ADVO INC
Form DEFM14A
January 22, 2007
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As Filed with the Securities and Exchange Commission on January 22, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Under Rule 14a-12

ADVO, Inc.

(Name of Registrant as Specified in Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if Other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common Stock, par value $0.01 per share

(2) Aggregate number of securities to which transaction applies:

31,850,460 shares of Common Stock as of December 1, 2006

2,526,225 options to acquire shares of Common Stock as of September 30, 2006

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

$33.00 per share of Common Stock

$9,532,712 expected to be paid upon the cancellation of outstanding options having an exercise price of less than $33.00 per share of common stock (based upon 2,526,225 shares of common stock subject to outstanding options multiplied by the difference between the merger consideration and the exercise price per share of the outstanding options)

(4) Proposed maximum aggregate value of transaction:

$1,060,597,892

(5) Total fee paid:

$113,484

¨ Fee paid previously with preliminary materials.

x Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

$ 127,682.68

(2) Form, Schedule or Registration Statement No.:

Schedule 14A

(3) Filing Party:

ADVO, Inc.

(4) Date Filed:

July 14, 2006

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One Targeting Centre

Windsor, CT 06095

Dear Fellow Stockholder:

We cordially invite you to attend a special meeting of stockholders of ADVO, Inc. to be held on February 22, 2007, at 10:00 AM, Eastern Time, at ADVO s corporate headquarters, One Targeting Centre, Windsor, Connecticut. The board of directors has fixed the close of business on January 12, 2007, as the record date for the purpose of determining stockholders entitled to receive notice of and vote at the special meeting or any adjournment or postponement thereof.

The purpose of the special meeting is to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of July 5, 2006, as amended by Amendment No. 1 to Agreement and Plan of Merger, dated as of December 18, 2006, and as may be further amended from time to time, which we refer to as the amended merger agreement, among ADVO, Inc., Valassis Communications, Inc. and Michigan Acquisition Corporation, a wholly owned subsidiary of Valassis which we refer to as Acquisition Sub. The amended merger agreement provides that Acquisition Sub will merge with and into ADVO, with ADVO surviving as a wholly owned subsidiary of Valassis.

On or about August 10, 2006, we mailed to you a proxy statement, as supplemented on September 5, 2006, relating to a special meeting of our stockholders that was held on September 13, 2006, at which stockholders of ADVO approved a proposal to adopt the Agreement and Plan of Merger, dated as of July 5, 2006, which we refer to as the original merger agreement, among ADVO, Valassis, and Acquisition Sub. Pursuant to the original merger agreement, each holder of ADVO common stock would have had the right to receive $37.00 in cash per share upon completion of the merger. On August 30, 2006, Valassis commenced litigation in the Delaware Chancery Court seeking to rescind the original merger agreement. On September 8, 2006, ADVO filed an answer denying Valassis allegations and asserting counterclaims for specific performance and damages. On December 11, 2006, the parties commenced a trial in the Delaware Chancery Court. On December 18, 2006, ADVO and Valassis reached a settlement of this litigation pursuant to which the original merger agreement was amended.

If our stockholders adopt the amended merger agreement and the merger is subsequently completed, you will be entitled to receive $33.00 in cash per share, which amount will be increased by interest as described in the accompanying proxy statement if the closing occurs after the later of February 28, 2007 or the second business day after ADVO stockholder approval of the amended merger agreement, for each share of ADVO common stock you own, unless you have properly exercised your appraisal rights. On July 5, 2006, the last full trading day prior to the public announcement of the original merger agreement, the closing price of our common stock was $24.26 per share. On December 15, 2006, the last full trading day prior to the public announcement that ADVO and Valassis were engaged in settlement discussions, the closing price of our common stock was $31.77 per share.

Your vote is very important. None of the votes of ADVO stockholders at the special meeting held on September 13, 2006 have any effect on the vote to be taken at the special meeting to be held on February 22, 2007 to approve the amended merger agreement. We cannot complete the merger unless the holders of a majority of the issued and outstanding shares of our common stock entitled to vote at the special meeting adopt the amended merger agreement. Whether or not you plan to attend the special meeting in person, please submit your proxy without delay. You can vote your shares prior to the special meeting by telephone, on the internet, or by mail with a proxy card, in each case in accordance with the instructions on the proxy card. Voting by any of these methods will ensure that you are represented at the special meeting even if you are not there in person. Voting by proxy will not prevent you from voting your ADVO shares in person if you subsequently choose to attend the special meeting. If you receive more than one proxy card because you own shares that are registered separately, please vote the shares shown on each proxy card.

Our board of directors, by a unanimous vote of the directors present (with one director absent), determined that the amended merger agreement is advisable, fair to and in the best interests of ADVO and its stockholders and has therefore approved the amended merger agreement and the transactions contemplated thereby, including the merger. **Accordingly, the board of directors recommends that you vote FOR the adoption of the amended merger agreement at the special meeting.**

If your shares are held in street name by your bank, brokerage firm or other nominee, your bank, brokerage firm or nominee will be unable to vote your shares without instructions from you. You should instruct your bank, brokerage firm or nominee to vote your shares, following the procedures provided by your bank, brokerage firm or nominee. Failure to instruct your bank, brokerage firm or other nominee to vote your shares will have the same effect as voting against adoption of the amended merger agreement.

We encourage you to read the accompanying proxy statement carefully because it explains the proposed revised merger transaction, the amended merger agreement, other documents related to the proposed revised merger transaction and other related matters. After you have reviewed the enclosed materials, please vote as soon as possible.

Sincerely,

S. Scott Harding
Chief Executive Officer

This proxy statement is dated and will first be made available to ADVO stockholders on or about January 22, 2007.

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One Targeting Centre

Windsor, CT 06095

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held On February 22, 2007

NOTICE IS HEREBY GIVEN THAT a special meeting of stockholders of ADVO, Inc. will be held on February 22, 2007, at 10:00 AM Eastern Time, at the Company s corporate headquarters, One Targeting Centre, Windsor, Connecticut. The purpose of the meeting will be:

to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of July 5, 2006, as amended by Amendment No. 1 to Agreement and Plan of Merger, dated as of December 18, 2006, and as it may be further amended from time to time, which we refer to as the amended merger agreement, by and among ADVO, Inc., Valassis Communications, Inc. and Michigan Acquisition Corporation, a wholly owned subsidiary of Valassis, pursuant to which ADVO will become a wholly owned subsidiary of Valassis;

to consider and vote upon a proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to adopt the amended merger agreement; and

to transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

Our board of directors, by a unanimous vote of the directors present (with one director absent), has approved the amended merger agreement and has determined that the revised merger transaction, the amended merger agreement and the transactions contemplated thereby are advisable, fair to and in the best interests of ADVO and its stockholders, and recommends that you vote **FOR** the adoption of the amended merger agreement at the special meeting. The terms of the amended merger agreement and the revised merger transaction are more fully described in the attached proxy statement, which we urge you to read carefully and in its entirety. Our board of directors also recommends that you vote **FOR** the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies. No other business is presently scheduled to come before the special meeting.

Only stockholders who held shares of record as of the close of business on the record date, January 12, 2007, are entitled to receive notice of and to vote at the special meeting or any adjournment or postponement of the special meeting. Whether or not you plan to attend the special meeting in person, please submit your proxy or, in the event that you hold your shares through a bank, brokerage firm or other nominee, your separate voting instructions as soon as possible. You can vote your shares prior to the special meeting by telephone, on the internet, or by mail with a proxy card, in each case, in accordance with the instructions on the proxy card. Voting by any of these methods will ensure that you are represented at the special meeting even if you are not present in person. Submitting your proxy before the special meeting will not preclude you from voting in person at the special meeting should you decide to attend.

A list of stockholders entitled to vote at the special meeting will be available for examination, for any purpose relevant to the special meeting, at our main offices located at One Targeting Centre, Windsor, CT 06095, during ordinary business hours for at least ten days prior to the special meeting, as well as at the special meeting.

Your vote is very important, regardless of the number of shares of ADVO common stock you own. The adoption of the amended merger agreement requires the affirmative vote of the holders of a majority of the issued

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and outstanding shares of our common stock entitled to vote at the special meeting. The proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies requires the affirmative vote of the holders of a majority of the shares present in person at the special meeting or represented by proxy and entitled to vote thereon.

If you sign, date and mail your proxy card without indicating how you wish to vote, your vote will be counted as a vote in favor of the adoption of the amended merger agreement, and in favor of the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies, and in accordance with the best judgment of the persons appointed as proxies on any other matters properly brought before the meeting for a vote. If you fail to return your proxy card, your shares of ADVO common stock will not be counted for the purposes of determining whether a quorum is present, and your shares will have the same effect as a vote against the adoption of the amended merger agreement. Not returning your proxy will have the same effect as an abstention on the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies.

You may revoke a proxy at any time prior to its exercise at the special meeting. You may do so by executing and returning a proxy card dated later than the previous one, by properly submitting a later proxy by telephone or on the internet, by attending the special meeting and casting your vote by ballot at the special meeting or by delivering a written revocation dated after the date of the proxy that is being revoked to ADVO, Inc., One Targeting Centre, Windsor, CT 06095, Attention: Corporate Secretary, prior to the closing of the polls for the vote at the special meeting. If you hold your shares through a bank or brokerage firm, you should follow the instructions of your bank or brokerage firm regarding revocation of proxies. If your bank or brokerage firm allows you to vote by telephone or on the internet, you may be able to change your vote by voting again by telephone or the internet.

By Order of the Board of Directors
Stephen L. Palmer
Corporate Secretary

Windsor, Connecticut

January 22, 2007

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SUMMARY TERM SHEET

This summary highlights selected information from this proxy statement about the proposed merger and may not contain all of the information that is important to you as an ADVO stockholder. Accordingly, we encourage you to read carefully this entire proxy statement, including the annexes, and the other documents to which we refer you. We have included section references to direct you to a more complete description of the topics contained in this summary.

Unless we otherwise indicate or unless the context requires otherwise: all references in this document to the company, we, our, and us refer to ADVO, Inc. and its subsidiaries; all references to Valassis refer to Valassis Communications, Inc.; and all references to Acquisition Sub refer to Michigan Acquisition Corporation, a wholly owned subsidiary of Valassis.

References to the original merger agreement refer to the Agreement and Plan of Merger, dated as of July 5, 2006, by and among ADVO, Valassis and Acquisition Sub; references to the merger agreement amendment refer to Amendment No. 1 to Agreement and Plan of Merger, dated as of December 18, 2006, by and among ADVO, Valassis and Acquisition Sub; and references to the amended merger agreement refer to the original merger agreement as amended by the merger agreement amendment.

