VALASSIS COMMUNICATIONS INC
Form 10-Q
November 14, 2002

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2002

[ ] Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 1-10991

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

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

19975 Victor Parkway
Livonia, Michigan 48152
(address of principal executive offices)
Registrant's Telephone Number: (734) 591-3000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and, (2) has been subject to such filing requirements for the past 90 days:

Yes [X] No [ ]

As of November 11, 2002, there were 52,582,850 shares of the Registrant's Common Stock outstanding.

Part I - Financial Information

Item 1. Financial Statements

VALASSIS COMMUNICATIONS, INC.
Condensed Consolidated Balance Sheets
(dollars in thousands)

	September 30, 2002 (unaudited)	December 31, 2001
Assets		
Current assets:		
Cash and cash equivalents	$ 66,552	$ 10,615
Accounts receivable (less allowance for doubtful accounts of $2,004 at September 30, 2002 and $1,051 at December 31, 2001)	139,715	131,777
Inventories:		
Raw materials	10,763	13,965
Work in progress	7,743	13,935
Prepaid expenses and other	6,128	7,499
Deferred income taxes	1,479	1,479
Refundable income taxes		4,277
Total current assets	232,380	183,547
Property, plant and equipment, at cost:		
Land and buildings	27,968	22,960
Machinery and equipment	118,934	120,548
Office furniture and equipment	40,680	31,674
Automobiles	1,167	900
Leasehold improvements	1,996	1,954
	190,745	178,036
Less accumulated depreciation and amortization	(118,124)	(113,967)
Net property, plant and equipment	72,621	64,069
Intangible assets:		
Goodwill	152,411	115,756
Other intangibles	84,555	85,347
	236,966	201,103
Less accumulated amortization	(123,565)	(123,408)
Net intangible assets	113,401	77,695
Equity investments and advances to investees	7,781	33,955
Other assets	2,713	3,759
Total assets	$ 428,896	$ 363,025

VALASSIS COMMUNICATIONS, INC.
Condensed Consolidated Balance Sheets, Continued
(dollars in thousands, except per share data)

	September 30, 2002 (unaudited)	D
Liabilities and Stockholders' Deficit		
Current liabilities:		
Current portion long-term debt	$ --	
Accounts payable	90,004	
Accrued interest	1,441	
Accrued expenses	32,251	
Progress billings	45,660	
Income taxes payable	4,612	
Total current liabilities	173,968	
Long-term debt	256,106	
Deferred income taxes	3,259	
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock of $.01 par value. Authorized 25,000,000 shares; no shares issued or outstanding at September 30, 2002 and December 31, 2001		
Common stock of $.01 par value. Authorized 100,000,000 shares; issued 63,013,430 at September 30, 2002 and 62,992,763 at December 31, 2001; outstanding 52,814,196 at September 30, 2002 and 53,698,382 at December 31, 2001	630	
Additional paid-in capital	33,807	
Deferred compensation	(1,115)	
Retained earnings	290,923	
Foreign currency translations	(522)	
Treasury stock, at cost (10,199,234 shares at September 30, 2002 and 9,294,381 shares at December 31, 2001)	(328,160)	
Total stockholders' deficit	(4,437)	
Total liabilities and stockholders' deficit	$ 428,896	

See accompanying notes to condensed consolidated financial statements.

VALASSIS COMMUNICATIONS, INC.
Condensed Consolidated Statements of Income
(dollars in thousands, except per share data)
(unaudited)

	Quarter Ended		Nine Months End	
	September 30, 2002	September 30, 2001	September 30, 2002	Septe 2
Revenues:				
Net sales	$ 214,224	$ 197,360	$ 620,565	$
Other	65	1,048	1,834	
Total revenues	214,289	198,408	622,399	
Costs and expenses:				
Cost of products sold	135,113	127,578	386,516	
Selling, general and administrative	24,679	21,018	69,145	
Loss on investments	--	1,623	1,709	
Writedown of impaired assets	--	6,062	--	
Amortization of intangible assets	52	860	157	
Interest	3,403	3,739	9,971	
Total costs and expenses	163,247	160,880	467,498	
Earnings before income taxes	51,042	37,528	154,901	
Income taxes	18,300	12,817	55,800	
Net earnings before extraordinary items	32,742	24,711	99,101	
Extraordinary loss, net of tax	--	(1,285)	--	
Net earnings	$ 32,742	$ 23,426	$ 99,101	$
Net earnings per common share before extraordinary loss, basic	$ 0.62	$ 0.46	$ 1.85	$
Net earnings per common share before extraordinary loss, diluted	$ 0.61	$ 0.45	$ 1.83	$
Net earnings per common share, basic	$ 0.62	$ 0.44	$ 1.85	$
Net earnings per common share, diluted	$ 0.61	$ 0.43	$ 1.83	$
Shares used in computing net earnings per share, basic	53,118,782	53,791,838	53,442,166	53,
Shares used in computing net earnings per share, diluted	53,655,548	54,590,276	54,094,917	54,

See accompanying notes to condensed consolidated financial statements.

