Part I - Financial Information

Item 1. Financial Statements

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

(U.S. dollars in thousands)

<u>Assets</u>	<u>March 31, 2004</u>	<u>December 31, 2003</u>
	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 214,494	\$ 207,360
Accounts receivable (less allowance for doubtful accounts of \$4,976 at March 31, 2004 and \$3,344 at December 31, 2003)	227,258	206,908
Inventories:		
Raw materials	9,101	8,139
Work in progress	10,790	12,853
Prepaid expenses and other	16,175	15,767
Deferred income taxes	2,460	2,426
Refundable income taxes		3,170
	<u>480,278</u>	<u>456,623</u>
Total current assets		
Property, plant and equipment, at cost:		
Land and buildings	38,236	38,214
Machinery and equipment	124,777	123,977
Office furniture and equipment	49,301	48,192
Automobiles	867	978
Leasehold improvements	3,037	3,073
	<u>216,218</u>	<u>214,434</u>
Less accumulated depreciation and amortization	(130,732)	(127,559)
	<u>85,486</u>	<u>86,875</u>
Net property, plant and equipment		
Intangible assets:		
Goodwill	170,738	170,738
Other intangibles	34,555	34,555
	<u>205,293</u>	<u>205,293</u>
Less accumulated amortization	(73,884)	(73,831)
	<u>131,409</u>	<u>131,462</u>
Net intangible assets		
Investments and advances to investees	3,553	3,553
Other assets	6,437	7,306

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Deferred income taxes	6,829	6,935
Total assets	\$ 713,992	\$ 692,754

VALASSIS COMMUNICATIONS, INC.

Condensed Consolidated Balance Sheets, Continued

(U.S. dollars in thousands)

Liabilities and Stockholders Equity	March 31, 2004	December 31, 2003
	(unaudited)	
Current liabilities:		
Current portion, long-term debt	\$ 51,842	\$ 51,842
Accounts payable	190,266	197,842
Accrued interest	2,286	3,293
Accrued expenses	33,933	44,504
Progress billings	58,381	51,694
Income taxes payable	10,797	
Total current liabilities	347,505	349,175
Long-term debt	260,214	259,819
Other non-current liabilities	7,507	7,701
Commitments and contingencies		
Stockholders equity:		
Preferred stock of \$.01 par value. Authorized 25,000,000 shares; no shares issued or outstanding at March 31, 2004 and December 31, 2003		
Common stock of \$.01 par value. Authorized 100,000,000 shares; issued 63,121,438 at March 31, 2004 and 63,084,261 at December 31, 2003; outstanding 52,041,364 at March 31, 2004 and 52,072,154 at December 31, 2003	631	631
Additional paid-in capital	36,632	35,373
Deferred compensation	(1,286)	(471)
Retained earnings	415,406	390,784
Accumulated other comprehensive income	1,818	1,704
Treasury stock, at cost (11,080,074 shares at March 31, 2004 and 11,012,107 shares at December 31, 2003)	(354,435)	(351,962)
Total stockholders equity	98,766	76,059
Total liabilities and stockholders equity	\$ 713,992	\$ 692,754

See accompanying notes to condensed consolidated financial statements.

VALASSIS COMMUNICATIONS, INC.

Condensed Consolidated Statements of Income

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

(unaudited)

	Quarter Ended	
	March 31, 2004	March 31, 2003
Revenues	\$ 237,353	\$ 205,045
Costs and expenses:		
Cost of products sold	165,524	134,501
Selling, general and administrative	30,544	27,255
Total costs and expenses	196,068	161,756
Earnings from operations	41,285	43,289
Other expenses and income:		
Interest expense	3,167	3,341
Other (income) and expenses	(529)	(902)
Total other expenses and income	2,638	2,439
Earnings before income taxes	38,647	40,850
Income taxes	14,025	14,825
Net earnings	\$ 24,622	\$ 26,025
Net earnings per common share, basic	\$ 0.47	\$ 0.50
Net earnings per common share, diluted	\$ 0.47	\$ 0.50
Shares used in computing net earnings per share, basic	52,091,874	52,012,242
Shares used in computing net earnings per share, diluted	52,546,646	52,198,668

See accompanying notes to condensed consolidated financial statements.

VALASSIS COMMUNICATIONS, INC.

Condensed Consolidated Statements of Cash Flows

(U.S. dollars in thousands)

(unaudited)

	Three Months Ended	
	March 31, 2004	March 31, 2003
Cash flows from operating activities:		
Net earnings	\$ 24,622	\$ 26,025
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of intangibles	3,681	3,706
Amortization of bond discount	395	933
Provision for losses on accounts receivable	1,627	256
Gain on sale of property, plant and equipment	(5)	(590)
Stock-based compensation charge	241	392
Changes in assets and liabilities which (decrease) increase cash flow:		
Accounts receivable	(21,977)	15,527
Inventories	1,101	(1,293)
Prepaid expenses and other	(1,974)	(4,512)
Other liabilities	(194)	3,218
Other assets	3,238	(1,396)
Accounts payable	(7,580)	(24,715)
Accrued expenses and interest	(12,359)	(14,765)
Income taxes	14,147	9,828
Progress billings	6,687	8,230
Total adjustments	(12,972)	(5,181)
Net cash provided by operating activities	11,650	20,844
Cash flows from investing activities:		
Additions to property, plant and equipment	(2,203)	(7,249)
Proceeds from sale of property, plant and equipment	37	817
Acquisition of remaining interest of VRMS		(1,000)
Acquisition of NCH, net of cash		(44,998)
Other	11	8
Net cash used in investing activities	(2,155)	(52,422)
Cash flows from financing activities:		
Repurchase of common stock	(3,956)	(18)
Proceeds from the issuance of common stock	1,483	718
Net cash (used)/provided by financing activities	(2,473)	700
Effect of exchange rate changes on cash	112	1,628
Net increase/(decrease) in cash	7,134	(29,250)
Cash at beginning of period	207,360	97,156

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Cash at end of period	\$ 214,494	\$ 67,906
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 4,174	\$ 4,985
Cash paid during the period for income taxes	\$	\$ 1,892
Non-cash financing activities:		
Stock issued under stock-based compensation plan	\$ 1,057	\$ 1,094

See accompanying notes to condensed consolidated financial statements.

VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

1. **Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the information contained herein reflects all adjustments necessary for a fair presentation of the information presented. All such adjustments are of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of results to be expected for the fiscal year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Valassis Communications, Inc. (Valassis) Annual Report on Form 10-K for the year ended December 31, 2003. Certain amounts for 2003 have been reclassified to conform to current period classifications.

2. **Stock Based Compensation**

The following table reconciles reported net income to pro forma net income as if Valassis accounted for its stock options under the fair value method of SFAS No. 123.

(in thousands of U.S. dollars)	Quarter Ending March 31,	
	2004	2003
Net income, as reported	\$ 24,622	\$ 26,025
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	153	250
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards granted since January 1, 1995, net of related tax effects	(2,342)	(2,239)