The Merger (page 15)

If the merger is completed, Acquisition Sub will be merged with and into ADVO, and ADVO will survive the merger and continue to exist after the merger as a wholly owned subsidiary of Valassis. As a result of the merger, you will no longer have an ownership interest in ADVO, and your shares of ADVO common stock will be converted into the right to receive the merger consideration.

Merger Consideration (page 40)

In the merger, you will receive $33.00 in cash for each share of ADVO common stock you hold immediately prior to the merger, unless you do not vote in favor of the merger and you otherwise properly perfect your appraisal rights under Delaware law. If the merger is not completed by the later of (i) February 28, 2007 or (ii) the second business day following approval of the amended merger agreement by stockholders of ADVO, the consideration per share of ADVO common stock will be increased by interest, to the extent permitted by applicable law, on the $33.00 in cash per share of ADVO common stock at a rate per year equal to the sum of (i) the Federal Reserve discount rate as reported from time to time in The Wall Street Journal plus (ii) five hundred (500) basis points, increasing by a further one hundred (100) basis points at the beginning of each month thereafter (commencing April 1, 2007) from February 28, 2007 until the completion of the merger. We sometimes refer to the $33.00 in cash for each share of ADVO common stock that you hold, as adjusted by any interest payable, if applicable, as the merger consideration, and the merger consideration payable to all eligible holders of ADVO common stock as the aggregate merger consideration. No interest will be paid on the merger consideration.

Rights of Option Holders and Holders of Restricted Stock (page 41)

If the merger is completed, each outstanding option to purchase shares of ADVO common stock, including any options held by ADVO directors and executive officers, whether or not vested, will vest and be converted into the right to receive an amount in cash (less any applicable withholding of taxes) equal to the product of (a) the number of shares of ADVO common stock subject to the option times (b) the excess, if any, of the merger consideration over the per share exercise price of the option. At the effective time of the merger, each outstanding and unvested share of ADVO restricted stock, including those held by our directors and executive officers, will vest and no longer be subject to any restrictions.

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Conditions to the Completion of the Merger (page 47)

The obligations of the parties to complete the merger are conditioned upon adoption of the amended merger agreement by the holders of a majority of the outstanding shares of our common stock and the absence of any injunction or other legal restraint prohibiting the merger. We currently expect to complete the merger shortly after adoption of the amended merger agreement at the special meeting, subject to the right of Valassis, provided that Valassis has complied with its obligation under the amended merger agreement to use its reasonable best efforts to obtain the financing necessary to complete the merger, to extend the closing date to not later than March 31, 2007 if and to the extent necessary or desirable in order to obtain such financing.

Termination of the Amended Merger Agreement (page 47)

The amended merger agreement may be terminated in certain circumstances by ADVO or Valassis. If the amended merger agreement is terminated under certain circumstances, we will have to pay a termination fee of $38 million either upon termination or upon the completion by ADVO of a different business combination. If the amended merger agreement is terminated as a result of the failure to obtain ADVO stockholder approval, Valassis will also be entitled to reimbursement of certain expenses which it incurred up to a maximum of $10 million.

Board of Directors Recommendation (page 20)

Our board of directors, by a unanimous vote of the directors present (with one director absent), has approved the amended merger agreement and has determined that the merger, the amended merger agreement and the transactions contemplated thereby are advisable, fair to and in the best interests of ADVO and its stockholders, and recommends that you vote **FOR** the adoption of the amended merger agreement at the special meeting. Our board of directors also recommends that you vote **FOR** the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies. No other business is presently scheduled to come before the special meeting.

Opinion of Our Financial Advisor (page 22)

In connection with ADVO s determination to enter into the merger agreement amendment, Citigroup Global Markets Inc., which we refer to as Citigroup, our financial advisor, delivered to our board of directors an updated written opinion that, as of the date of the updated opinion and subject to the various assumptions, qualifications and limitations set forth therein, the merger consideration to be received by holders of ADVO common stock pursuant to the amended merger agreement was fair, from a financial point of view, to such holders. The full text of the written opinion, dated December 18, 2006, of Citigroup, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as **Annex C** to this proxy statement and is incorporated by reference in its entirety into this proxy statement. Holders of ADVO common stock are encouraged to read the opinion carefully in its entirety. **Citigroup provided its opinion to our board of directors to assist the board of directors in its evaluation of the merger consideration from a financial point of view. The opinion does not address any other aspect of the merger and does not constitute a recommendation to any stockholder as to how to vote or act in connection with the merger.**

Interests of ADVO s Directors and Executive Officers in the Merger (page 31)

Some of the directors and executive officers of ADVO may have financial interests in the merger that are different from, or are in addition to, the interests of stockholders of ADVO. These interests may include rights of executive officers under employment or severance agreements with ADVO, rights under stock-based benefit programs and stock-based awards of ADVO common stock, and rights to continued indemnification and insurance coverage after the merger for acts or omissions occurring prior to the merger. The ADVO board of directors was aware of these interests and considered them,

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among other matters, in approving the amended merger agreement and the transactions contemplated thereby. Assuming that the effective time occurs on February 28, 2007, at the effective time, the directors and executive officers will vest in respect of 487,540 stock options of which 399,540 are currently at exercise prices below $33.00 per share and 114,205 restricted shares in the aggregate.

Material U.S. Federal Income Tax Consequences (page 30)

The receipt of cash for shares of our common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes (and may also be a taxable transaction under applicable state, local or foreign income or other tax laws). For U.S. federal income tax purposes, a holder of shares of our common stock generally will recognize gain or loss equal to the difference between (1) the amount of cash received in exchange for such shares and (2) the holder s adjusted tax basis in such shares. Stockholders are urged to consult their tax advisors to determine the particular tax consequences to them (including the application and effect of any state, local or foreign income and other tax laws) of the merger.

Appraisal Rights (page 32)

Under Section 262 of the Delaware General Corporation Law, which we refer to as the DGCL, in the event the merger is completed and you do not vote to adopt the amended merger agreement and you comply with the other statutory requirements of the DGCL (including making a written demand for appraisal in compliance with the DGCL **before** the vote on the proposal to adopt the amended merger agreement at the special meeting), you may elect to receive, in cash, the judicially determined fair value of your shares of our common stock, with interest, in lieu of the merger consideration. The fair value of your shares of ADVO common stock as determined in accordance with Delaware law may be more or less than or the same as the merger consideration to be paid to stockholders in the merger. **Annex D** to this proxy statement contains the full text of Section 262 of the DGCL, which relates to appraisal rights. We encourage you to read **Annex D** carefully and in its entirety. Failure to follow all of the steps required by Section 262 of the DGCL will result in the loss of your appraisal rights.

Regulatory and Other Governmental Approvals (page 31)

On August 14, 2006, the Federal Trade Commission granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and related rules, which we refer to as the HSR Act, with respect to the previously filed notifications and report forms by ADVO and Valassis. Therefore, we and Valassis have received the antitrust regulatory clearance required to allow the merger to be consummated.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING

Q. Why am I receiving this proxy statement?

A. You are receiving this proxy statement because you are a stockholder of ADVO, Inc. On December 18, 2006, we entered into an amendment, which we refer to as the merger agreement amendment, to the original merger agreement, dated as of July 5, 2006, among ADVO, Valassis Communications, Inc., which we refer to as Valassis, and Michigan Acquisition Corporation, a wholly owned subsidiary of Valassis, which we refer to as Acquisition Sub. The original merger agreement, as amended by the merger agreement amendment (which, as so amended, we refer to as the amended merger agreement) provides for the acquisition of ADVO by Valassis by means of the merger of Acquisition Sub with and into ADVO. If the merger is completed, ADVO will become a wholly owned subsidiary of Valassis. A copy of the original merger agreement is attached to this proxy statement as **Annex A** and a copy of the merger agreement amendment is attached to this proxy statement as **Annex B**.

In order to complete the merger, among other things, our stockholders must vote to adopt and approve the amended merger agreement. We are holding a special meeting of stockholders to obtain this approval.

Q. When and where is the special meeting of our stockholders?

A. The special meeting of stockholders will occur on February 22, 2007, at 10:00 AM Eastern Time, at the Company s corporate headquarters, One Targeting Centre, Windsor, Connecticut.

Q. What matters will I be asked to vote on at the special meeting?

A. At the special meeting, you will be asked:

to consider and vote upon a proposal to adopt the amended merger agreement;

to approve the adjournment or postponement of the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to adopt the amended merger agreement; and

to transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

Q. How does the board of directors of ADVO recommend that I vote on the proposals?

A. Our board of directors recommends that you vote:

FOR the proposal to adopt the amended merger agreement; and

FOR the adjournment or postponement of the meeting, if necessary, to solicit additional proxies.

Q. Why is ADVO holding another special meeting with respect to the merger?

A. Stockholders of ADVO adopted the original merger agreement at a special meeting on September 13, 2006. On December 18, 2006, the original merger agreement was amended by the merger agreement amendment, resulting in the amended merger agreement. An additional special meeting of stockholders is necessary because stockholders must adopt the amended merger agreement in order for the merger to occur. None of the votes of ADVO stockholders at the special meeting held on September 13, 2006 have any effect on the vote to be taken at the special meeting to be held on February 22, 2007 to approve the amended merger agreement.

Q. What will I receive in exchange for my shares of ADVO common stock?

A. If we complete the merger, you will have the right to receive $33.00 in cash for every share of our common stock that you own unless you do not vote in favor of the merger and you properly perfect your appraisal

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rights under Delaware law. If the merger is not completed by the later of (i) February 28, 2007 or (ii) the second business day following approval of the amended merger agreement by stockholders of ADVO, the consideration per share of ADVO common stock will be increased by interest, to the extent permitted by applicable law, on the $33.00 in cash per share of ADVO common stock at a rate per year equal to the sum of (i) the Federal Reserve discount rate as reported from time to time in The Wall Street Journal plus (ii) five hundred (500) basis points, increasing by a further one hundred (100) basis points at the beginning of each month thereafter (commencing April 1, 2007) from February 28, 2007 until the completion of the merger. We sometimes refer to the $33.00 in cash for each share of ADVO common stock that you hold, as adjusted by any interest payable, if applicable, as the merger consideration, and the merger consideration payable to all eligible holders of ADVO common stock as the aggregate merger consideration. No interest will be paid on the merger consideration.

Q. What is a quorum?

A. A quorum of the holders of the issued and outstanding shares of ADVO common stock must be present for the special meeting to be held. A quorum is present if the holders of one-third of our issued and outstanding shares of common stock entitled to vote are present at the meeting, either in person or represented by proxy. Abstentions are counted as present for the purpose of determining whether a quorum is present.

Q. What vote is required to adopt the amended merger agreement?

A. In order to adopt the amended merger agreement, holders of a majority of the issued and outstanding shares of our common stock entitled to vote at the special meeting must vote FOR such proposal. Each share of our common stock is entitled to one vote.

Q. What vote is required to adjourn or postpone the special meeting, if necessary, to solicit additional proxies at the special meeting?

A. In order to approve the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies, holders of a majority of the shares of our common stock that are present at the special meeting and that are voted and do not abstain must vote **FOR** the proposal to adjourn or postpone the special meeting.

Q. How are votes counted?

A. For the proposal relating to the adoption of the amended merger agreement, you may vote **FOR**, **AGAINST** or **ABSTAIN**. Abstentions will have the same effect as votes cast **AGAINST** the proposal relating to adoption of the amended merger agreement, and will count for the purpose of determining whether a quorum is present. Stockholders as of the close of business on the record date holding at least a majority of the issued and outstanding shares of our common stock must vote **FOR** the adoption of the amended merger agreement for us to complete the merger.

For the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies, you may vote **FOR**, **AGAINST** or **ABSTAIN**. Abstentions will not count as votes cast on the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies, but will count for the purpose of determining whether a quorum is present. The proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies requires the affirmative vote of holders representing a majority of the votes of our shares of common stock that are present at the special meeting and entitled to vote and that are voted and do not abstain. As a result, if you **ABSTAIN**, it will have no effect on the vote for the adjournment or postponement of the special meeting, if necessary, to solicit additional proxies.

If you sign your proxy card without indicating your vote, your shares will be voted **FOR** the adoption of the amended merger agreement, **FOR** adjournment or postponement of the special meeting, if necessary, to

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solicit additional proxies, and in accordance with the best judgment of the persons appointed as proxies on any other matters properly brought before the meeting for a vote. No other business is presently scheduled to come before the special meeting.

A broker non-vote generally occurs when a broker, bank or other nominee holding shares on your behalf does not vote on a proposal because the nominee has not received your voting instructions and lacks discretionary power to vote the shares. Broker non-votes count for the purpose of determining whether a quorum is present, but will **NOT** count as votes cast on a proposal. As a result, broker non-votes will have the effect of a vote **AGAINST** the adoption of the amended merger agreement. Broker non-votes will have no effect on the vote for the adjournment or postponement of the meeting, if necessary, to solicit additional proxies.

Q. Who may vote at the special meeting?

A. Owners of our common stock at the close of business on January 12, 2007, the record date for the special meeting, are entitled to vote. This includes shares you held on that date (1) directly in your name as the stockholder of record and (2) through a broker, bank or other holder of record where the shares were held for you as the beneficial owner. A list of stockholders of record entitled to vote at the special meeting will be available at our offices located at One Targeting Centre, Windsor, Connecticut, during ordinary business hours for ten days prior to the special meeting, as well as at the special meeting.

Q. How many shares can vote?

A. On the record date for the special meeting, there were 31,962,500 shares of our common stock issued and outstanding, with each share entitled to one vote for each matter to be voted on at the special meeting.

Q. How do I vote?

A. Since many stockholders are unable to attend the special meeting in person, we send proxy cards to all stockholders of record to enable them to direct the voting of their shares. Brokers, banks and nominees generally solicit voting instructions from the beneficial owners of shares held by them and typically offer telephonic or electronic means by which these instructions can be given, in addition to the traditional mailed voting instruction cards. If you beneficially own shares held through a broker, bank or other nominee, you may submit voting instructions by telephone or on the internet if the firm holding your shares offers these voting methods. Please refer to the voting instructions provided by your broker, bank or nominee for information.

Q. What does it mean if I get more than one proxy card?

A. If you have shares of our common stock that are registered separately and are in more than one account, you will receive more than one proxy card. Please follow the directions for voting on each of the proxy cards you receive to ensure that **ALL** of your shares are voted.

Q. How will my proxy vote my shares?

A. The designated proxy holders will vote according to the instructions you submit on your proxy card. If you sign and return your card but do not indicate your voting instructions on one or more of the matters listed, the proxy holders will vote all uninstructed shares **FOR** the adoption of the amended merger agreement, **FOR** the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies, and in accordance with the judgment of the designated proxy holders on any other matters properly brought before the special meeting for a vote. No other business is presently scheduled to come before the special meeting.

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Q. If my shares are held in street name by my bank, brokerage firm or other nominee, will my bank, broker or nominee automatically vote my shares for me?

A. No. Your bank, brokerage firm or nominee cannot vote your shares without instructions from you. You should instruct your bank, brokerage firm or nominee as to how to vote your shares, following the instructions contained in the voting instruction card that your bank, broker or nominee provides to you. Failing to instruct your bank, brokerage firm or nominee to vote your shares will have the same effect as a vote **AGAINST** the merger.

Q. Can I change my vote?

A. You may revoke your proxy at any time before it is voted at the special meeting. If you are the holder of record of your shares, you may revoke your proxy prior to the vote at the special meeting in any of three ways:

by delivering a written revocation dated after the date of the proxy that is being revoked to ADVO, Inc., One Targeting Centre, Windsor, Connecticut, Attention: Corporate Secretary;

by delivering a proxy dated later than your original proxy relating to the same shares to our Corporate Secretary by mail, telephone or on the internet; or

by attending the special meeting and voting in person by ballot.

However, if you hold your shares in street name, simply attending the special meeting may not constitute revocation of a proxy. If your shares are held in street name , you should follow the instructions of your broker, bank or other nominee regarding revocation or change of proxies. If your broker, bank or other nominee allows you to submit a proxy by telephone or through the internet, you may be able to change your vote by submitting a new proxy by telephone or through the internet.

Q. Can I vote in person at the special meeting?

A. If you submit a proxy or voting instructions you do not need to vote at the special meeting. However, we will pass out written ballots to any stockholder of record or authorized representative of a stockholder of record who wants to vote in person at the special meeting rather than by proxy. Voting in person will revoke any proxy previously given if you are a stockholder of record. If you hold your shares through a broker, bank or nominee, you must obtain a proxy from your broker, bank or nominee to vote in person.

Q. Who can attend the special meeting?

A. All stockholders of record on the record date for the special meeting can attend. In order to be admitted to the meeting, you will need to bring proof of identification. Please note that if you hold shares in street name (that is, through a broker, bank or other nominee) and would like to attend the special meeting and vote in person, you will need to bring an account statement or other acceptable evidence of ownership of our common stock as of the close of business on January 12, 2007. Alternatively, in order to vote, you may contact the person in whose name your shares are registered and obtain a proxy from that person and bring it to the special meeting.

Q. Should I send in my stock certificates now?

A. ***No. Please do not send any stock certificates with your proxy card.*** After we complete the merger, you will receive written instructions for returning your ADVO stock certificates. These instructions will tell you how and where to send your ADVO stock certificates in order to receive the merger consideration.

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Q. When do you expect to complete the merger?

A. We currently expect to complete the merger shortly after adoption of the amended merger agreement at the special meeting, subject to the right of Valassis, provided that Valassis has complied with its obligation under the amended merger agreement to use its reasonable best efforts to obtain the financing necessary to complete the merger, to extend the closing date to not later than March 31, 2007 if and to the extent necessary or desirable in order to obtain such financing.

Q. Who can help answer my questions about the special meeting or the merger?

A. If you have questions about the special meeting or the merger after reading this proxy statement, you should contact our proxy solicitor, Mellon Investor Services LLC, at 1-866-768-4962.

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FORWARD-LOOKING STATEMENTS

This proxy statement contains statements that are not historical facts and that are considered forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Typically, we identify these forward-looking statements with words like expect, intend, may, might, should, believe, anticipate, expect, estimate, or similar expressions. We and our representatives may also make similar forward-looking statements from time to time orally or in writing.

These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. They are based on currently available information and current expectations and projections about future events. Actual events or results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to the following:

- we may be unable to obtain the required stockholder approval for the merger at the special meeting;
- the timing of the closing may be affected by Valassis efforts to arrange financing, although financing is not a condition to Valassis obligations under the amended merger agreement;
- disruptions and uncertainty resulting from our proposed merger and the litigation relating to the original merger agreement may make it more difficult for us to maintain relationships with other customers, employees or suppliers, and as a result our business may suffer;
- governmental regulation or legislation affecting aspects of ADVO s business may be enacted;
- the restrictions on our conduct prior to closing contained in the merger agreement may have a negative effect on our flexibility and our business operations;
- general changes in customer demand and pricing may occur;
- the retail sector may experience further consolidation;
- economic and political conditions may impact advertising spending and ADVO s distribution system, postal and paper prices;
- the efficiencies expected from technology upgrades may not be achieved;
- interest rates and other general economic factors may fluctuate;
- the merger may involve unexpected costs or unexpected liabilities;
- we may face challenges in hiring and retaining qualified personnel due to the pending merger; and

additional factors discussed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006, under the headings Risk Factors , Management s Discussion and Analysis of Financial Conditions and Results of Operations and Quantitative and Qualitative Discussions About Market Risk.

These factors may not be all of the factors that could cause actual results to differ materially from those discussed in any forward-looking statements. Our company operates in a continually changing business environment and new factors emerge from time to time. We cannot predict all such factors nor can we assess the impact, if any, of such factors on our financial position or our results of operations. Accordingly, forward-looking statements should not be relied upon as a predictor of actual results.

The forward-looking statements in this proxy statement speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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THE COMPANIES

ADVO, Inc.

ADVO, Inc., which we refer to as ADVO, is a direct mail media company primarily engaged in soliciting and processing printed advertising from retailers, manufacturers and service companies for targeted distribution by both shared and solo mail to consumer households in the United States and Canada on a national, regional and local basis. ADVO s network reaches over 114 million households with its ShopWise® shared mail advertising and the ADVO National Network Extension (A.N.N.E.) program.

ADVO satisfies clients of all types and sizes with customized targeting solutions for their marketing communication needs. Founded in 1929 as a hand delivery company, ADVO entered the direct mail industry as a solo mailer in 1946 and began its shared mail program in 1980. ADVO currently is the largest commercial user of standard mail (formerly third-class mail) in the United States.

ADVO competes primarily with newspapers, direct mail companies, periodicals and other local distribution entities for retail advertising expenditures. ADVO believes that its insert advertising programs, targeting technology and logistics capabilities enable advertisers seeking superior return on investment to target advertisements to specific customers or geographic areas and deliver their printed advertising directly to consumers most likely to respond.

ADVO distributes the Have You Seen Me® missing child card with each ShopWise® package. This public service program has been responsible for safely recovering 143 children. The program was created in partnership with the National Center for Missing and Exploited Children and the U.S. Postal Service in 1985.

ADVO s principal executive offices are located at One Targeting Centre, Windsor, Connecticut 06095, and its telephone number is (860) 285-6100.

Valassis Communications, Inc.

Valassis Communications, Inc., which we refer to as Valassis, offers a wide range of marketing services to consumer packaged goods manufacturers, retailers, technology companies and other customers with operations in the United States, Europe, Mexico and Canada. Valassis products and services portfolio includes: newspaper-delivered promotions and advertisements such as inserts, sampling, polybags and on-page advertisements; direct-to-door advertising and sampling; direct mail; Internet-delivered marketing; loyalty marketing software; coupon and promotion clearing; and promotion planning and analytic services. Valassis is committed to providing innovative marketing solutions to maximize the efficiency and effectiveness of promotions for its customers.

Valassis principal executive offices are located at 19975 Victor Parkway, Livonia, Michigan 48152, and its telephone number is (734) 591-3000.

Michigan Acquisition Corporation

Michigan Acquisition Corporation, which we refer to as Acquisition Sub, is a wholly owned subsidiary of Valassis organized under the laws of Delaware. It was formed solely for the purposes of effecting the merger, has no assets, and has conducted no business operations.

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THE SPECIAL MEETING

This proxy statement is being furnished to ADVO stockholders as part of the solicitation of proxies by our board of directors for use at the special meeting to be held at 10:00 AM, Eastern Time, on February 22, 2007, at the Company s corporate headquarters, One Targeting Centre, Windsor, Connecticut.

Matters To Be Considered

The purpose of the special meeting will be:

- to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of July 5, 2006, by and among ADVO, Inc., Valassis Communications, Inc. and Michigan Acquisition Corporation, a wholly owned subsidiary of Valassis, as amended by Amendment No. 1 to Agreement and Plan of Merger, dated as of December 18, 2006, by and among ADVO, Valassis and Acquisition Sub, and as it may be further amended from time to time, pursuant to which ADVO will become a wholly owned subsidiary of Valassis;

- to consider and vote upon a proposal to approve the adjournment or postponement of the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to adopt the amended merger agreement; and

- to transact any other business that may properly come before the special meeting of stockholders or any adjournment or postponement thereof. No other business is presently scheduled to come before the special meeting.

We refer to the Agreement and Plan of Merger, dated as of July 5, 2006, by and among ADVO, Valassis and Acquisition Sub as the original merger agreement. We refer to the Amendment No. 1 to Agreement and Plan of Merger, dated as of December 18, 2006, by and among ADVO, Valassis and Acquisition Sub as the merger agreement amendment. We refer to the original merger agreement as amended by the merger agreement amendment as the amended merger agreement. A copy of the original merger agreement is attached as **Annex A** to this proxy statement. A copy of the merger agreement amendment is attached as **Annex B** to this proxy statement.

Record Date; Stock Entitled to Vote; Quorum

The holders of record of our common stock as of the close of business on the record date for the special meeting, which is January 12, 2007, are entitled to receive notice of, and to vote at, the special meeting. On the record date, there were 31,962,500 shares of our common stock outstanding. Each share of common stock outstanding on the record date is entitled to one vote for each matter to be voted on at the special meeting.

The holders of one-third of the shares of our common stock that were outstanding on the record date, present in person or represented by proxy, will constitute a quorum for purposes of the special meeting. A quorum is necessary to hold the special meeting. Any shares of our common stock held in treasury by us or by any of our subsidiaries are not considered to be outstanding for purposes of determining a quorum, and may not vote at the special meeting. In accordance with Delaware law, abstentions and properly executed broker non-votes will be counted as shares present and entitled to vote for the purposes of determining a quorum.

Required Vote

Each share of our common stock that was outstanding on the record date for the special meeting entitles the holder to one vote at the special meeting. Completion of the merger requires the adoption of the amended merger agreement by the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote at the special meeting. **Because the vote is based on the number of shares of our outstanding**

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common stock rather than on the number of votes cast, failure to vote your shares, and votes to abstain, will have the same effect as votes against adoption of the amended merger agreement. Accordingly, the ADVO board of directors urges you to complete, date, sign and return the enclosed proxy card, or to submit your proxy by telephone or the internet, as outlined on the enclosed proxy card, or, in the event that you hold your shares through a bank, broker or other nominee, to vote by following the separate voting instructions received from your bank, broker or nominee.

Voting By Proxy; Revocability of Proxy

Each copy of this document mailed to our stockholders is accompanied by a proxy card and a self-addressed envelope.

If you are a registered stockholder, that is, if you are a holder of record, you may submit your proxy in any of the following three ways:

- by completing, dating, signing and returning the enclosed proxy card by mail;
- by appointing a proxy to vote your shares by telephone or on the internet, as outlined on the enclosed proxy card; or
- by appearing and voting in person by ballot at the special meeting.

Regardless of whether you plan to attend the special meeting, you should submit your proxy as described above as promptly as possible. Submitting your proxy before the special meeting will not preclude you from voting in person at the special meeting should you decide to attend.

If you hold your shares of ADVO common stock in a stock brokerage account or through a bank, brokerage firm or nominee, or in other words in street name, you must vote in accordance with the instructions on the voting instruction card that your bank, brokerage firm or nominee provides to you. You should instruct your bank, brokerage firm or nominee as to how to vote your shares, following the directions contained in the voting instruction card. If you hold shares in street name, you may submit voting instructions by telephone or on the internet if the firm holding your shares offers these voting methods. Please refer to the voting instructions provided by your bank, brokerage firm or nominee for information.

If you vote your shares of our common stock by signing a proxy, your shares will be voted at the special meeting as you indicate on your proxy card. If no instructions are indicated on your signed proxy card, your shares of our common stock will be voted **FOR** the adoption of the amended merger agreement and **FOR** the adjournment or postponement of the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to adopt the amended merger agreement, and in accordance with the best judgment of the persons appointed as proxies on any other matters properly brought before the meeting for a vote. If you submit your proxy by internet or telephone, your shares will be voted at the special meeting as instructed.

You may revoke your proxy at any time before the proxy is voted at the special meeting. If you are a holder of record, you may revoke your proxy prior to the vote at the special meeting in any of three ways:

- by delivering a written revocation dated after the date of the proxy that is being revoked to ADVO, Inc., One Targeting Centre, Windsor, CT 06095, Attention: Corporate Secretary;
- by delivering a proxy dated later than your original proxy relating to the same shares to our Corporate Secretary by mail, telephone or on the internet; or
- by attending the special meeting and voting in person by ballot.

However, if you hold your shares in street name, simply attending the special meeting may not constitute revocation of a proxy. If your shares are held in street name by your bank, brokerage firm, or other nominee,

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you should follow the instructions of your bank, brokerage firm or other nominee regarding revocation or change of voting instructions. If your bank, brokerage firm or other nominee allows you to submit voting instructions by telephone or through the internet, you may be able to change your vote by telephone or through the internet.

Abstaining from Voting

If you abstain from voting, it will have the following effects:

Your shares will be counted as present for determining whether or not there is a quorum at the special meeting.

Because the amended merger agreement must be approved by the holders of a majority of the shares of our outstanding common stock rather than of the number of votes cast, abstentions will have the same effect as votes **AGAINST** adoption of the amended merger agreement.

Abstentions will not be counted in determining whether or not any proposal to adjourn or postpone the special meeting is approved. A broker non-vote generally occurs when a broker, bank or other nominee holding shares on your behalf does not vote on a proposal because the nominee has not received your voting instructions and lacks discretionary power to vote the shares. Broker non-votes count for the purpose of determining whether a quorum is present, but will not count as votes cast on a proposal. As a result, broker non-votes will have the effect of a vote **AGAINST** the adoption of the amended merger agreement. Broker non-votes will have no effect on the vote for the adjournment or postponement of the meeting, if necessary, to solicit additional proxies.

Voting in Person

If you submit a proxy or voting instructions you do not need to vote in person at the special meeting. However, we will pass out written ballots to any stockholder of record or authorized representative of a stockholder of record who wants to vote in person at the special meeting rather than by proxy. Voting in person will revoke any proxy previously given if you are a stockholder of record. If you hold your shares through a broker, bank or other nominee, you must obtain a legal proxy from your broker, bank or nominee authorizing you to vote your shares in person, which you must bring with you to the special meeting.

In order to be admitted to the meeting, you will need to bring proof of identification. Please note that if you hold shares in street name (that is, through a broker, bank or other nominee) and would like to attend the special meeting and vote in person, you will need to bring an account statement or other acceptable evidence of ownership of our common stock as of the close of business on January 12, 2007.

Shares Owned by ADVO Directors and Executive Officers

As of the record date, our executive officers and directors owned of record an aggregate of approximately 514,299 shares of our common stock (excluding options), representing approximately 1.6% of the outstanding shares of our common stock.

Solicitation of Proxies

Our board of directors is soliciting proxies for use at the special meeting from our stockholders. We will pay the costs of soliciting proxies for the special meeting. In addition to this mailing, our officers, directors and employees may solicit proxies by telephone, by mail, on the internet or in person. However, they will not be paid any additional amounts for soliciting proxies. We have also engaged Mellon Investor Services LLC to assist in the solicitation of proxies and to verify records relating to the solicitation. Mellon Investor Services LLC will receive a fee of approximately $9,000 and will be reimbursed for certain expenses, and we will indemnify Mellon

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Investor Services LLC against certain losses arising out of its proxy solicitation services on our behalf. We and our proxy solicitors will also request that individuals and entities holding ADVO shares in their names, or in the names of their nominees, that are beneficially owned by others, send proxy materials to and obtain proxies from those beneficial owners, and we will reimburse those holders for their reasonable expenses in performing those services.

Other Business; Adjournments

We are not aware of any other business to be acted upon at the special meeting. If, however, other matters are properly brought before the special meeting, your proxies will have discretion to vote or act on those matters according to their best judgment, and intend to vote the shares as our board of directors may recommend.

The special meeting may be adjourned from time to time, whether or not a quorum exists, without further notice other than by an announcement made at the special meeting. In addition, if the adjournment or postponement of the special meeting is for more than 30 days or if after the adjournment or postponement a new record date is fixed for an adjourned or postponed meeting, notice of the adjourned meeting must be given to each stockholder of record entitled to vote at such special meeting. If a quorum is not present at the special meeting, stockholders may be asked to vote on a proposal to adjourn or postpone the special meeting to solicit additional proxies. If a quorum is present at the special meeting but there are not sufficient votes at the time of the special meeting to approve the other proposal(s), holders of common stock may also be asked to vote on a proposal to approve the adjournment or postponement of the special meeting to permit further solicitation of proxies.

Assistance

If you need assistance in completing your proxy card or have questions regarding the special meeting, please contact Mellon Investor Services LLC, at 1-866-768-4962.

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THE MERGER

Background of the Merger

ADVO s board of directors has from time to time engaged with senior management and outside advisors in strategic reviews, and has considered ways to enhance ADVO s performance and prospects in light of competitive and other relevant developments. These reviews have also included periodic discussions with respect to potential transactions that would further ADVO s strategic objectives, and the potential benefits and risks of those transactions.

In September 2005, Mr. Alan F. Schultz, Chairman and Chief Executive Officer of Valassis, called Mr. S. Scott Harding, Chief Executive Officer of ADVO, to introduce himself. During this conversation, Mr. Harding suggested that members of senior management of each company meet to discuss their respective capabilities to determine whether there were potential strategic alliances that would be in the interests of both companies. On November 14, 2005, members of Valassis senior management met with members of ADVO s senior management at Valassis headquarters in Livonia, Michigan. Following this meeting, Mr. Robert L. Recchia, Executive Vice President, Chief Financial Officer and Treasurer of Valassis, called Mr. Jeffrey E. Epstein, Executive Vice President Chief Financial Officer of ADVO, to express Valassis interest in discussing a potential business combination of the two companies. Mr. Harding notified ADVO s board of directors regarding Valassis interest.

On November 22, 2005, ADVO and Valassis executed a mutual non-disclosure agreement, which included a two-year standstill precluding either party, without the written approval of the other party s board of directors, from, among other things, making any proposal to acquire the other company, subject to certain exceptions. In December 2005, ADVO retained Citigroup Global Markets Inc. (Citigroup) as its financial advisor. On December 8, 2005, ADVO s board of directors reviewed with Citigroup and management ADVO s strategic opportunities and the status of the discussions with Valassis. On December 12, 2005, members of ADVO s senior management met with members of senior management of Valassis at ADVO s headquarters in Windsor, Connecticut. Immediately following that meeting, Mr. Schultz requested that ADVO consider a possible merger of equals transaction. On January 6, 2006, Messrs. Harding, Epstein, Schultz and Recchia met to discuss further the possibility of a merger of equals transaction, and the potential synergies that would be available in such a business combination.

At a meeting of the ADVO board of directors on January 26, 2006, the board of directors reviewed ADVO s strategic alternatives with the assistance of Citigroup, including a possible merger of equals transaction with Valassis. On February 6, 2006, members of the senior management teams of ADVO and Valassis, as well as their financial advisors, met to review each company s long-range plans, business strategies, operations, prospects and other related topics. ADVO also engaged a consulting firm to study Valassis business. On March 6, 2006, following discussions with ADVO directors and consideration of the benefits and risks of a potential stock-for-stock merger of equals business combination, Mr. Harding called Mr. Schultz to advise him of ADVO s decision to end further discussions.

On March 29, 2006, Mr. Schultz met Mr. Harding and delivered a letter that he was also sending to each of the directors of ADVO, requesting permission under the mutual non-disclosure agreement for Valassis to make a proposal to acquire ADVO in a fully-financed, all cash transaction. The letter stated that Valassis anticipated that the proposal would include a cash price in the range of $38-$40 per share, representing a 19.3% 25.6% premium to ADVO s closing price of $31.85 on March 28, 2006.

ADVO s board of directors reviewed Valassis letter at a meeting on April 7, 2006. At such meeting, the board of directors formed a special committee, consisting of Mr. John Mahoney, Non-Executive Chairman of the Board, Mr. David Dyer, Ms. Bobbie Gaunt and Mr. Howard Newman, to oversee the response to Valassis proposal. The board of directors determined that all directors should be given notice of special committee

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meetings to enable them to participate if they were available. On April 14, 2006, the special committee met to discuss the retention of financial and legal advisers to the board of directors. Thereafter, Wachtell, Lipton, Rosen & Katz was retained as special counsel to the board of directors, and Citigroup was confirmed as financial advisor.

At its regular board of directors meeting on May 3-4, 2006, ADVO s board of directors discussed the proposal from Valassis, ADVO s strategic alternatives and the board of directors duties and responsibilities with ADVO s management and its legal and financial advisors. At the conclusion of these meetings, ADVO s board of directors determined to approve a limited waiver to the mutual non-disclosure agreement to enable Valassis to make a non-public, fully financed proposal for a cash acquisition, and authorized ADVO to permit Valassis to engage in further due diligence. On May 4, 2006, Mr. Harding delivered a letter and called Mr. Schultz advising him of the board of directors determinations, and stated that ADVO would be establishing an electronic data room for due diligence. The letter also expressed the board of directors expectation that Valassis confirmatory due diligence and further discussions regarding synergy opportunities would result in even higher values for ADVO s stockholders than the range specified in Valassis March 29th letter. Mr. Harding also stated that ADVO expected that Valassis proposal, including detailed terms and conditions and evidence of financing, would be delivered to ADVO by no later than June 2, 2006. Mr. Schultz advised Mr. Harding by telephone that he expected Valassis would be able to meet this timetable for delivering its proposal. Valassis and its advisors began their due diligence the week of May 15, 2006 following the opening of the electronic data room.

On May 16, 2006, the special committee of the ADVO board of directors met to consider contacting additional parties to solicit their interest in a potential acquisition of ADVO. Following discussion with its legal and financial advisors, the special committee authorized Citigroup to contact a targeted list of four potential strategic acquirors and two potential financial acquirors considered most likely to have an interest in an acquisition of ADVO. Over the next three weeks, Citigroup contacted these six parties, and ADVO made management presentations to two of these parties which had executed confidentiality agreements.

On May 18-19, 2006, members of the senior management teams of ADVO and Valassis, as well as their respective financial and legal advisors and representatives of a potential equity financing source for Valassis, met in New York. ADVO s management gave presentations and provided information relating to ADVO s operations, finances and other related topics. Following the management presentation on May 18, 2006, Messrs. Schultz and Harding met to discuss Mr. Harding s potential role in a combined company. On May 22 and 30, 2006, the special committee met to receive updates on the status of discussions with Valassis and the two other parties which were interested in exploring discussions regarding a potential acquisition of ADVO.

On June 2, 2006, Valassis submitted a non-binding written proposal to acquire ADVO for $35.25 in cash per share. Valassis also provided a written financing commitment from Bear Stearns & Co., Inc., Valassis financial advisor, and a form of merger agreement.

ADVO s board of directors met to discuss the proposal on June 5, 2006. A representative of Citigroup discussed the financial aspects of the proposal, noting that the proposal represented a discount from the range initially indicated by Valassis in its March 29th letter, although it represented a premium of approximately 33% to the most recent closing price of ADVO common stock. After discussion, the board of directors, by a unanimous vote of the directors present, rejected the proposal and instructed Citigroup to so inform Valassis. Following the board of directors meeting, ADVO ended Valassis access to the electronic data room. The board of directors also concluded that the process with the two other interested parties should continue at least until they submitted an indicative range of value. Later that month, one of the two parties withdrew from the process without submitting an indication of value, and the other party gave a non-binding indication of value in the range of $35 per share in late June, subject to substantial further due diligence and obtaining private equity financing.

On June 10, 2006, Mr. Schultz met with Mr. Harding to discuss Valassis continued interest in an acquisition of ADVO. On June 12, 2006, Bear Stearns advised Citigroup that Valassis was prepared to increase

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its proposed offer to $36.25 in cash per share. On June 13, 2006, Mr. Schultz sent a letter to ADVO s board of directors proposing to acquire ADVO for $36.25 in cash per share, which represented a 50% premium to ADVO s closing stock price on the previous day. The offer was conditioned upon ADVO reopening its electronic data room, fulfilling outstanding due diligence requests and providing comments on the form of merger agreement that Valassis had submitted with its proposal on June 2nd.

ADVO s board of directors met on June 15, 2006 to discuss the revised proposal with its financial and legal advisors. The board of directors determined to defer responding to the revised proposal until after its regularly scheduled board of directors meeting the following week, during which the board of directors would be considering ADVO s long-term strategic plan. At its meeting on June 21-22, 2006, the ADVO board of directors reviewed ADVO s long-term strategic plan and potential growth initiatives. The board of directors discussed the revised Valassis proposal with its financial and legal advisors, and instructed Citigroup to advise Bear Stearns that the board of directors had rejected the revised proposal.

On June 27, 2006, Bear Stearns advised Citigroup that Mr. Schultz requested a meeting with one or more members of the special committee. Accordingly, on June 30, 2006, Messrs. Mahoney and Harding met with members of senior management of Valassis and their respective advisors. During this meeting, Mr. Schultz stated that the best price that Valassis would be willing to pay would be $37.00 in cash per share of ADVO common stock. Mr. Mahoney stated that he would recommend to the ADVO board of directors that it accept this proposal, subject to satisfactory resolution of the terms and conditions of the merger agreement that would provide substantial certainty for closing a transaction. At a special committee meeting on June 30, 2006, the special committee discussed Valassis revised proposal with its legal and financial advisors and indicated it would support the $37.00 per share acquisition price assuming satisfactory completion of a definitive merger agreement as promptly as possible. Over the next several days, representatives of Wachtell, Lipton, Rosen & Katz and Kirkpatrick & Lockhart Nicholson Graham LLP, counsel for the board of directors and ADVO, respectively, negotiated the merger agreement with representatives of McDermott Will & Emery LLP, counsel for Valassis. During this same time, Mr. Schultz and Mr. Harding discussed various matters relating to Mr. Harding s position with the company going forward and other employee matters. A draft merger agreement and other materials, including Citigroup s financial presentation, were delivered to ADVO s directors on July 3, 2006.

On July 5, 2006, ADVO s board of directors met in New York with senior management and ADVO s financial and legal advisors to review the proposed merger. A representative of Wachtell, Lipton, Rosen & Katz advised the board of directors regarding its duties and responsibilities and the material terms of the proposed merger agreement. Representatives of Citigroup gave a financial presentation and delivered Citigroup s opinion as to the fairness, as of the date of the opinion, of the merger consideration, from a financial point of view, to ADVO s stockholders subject to the assumptions, qualifications and limitations set forth therein. After discussion and consideration of the factors described under The Merger Recommendations of Our Board of Directors; Reasons for the Merger, the ADVO board of directors unanimously approved the merger agreement and the transactions contemplated thereby.

Following the ADVO board of directors meeting, ADVO and Valassis executed the original merger agreement and, prior to the opening of trading on the next day, publicly announced that they had entered into a definitive merger agreement.

On July 26, 2006, Messrs. Harding, Epstein and Christopher Hutter, ADVO s National Vice President, Finance, called Messrs. Schultz and Recchia to apprise them of ADVO s expected results for the quarter ended July 1, 2006, furnish them a draft of the quarterly earnings press release to be issued the following week, and provide them with a draft of Mr. Harding s quarterly report to ADVO s audit committee and its board of directors. ADVO management further discussed ADVO s fiscal third quarter results with Valassis management on July 28, 2006.

On August 2, 2006, ADVO reported its earnings for the third quarter ended July 1, 2006. ADVO reported that revenue for its third fiscal quarter ended July 1, 2006 was $386.8 million versus $353.6 million in the prior

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year quarter, and operating income was $12.7 million versus $22.4 million in the prior year quarter. Diluted E.P.S. was $0.22 versus $0.41 in the prior year quarter. The third fiscal quarter of 2006 contained a planned extra week versus the prior year period due to the ADVO s 52/53 week fiscal year. Both third quarter of 2006 and third quarter of 2005 contained certain non-recurring costs. Included in the third fiscal quarter of 2006 was a charge of $0.03 in E.P.S. related to the previously announced closure of ADVO s Memphis production facility, the new newspaper agreement in Southern California, and the outsourcing of ADVO s graphics print services. ADVO also incurred expenses of approximately $0.05 in E.P.S. related to the anticipated merger with Valassis.

On the same day, following additional discussions between representatives of ADVO and Valassis regarding these results and ADVO s preliminary update of its expected fiscal fourth quarter results over the prior week, Valassis Board of Directors sent a letter to Mr. Mahoney, describing their concerns with respect to ADVO s third quarter results and ADVO management s fourth quarter forecast, and the impact of the implementation of ADVO s new order delivery system, known as the Service Delivery Redesign project (SDR), on its internal controls. Valassis Board requested that ADVO s board instruct management to continue to cooperate fully with Valassis by, among other things, providing information and documentation relating to these matters.

On August 4, 2006, Messrs. Mahoney and Harding sent a letter responding to Valassis letter. They gave assurances that ADVO s management would continue to cooperate with Valassis reasonable requests to access information and stated that ADVO expected to have the requested information ready and personnel made available to meet with the Valassis team the following week.

During the following week, ADVO s senior management continued to discuss the third quarter and expected fourth quarter results with Valassis management and added documents to the data room in response to Valassis requests for additional information. In addition, ADVO s management met in Windsor, Connecticut on August 7th and 8th with Valassis management and a representative of Deloitte & Touche, Valassis independent public accountants, to discuss these matters and to respond to their questions. On August 10, 2006, ADVO mailed its proxy statement to stockholders for its special meeting on September 13, 2006 to approve the original merger agreement.

During the week of August 14, 2006, Valassis and its representatives advised ADVO and its representatives that Valassis had retained KPMG LLP to provide forensic accounting services to inquire into ADVO s third quarter results. On August 17, 2006, representatives of KPMG went to ADVO s offices but did not obtain all of the information they were requesting. Over the following week, ADVO s and Valassis management and representatives continued to discuss Valassis requests to provide KPMG additional access to ADVO s personnel and information, and the scope of the reasonable access provisions contained in the original merger agreement. On August 28, 2006, Messrs. Harding, Mahoney and Epstein met at Valassis request with Messrs. Schultz and Recchia. Mr. Schultz explained his concerns over ADVO s third quarter results and the revised forecast and advised ADVO that, based on where things stand, Valassis management cannot advise its board of directors to move forward with the original merger agreement with ADVO. Mr. Schultz reiterated Valassis demand for ADVO to provide KPMG full access to all ADVO personnel and documents. Messrs. Harding and Mahoney sent a letter the next day to Valassis Board of Directors stating ADVO s position that there was no basis for Valassis not to proceed with the original merger agreement.

ADVO held a special board meeting on the afternoon of August 30, 2006 to update its directors on the continuing discussions with Valassis. During the course of this meeting, Valassis and its representatives called ADVO and its representatives to advise them that the Valassis Board had unanimously approved commencing litigation against ADVO later that afternoon unless ADVO would agree to provide Valassis with full access to all ADVO personnel and documents so that it could investigate its concerns, and to enter into good faith negotiations regarding the purchase price for the ADVO shares in the merger. ADVO s Board of Directors rejected those conditions.

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Later in the day on August 30, 2006, Valassis filed suit against ADVO in the Delaware Court of Chancery seeking to rescind the original merger agreement. Valassis alleged that ADVO fraudulently induced Valassis to enter into the original merger agreement. Valassis further alleged that its obligation to perform under the original merger agreement was excused because ADVO suffered a Material Adverse Change within the terms of the original merger agreement and had otherwise breached the original merger agreement or failed to satisfy conditions to the closing. Valassis also sought damages in an unspecified amount.

On September 5, 2006, ADVO mailed supplemental proxy information to its stockholders in connection with the special stockholders meeting. On September 8, 2006, ADVO filed an answer denying Valassis allegations, asserting numerous defenses, and asserting counterclaims for specific performance and damages.

On September 13, 2006, ADVO stockholders adopted the original merger agreement at the special stockholders meeting.

On September 28, 2006, Valassis filed a reply and affirmative defenses to ADVO s counterclaims, denying many of the allegations in ADVO s answer and counterclaims and raising several affirmative defenses. Thereafter, the parties filed amended pleadings, the principal amendment being the addition by Valassis of claims relating to alleged breaches of additional ADVO representations and warranties that allegedly permitted Valassis to terminate the merger agreement.

On October 6, 2006, ADVO s counsel contacted Valassis counsel to explore whether they could reach a settlement. Those discussions ended on October 9, 2006. On November 20, 2006, Valassis counsel inquired whether ADVO would be interested in non-binding mediation. ADVO rejected this proposal later on that day.

The Delaware Court of Chancery ordered expedited proceedings, with a trial scheduled to last from December 11 through December 22, 2006. Document production and deposition testimony were extensive during the months of October through December.

On November 16, 2006, ADVO reported preliminary results for its fourth quarter and fiscal year ended September 30, 2006. On a preliminary basis, fourth quarter revenue was $343.8 million versus $343.2 million in the prior year period, operating income was a loss of ($5.7) million versus an operating profit of $14.1 million in the prior year period, and diluted earnings per share was a loss of ($0.12) versus a profit of $0.27 in the prior year period. Fourth quarter results contained certain non-recurring and incremental costs totaling approximately $7.4 million, including litigation and other costs related to the pending merger with Valassis of $4.5 million.

On December 7 and 8, 2006, following a call from ADVO s counsel to Valassis counsel, Mr. Mahoney had preliminary discussions with Mr. Recchia regarding a possible settlement of the litigation in connection with an amendment to the merger agreement, but these discussions ended prior to the commencement of the trial on December 11, 2006.

During the week of December 11, 2006, Valassis presented its witnesses at the trial. On December 16, 2006, Valassis counsel contacted ADVO s counsel to renew potential settlement discussions. These discussions continued between counsel over the next two days, including proposed terms for the merger agreement amendment. ADVO s board of directors met on December 17, 2006 to receive an update on the progress of the trial and the settlement discussions, and authorized management and its advisors to continue settlement discussions. On the morning of December 18, 2006, counsel for ADVO and Valassis requested the Court to recess the trial for one day, and publicly announced prior to the opening of trading that they were in settlement discussions. ADVO s board of directors met at 5 p.m. on December 18, 2006 and reviewed the proposed merger agreement amendment with senior management and ADVO s financial and legal advisors. Representatives of Citigroup gave a financial presentation and delivered Citigroup s opinion as to the fairness, as of the date of the opinion, of the merger consideration provided in the merger agreement amendment, from a financial point of view, to ADVO s stockholders subject to the assumptions, qualifications and limitations set forth therein. After

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discussion and consideration of the factors described under The Merger Recommendations of Our Board of Directors; Reasons for the Merger, the ADVO board of directors, by a unanimous vote of the directors present (with one director absent), approved the merger agreement amendment and the transactions contemplated thereby.

Following the ADVO board of directors meeting, ADVO and Valassis executed the merger agreement amendment and, prior to the opening of trading on the next day, publicly announced that they had entered into the merger agreement amendment. Valassis stated in the announcement that, as a result of the extensive discovery proceedings in the litigation, including the continued review of over one million documents produced by ADVO and the depositions of over 30 ADVO witnesses, Valassis has determined that the evidence will not support the conclusion that ADVO or any of its directors, officers, agents or representatives engaged in any fraud or other misconduct in connection with the parties entry into their original merger agreement. Pursuant to the merger agreement amendment, on December 19, 2006, the parties filed a stipulation in the Delaware Court of Chancery dismissing the litigation with prejudice.

Recommendation of Our Board of Directors; Reasons for the Merger

At its meeting on December 18, 2006, our board of directors, by a unanimous vote of the directors present (with one director absent), determined that the amended merger agreement is advisable and fair to, and in the best interests of, ADVO and its stockholders and approved the amended merger agreement and the transactions contemplated thereby, including the merger. Accordingly, the ADVO board of directors recommends that ADVO stockholders vote **FOR** adoption of the amended merger agreement at the special meeting and **FOR** the adjournment or postponement of the meeting, if necessary, to solicit additional proxies.

In reaching its decision to approve the amended merger agreement and to recommend that ADVO stockholders vote to adopt the amended merger agreement, the ADVO board of directors considered a number of factors, including the following material factors:

- our board of directors understanding of and familiarity with, and discussions with our management regarding, the business, operations, management, financial condition, earnings and prospects of ADVO (as well as the risks involved in achieving those prospects and the risks and benefits of remaining independent), including ADVO s results of operations since the announcement of the original merger agreement and ADVO s current budget for its 2007 fiscal year;

- our board of directors knowledge of the nature of the direct mail, media and retail industries, and of the current and prospective competitive, economic, regulatory and operational environment in those industries, including consolidation among retail customers;

- the risk, uncertainty and delay associated with the litigation filed by Valassis in the Delaware Court of Chancery, including the possibility of an appeal;

- the results of the process undertaken by our board of directors and its advisors prior to the execution of the original merger agreement to contact selected parties in the industry and financial parties to solicit their interest in an acquisition of ADVO, as described under The Merger Background of the Merger ;

- the potential stockholder value that could be expected to be generated from the various strategic alternatives available to ADVO, including the alternatives of remaining independent and recapitalization or restructuring strategies;

- the historical trading prices of our common stock, including the fact that the per share cash merger consideration of $33.00 represents a premium of 36% over $24.26 per share, which was the closing price of our common stock on July 5, 2006 (the last full trading day before the announcement of the execution of the original merger agreement) and a 3.9% premium over $31.77 per share, which was the closing price of our common stock on December 15, 2006 (the last full trading day before the public announcement that the parties were in settlement discussions);

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the financial presentation of Citigroup, including its opinion, dated December 18, 2006, to our board of directors that, as of the date of the opinion and subject to the various assumptions, qualifications and limitations set forth therein, the merger consideration to be received by holders of ADVO common stock pursuant to the amended merger agreement was fair, from a financial point of view, to such holders, as more fully described below in The Merger Opinion of Our Financial Advisor ;

the fact that the merger consideration consists solely of cash, providing ADVO stockholders with immediate liquidity and certainty of value;

the fact that there are no conditions to the respective obligations of Valassis and ADVO to complete the merger other than approval by ADVO stockholders and the absence of any injunction or other legal restraint prohibiting the consummation of the merger;

the fact that the merger consideration includes interest if the closing occurs after the later of (i) February 28, 2007 and (ii) the second business day after approval of the merger by ADVO s stockholders;

the review by our board of directors with our management and legal and financial advisors of the structure of the merger and the financial and other terms of the amended merger agreement;

the likelihood that the stockholder approval necessary to complete the merger will be obtained;

the ability of our board of directors under certain circumstances, pursuant to the terms of the amended merger agreement described below in The Amended Merger Agreement Covenants , to evaluate bona fide, unsolicited alternative acquisition proposals that may arise between the date of the amended merger agreement and the date of the special meeting, to furnish information and conduct negotiations with such third parties and, in certain circumstances, to terminate the amended merger agreement, subject to the payment to Valassis of the termination fee, and accept a superior acquisition proposal, consistent with our board of directors fiduciary obligations;

the belief that the $38 million termination fee that would be payable in connection with the termination of the amended merger agreement to enter into a superior proposal (which termination fee Valassis required as a condition of entering into the original merger agreement, and which represents approximately 3.6% of the aggregate fully diluted equity value of the transaction under the amended merger agreement) was reasonable in the context of termination fees payable in other transactions and in light of the overall terms of the amended merger agreement, and that the termination fee would not preclude another party from making a competing proposal; and

the availability of appraisal rights under Delaware law.

The ADVO board of directors also considered potential drawbacks or risks relating to the merger, including the following material risks and factors, but found that these potential risks were outweighed by the expected benefits of the merger:

the fact that the all-cash merger consideration would not allow our stockholders to participate in any future growth of ADVO s business, and generally would be taxable to our stockholders;

the risks and costs to ADVO if the merger does not close, including the diversion of management and employee attention, and the effect on relationships with customers, suppliers and employees;

the fact that Valassis does not currently have a financing commitment for the financing necessary to consummate the merger; and

the possibility that the termination fee of $38 million payable if the amended merger agreement is terminated under certain circumstances may discourage a competing bid for ADVO.

Our board of directors also considered the interests that certain executive officers and directors of ADVO may have with respect to the merger in addition to their interests as stockholders of ADVO generally, as described in the section below entitled The Merger Interests of ADVO s Directors and Executive Officers in the Merger.

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The foregoing discussion addresses the material information and factors considered by the ADVO board of directors in its consideration of the merger. In view of the variety of factors, the amount of information considered and the complexity of these matters, the board of directors did not find it practicable to, and did not attempt to, rank, quantify, make specific assessments of, or otherwise assign relative weights to the specific factors considered in reaching its determination. In addition, individual members of the board of directors may have given different weights to different factors. Our board of directors considered these factors as a whole, and overall considered them to be favorable to, and to support, its determination.

Opinion of Our Financial Advisor

Citigroup was retained by ADVO to act as financial advisor to the ADVO board of directors in connection with its review of a potential sale of ADVO. In connection with this engagement, at a meeting of the ADVO board of directors held on July 5, 2006 to evaluate the merger on the terms set forth in the original merger agreement, Citigroup rendered an oral opinion, which was confirmed by delivery of a written opinion dated the same date, to ADVO s board of directors, to the effect that, as of July 5, 2006, and based upon and subject to the various assumptions, qualifications and limitations set forth in the opinion dated July 5, 2006, the merger consideration to be received by holders of ADVO common stock pursuant to the original merger agreement, was fair, from a financial point of view, to such holders. On December 18, 2006, ADVO, Valassis and Acquisition Sub entered into the merger agreement amendment, which, among other things, modified the merger consideration to be received by the holders of ADVO common stock in the merger. In connection with the execution of the merger agreement amendment, the ADVO board of directors requested that Citigroup update its opinion as to the fairness, from a financial point of view, to the holders of ADVO common stock of the new merger consideration set forth in the merger agreement amendment.

Citigroup performed certain procedures to update its opinion dated July 5, 2006 to reflect, among other things, (i) the fact that ADVO s earnings before interest and taxes, or EBIT, for fiscal year 2006 was approximately 37% lower than forecasted by ADVO management at the time the original merger agreement was entered into (excluding certain one-time charges and non-recurring costs), (ii) the fact that ADVO reduced its forecasted fiscal year 2007 EBIT by approximately 17% and (iii) the new merger consideration and the other revised terms of the merger set forth in the amended merger agreement. At a meeting of the ADVO board of directors held on December 18, 2006 to evaluate the merger on the revised terms contained in the amended merger agreement, and in light of the foregoing changes, Citigroup rendered its oral opinion, which was confirmed by delivery of a written opinion dated the same date, to ADVO s board of directors, to the effect that, as of December 18, 2006, and based upon and subject to the various assumptions, qualifications and limitations set forth in the opinion dated December 18, 2006, the merger consideration to be received by holders of ADVO common stock pursuant to the amended merger agreement was fair, from a financial point of view, to such holders.

Unless the context otherwise requires, all references to Citigroup s opinion in this proxy statement shall mean Citigroup s written opinion dated December 18, 2006, and all references to merger consideration in this proxy statement shall mean the merger consideration to be received by holders of ADVO common stock pursuant to the amended merger agreement. The full text of Citigroup s opinion, which sets forth the assumptions made, general procedures followed, matters considered and limitations on the review undertaken, is included as **Annex C** to this proxy statement. The summary of Citigroup s opinion set forth below is qualified in its entirety by reference to the full text of the opinion. **Holders of ADVO common stock are urged to read the Citigroup opinion carefully and in its entirety.**

Citigroup s opinion was limited solely to the fairness of the merger consideration from a financial point of view as of the date of the opinion. Neither Citigroup s opinion nor the related analyses constituted a recommendation of the proposed merger to the ADVO board of directors. Citigroup makes no recommendation to any stockholder regarding how such stockholder should vote or act with respect to the merger.

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In arriving at its opinion, Citigroup:

- reviewed the amended merger agreement;
- held discussions with certain senior officers and other representatives and advisors of ADVO concerning the business, operations and prospects of ADVO;
- examined certain publicly available business and financial information relating to ADVO;
- examined certain financial forecasts and other information and data relating to ADVO, which were provided to or discussed with Citigroup by ADVO s management;
- reviewed the financial terms of the merger as set forth in the amended merger agreement in relation to, among other things, current and historical market prices and trading volumes of ADVO common stock, and ADVO s historical and projected earnings and other operating data, capitalization and financial condition;
- considered, to the extent publicly available, the financial terms of certain other transactions which Citigroup considered relevant in evaluating the merger;
- analyzed certain financial, stock market and other publicly available information relating to the businesses of other companies whose operations Citigroup considered relevant in evaluating those of ADVO; and
- conducted such other analyses and examinations and considered such other information and financial, economic and market criteria as Citigroup deemed appropriate in arriving at its opinion.

In rendering its opinion, Citigroup assumed and relied, without assuming any responsibility for independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with it and upon the assurances of ADVO s management that they were not aware of any relevant information that was omitted or that remained undisclosed to Citigroup. With respect to financial forecasts and other information and data relating to ADVO provided to or otherwise reviewed by or discussed with Citigroup, Citigroup was advised by ADVO s management that such forecasts and other information and data were reasonably prepared on bases reflecting the best currently available estimates and judgments of ADVO s management as to the future financial performance of ADVO. Citigroup assumed, with ADVO s consent, that the merger will be consummated in accordance with its terms as set forth in the amended merger agreement, without waiver, modification or amendment of any material term, condition or agreement. Citigroup did not make, and it was not provided with, an independent evaluation or appraisal of the assets or liabilities, contingent or otherwise, of ADVO, and did not make any physical inspection of the properties or assets of ADVO.

In connection with Citigroup s engagement and at the direction of ADVO, Citigroup approached, and held discussions with, selected third parties to solicit indications of interest in the possible acquisition of ADVO prior to the execution of the original merger agreement, and Citigroup considered the results of this solicitation in its analysis. Citigroup expressed no view, and its opinion did not address, the relative merits of the merger as compared to any alternative business strategies that might exist for ADVO or the effect of any other transaction in which ADVO might engage. Citigroup s opinion necessarily was based on information available to it, and financial, stock market and other conditions and circumstances existing and disclosed to Citigroup as of the date of the opinion.

In preparing its opinion, Citigroup performed a variety of financial and comparative analyses, including those described below. The summary of these analyses is not a complete description of the analyses underlying Citigroup s opinion. The preparation of a financial opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of

those methods to the particular circumstances and, therefore, a financial opinion is not readily susceptible to summary description. Citigroup arrived at its ultimate opinion based on the results of all analyses undertaken by it and

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assessed as a whole, and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis for purposes of its opinion. Accordingly, Citigroup believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion.

In its analyses, Citigroup considered industry performance, general business, economic, market and financial conditions and other matters existing as of the date of its opinion, many of which are beyond the control of ADVO. No company, business or transaction used in those analyses as a comparison is identical to ADVO or the merger, and an evaluation of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed.

The estimates contained in Citigroup s analyses and the valuation ranges resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by its analyses. In addition, analyses relating to the value of businesses or securities do not necessarily purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates used in, and the results derived from, Citigroup s analyses are inherently subject to substantial uncertainty.

The type and amount of consideration payable in the merger was determined through negotiation between ADVO and Valassis, and the decision to enter into the amended merger agreement was solely that of the ADVO board of directors. Citigroup s opinion was only one of many factors considered by the ADVO board of directors in its evaluation of the merger and should not be viewed as determinative of the views of the ADVO board of directors or ADVO s management with respect to the merger or the consideration payable in the merger.

The following is a summary of the material financial analyses presented to the ADVO board of directors in connection with Citigroup s opinion. **The financial analyses summarized below include information presented in tabular format. In order to fully understand Citigroup s financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Citigroup s financial analyses.**

Fifty-Two Week Trading Range

Citigroup reviewed the historical trading price for ADVO common stock during the 12-month period ended June 30, 2006, prior to the announcement of the original merger agreement, during which period the range of closing per share prices for ADVO common stock was $23.23 to $35.80. Citigroup noted that the merger consideration of $33.00 per share was within this range, and represented a premium of 34.1% over the closing per share price for ADVO common stock on June 30, 2006, which was $24.61. Citigroup also noted that the merger consideration of $33.00 per share represented a premium of 3.9% over $31.77, which was the closing price per share of ADVO common stock on December 15, 2006, the last full trading day prior to the announcement that ADVO and Valassis were in talks which led to the amended merger agreement.

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Citigroup also analyzed ADVO s volume-weighted-average share price, or VWAP, over the one and three month periods leading up to December 15, 2006. Citigroup did not analyze ADVO s VWAP for prior periods because ADVO s closing share prices during the period from July 5, 2006 through August 30, 2006 (the date Valassis filed its lawsuit with respect to the proposed merger) were affected by the announcement of the proposed merger with Valassis. The following table summarizes Citigroup s findings:

	Volume-Weighted-Average Share Price
Past 1 Month (20 trading days)	$ 29.94
Past 3 Months (60 trading days)	$ 29.52

Citigroup noted that the merger consideration of $33.00 per share represented a premium to the one and three month VWAPs leading up to December 15, 2006 of 10.2% and 11.8%, respectively, and that approximately 78% of trading volume during the twenty-four month period ending June 30, 2006, occurred at prices below $33.00 per share.

Comparable Companies Analysis

Citigroup compared financial, operating, stock market information and forecasted financial information for ADVO with selected publicly traded companies that operate in the marketing services sector. The selected comparable companies considered by Citigroup were:

Catalina Marketing Corporation; and

Harte-Hanks, Inc.

Citigroup derived for ADVO and each of the comparable companies firm value as a multiple of, among other things, estimated calendar year 2006 and 2007 earnings before interest, taxes, depreciation and amortization, or EBITDA. Citigroup calculated firm value as (a) equity value, based on the per share price and fully diluted shares outstanding as reflected in each company s latest publicly available information, assuming the exercise of all in-the-money options, warrants and convertible securities outstanding, less the proceeds from such exercise; plus (b) non-convertible indebtedness; plus (c) non-convertible preferred stock; plus (d) minority interests; minus (e) investments in unconsolidated affiliates and cash and cash equivalents.

Citigroup also reviewed common share prices of ADVO and each of the comparable companies as a multiple of, among other things, estimated calendar year 2006 and 2007 earnings per share, or EPS, as well as EPS estimates adjusted to correspond to ADVO s September 29, 2007 fiscal year end, commonly referred to as price-to-earnings, or P/E, multiples. In its analysis, Citigroup used Harte-Hanks common share price as of the market close on December 15, 2006 and Catalina s common share price as of December 7, 2006, the day immediately prior to an announcement by Catalina of a potential sale of Catalina. For ADVO, Citigroup used the closing share price of ADVO common stock as of December 15, 2006 and the per share merger consideration.

Historical financial information for the comparable marketing services companies was obtained from public filings. Estimated financial data for the comparable marketing services companies were based on selected Wall Street research analyst reports. Estimated financial data for ADVO were based on estimates prepared internally by ADVO s management, referred to as the management estimates.

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The following chart sets forth the multiples derived by Citigroup:

	Firm Value/ CY2006E EBITDA	Firm Value/ CY2007E EBITDA	Share Price/ CY2006E EPS	Share Price/ CY2007E EPS	Share Price/ FY2007E EPS
Catalina at December 7 Share Price and Harte-Hanks at December 15 Share Price					
Mean/Median	9.0x	8.2x	18.5x	16.6x	17.1x
ADVO Estimates at December 15 Share Price					
ADVO Management Estimates	10.1x	8.0x	32.9x	21.6x	23.2x
ADVO Estimates at Transaction Price					
ADVO Management Estimates	10.5x	8.3x	34.2x	22.4x	24.1x

CY = Calendar Year

E = Estimated

FY = ADVO Fiscal Year ending September 29, 2007

Citigroup noted that both the ADVO firm value to estimated calendar year 2006 and 2007 EBITDA multiples at the transaction price and the ADVO share price to estimated calendar year 2006 and 2007 EPS multiples and fiscal year 2007 EPS multiple at the transaction price, using management estimates, exceeded the average trading multiples for the comparable companies.

Based on the information for comparable companies, Citigroup derived a range for the implied equity value per share of ADVO common stock of approximately $19.60 to $22.10 using the Wall Street estimates and approximately $21.90 to $24.70 using management estimates. Citigroup noted that the merger consideration of $33.00 per share exceeded these derived ranges.

Premiums Paid Analysis

Citigroup reviewed publicly available information for 38 pending or completed negotiated (i.e., non-hostile), all-cash merger or acquisition transactions involving U.S. publicly traded companies announced since January 1, 2000 with transaction values between $1.0 billion and $1.5 billion, which did not include any transactions where the target company was a financial institution or real estate investment trust. Citigroup s review included 15 transactions that were not included in its premiums paid analysis performed in connection with its opinion dated July 5, 2006 because, except as noted in the list of selected transactions below, each of these 15 transactions was announced on or after August 9, 2006. For each selected precedent transaction, Citigroup derived the implied premium paid per share of common stock of the target company relative to: (a) the closing per share price of the target company common stock one day prior to the announcement of the transaction; (b) the average of the closing per share prices of the target company common stock for the one-week period prior to the announcement of the transaction; and (c) the average of the closing per share prices of the target company common stock for the one-month period prior to the announcement of the transaction.

The selected transactions reviewed by Citigroup were (in each case, the target company is listed first, followed by the acquiror):

Digital Insight Corp/ Intuit Inc.

Conor Medsystems Inc./ Johnson & Johnson Inc.

RailAmerica Inc./ Fortress Investment Group LLC

Banta Corp./ RR Donnelley & Sons Co.

Sirna Therapeutics Inc./ Merck & Co. Inc.

Open Solutions Inc./ Investor Group

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Jacuzzi Brands Inc./ Apollo Management LP

MacDermid Inc./ Investor Group

Intergraph Corp./ Investor Group

Giant Industries Inc./ Western Refining Inc.

Internet Security Systems, Inc./ International Business Machines Corporation

Gold Kist Inc./ Pilgrims Pride Corp.

Delta & Pine Land Corp./ Monsanto Corp.

Filenet Corp./ International Business Machines Corporation

NCO Group Inc./ Investor Group (announced May 16, 2006)

Serologicals Corporation / Millipore Corporation

Alderwoods Group, Inc. / Service Corporation International

The Sports Authority, Inc. / Investor Group led by Leonard Green & Partners, L.P.

Serena Software, Inc. / Silver Lake Partners

Linens n Things Inc. / Investor Group led by Apollo Management, L.P.

Advanced Neuromodulation Systems Inc. / St. Jude Medical, Inc.

ShopKo Stores, Inc. / Investor Group led by Sun Capital Partners IV, LP

IDX Systems Corporation / General Electric Company

Priority Healthcare Corporation / Express Scripts, Inc.

US Unwired Inc. / Sprint Corporation

Overnite Corporation / United Parcel Service, Inc.

CUNO Incorporated / 3M Company

SOLA International Inc. / Investor Group led by Carl Zeiss AG and EQT III Limited

Ionics, Incorporated / General Electric Company

Hollywood Entertainment Corporation / Movie Gallery, Inc.

Kaneb Services LLC / Valero L.P.

The Robert Mondavi Corporation / Constellation Brands, Inc.

Orbitz, Inc. / Cendant Corporation

US Oncology, Inc. / Welsh, Carson, Anderson & Stowe IX, L.P.

TheraSense, Inc. / Abbott Laboratories

Esperion Therapeutics, Inc. / Pfizer Inc.

Gaylord Container Corporation / Temple-Inland Inc.

Net2Phone, Inc. / AT&T Corp.

The following table sets forth the results of these analyses:

	Precedent Transaction Premiums	
	Mean	**Median**
1 Day Prior to Announcement	28.2%	25.3%
1 Week Average	29.2%	30.0%
1 Month Average	32.9%	30.0%

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Based on these data and its judgment and experience, Citigroup applied a premium range of approximately 20% to 30% to the midpoint of the range of implied equity values per share of ADVO common stock of $19.60 to $22.10 using Wall Street fiscal year 2007 EPS estimates and the P/E ratios of comparable companies, and derived a range of approximately $25.00 to $27.10 for the implied equity value per share of ADVO common stock. Citigroup also applied a premium range of approximately 20% to 30% to the midpoint of the range of implied equity values per share of ADVO common stock of $21.90 to $24.70 using management fiscal year 2007 EPS estimates and the P/E ratios of comparable companies, and derived a range of approximately $27.90 to $30.30 for the implied equity value per share of ADVO common stock. Citigroup noted that the merger consideration of $33.00 per share exceeded the ranges derived by Citigroup for the implied equity value per share of ADVO common stock using the premiums paid analyses.

Citigroup also noted that the merger consideration of $33.00 per share represented a premium to the one and three month volume weighted average trading prices of ADVO common stock. See Fifty-Two Week Trading Range for further detail.

Precedent Transaction Analysis

It is Citigroup s view that there have been no recent comparable precedent tra