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

	Nine M
	Sept. 30 2002
Cash flows from operating activities:	
Net earnings	$ 99,101
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization of intangibles	8,130
Amortization of bond discount	3,473
Writedown of impaired assets	--
Provision for losses on accounts receivable	1,285
Gain on sale of property, plant and equipment	(724
Losses on equity investments	1,709
Stock-based compensation charge	1,336
Changes in assets and liabilities which increase (decrease) cash flow:	
Accounts receivable	(7,440
Inventories	9,394
Prepaid expenses and other	(2,178
Other liabilities	--
Other assets	3,852
Accounts payable	7,168
Accrued expenses and interest	2,991
Income taxes	13,936
Progress billings	(6,106
Total adjustments	36,826
Net cash provided by operating activities	135,927
Cash flows from investing activities:	
Additions to property, plant and equipment	(13,310
Proceeds from sale of property, plant and equipment	968
Investments in and advances to affiliated companies	(9,623
Acquisition of remaining interest of RMG, net of cash acquired	(2,905
Payments of additional purchase price for acquisition of PreVision	(8,000
Other	40
Net cash used in investing activities	(32,830
Cash flows from financing activities:	
Repayment of long-term debt	--
Borrowings of long-term debt	--
Net payments under revolving line of credit	(2,600
Repurchase of common stock	(69,999
Proceeds from the issuance of common stock	25,439
Net cash used in financing activities	(47,160
Net increase/(decrease) in cash	55,937

Cash at beginning of period	10,615
Cash at end of period	$ 66,552
Supplemental disclosure of cash flow information:	
Cash paid during the period for interest	$ 3,469
Cash paid during the period for income taxes	$ 41,866
Non-cash financing activities:	
Stock issued under stock-based compensation plan	$ 1,391

See accompanying notes to condensed consolidated financial statements.

VALASSIS COMMUNICATIONS, INC.
Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the information contained herein reflects all adjustments necessary for a fair presentation of the information presented. All such adjustments are of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of results to be expected for the fiscal year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. Certain amounts for 2001 have been reclassified to conform to current period classifications.

2. Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires an entity to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the related long-lived asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company does not expect the adoption of SFAS No. 143 to have a material effect on its financial position or results of operations.

During August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which replaces SFAS No. 121 and provisions of APB Opinion No. 30 for the disposal of segments of a business. The statement creates one accounting model, based on the framework established in Statement No. 121, to be applied to all long-lived assets including discontinued operations. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company adopted the provisions of SFAS No. 144 as of January 1, 2002, and it did not have an effect on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The statement applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS No. 144. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of SFAS No. 146 to have a material effect on its financial position or results of operations.

3. Adoption of SFAS No. 141 and 142

During June 2001, the FASB issued two statements, SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets", that amend APB Opinion No. 16, "Business Combinations," and supersede APB Opinion No. 17, "Intangible Assets." The two statements modify the method of accounting for business combinations and address the accounting for intangible assets. As of January 1, 2002, the Company adopted the provisions of both SFAS No. 141 and SFAS No. 142. The adoption of SFAS No. 141 did not have any effect on the Company's financial statements.

The provisions of SFAS No. 142 allow the Company to cease amortization of goodwill and other intangible assets with indefinite lives. However, goodwill and other intangibles are subject to annual impairment tests in which impairment is defined as fair market value less than the carrying value of the asset on the financial statements. SFAS No. 142 requires the Company to test all goodwill and other intangible assets with indefinite lives for impairment within six months of implementation. The Company has performed the first step of testing for impairment by utilizing the discounted cash flow method which does not indicate any impairment of goodwill or intangible assets with indefinite lives. We are currently investigating a possible indicator of impairment of goodwill within our Customer Relationship Marketing segment.

On July 1, 2002, the Company exercised its option to acquire the remaining shares of Relationship Marketing Group, Inc. ("RMG") for $4.5 million. As a result, the Company's interest in Valassis Relationship Marketing Systems, LLC ("VRMS") was increased to 87.96%. Effective July 1, 2002, the Company's consolidated financials include the financials of VRMS. An additional reclassification was made on the Company's balance sheet for $31.1 million from "Equity Investments and Advances to Investees" to "Goodwill" for previous investments. The Company is in the process of completing its purchase accounting and conducting further analysis of the associated goodwill.

Intangible assets as of September 30, 2002 are comprised of (dollars in thousands):

	Intangible Assets, at Cost	Accumulated Amortization at Sept. 30, 2002	Unamortized Balance at Sept. 30, 2002	Weighted Average Useful Li (in years
Amortizable intangible assets	$ 52,455	$ (50,762)	$ 1,693	11.9
Non-amortizable intangible assets:				
Goodwill:				
FSI	65,401	(47,144)	18,257	
Cluster-Targeted	4,195	(209)	3,986	
All Others (includes ROP and Customer Relationship Marketing)	82,815	(4,691)	78,124	
The Valassis name and other	32,100	(20,759)	11,341	
Total non-amortizable intangible assets	184,511	(72,803)	111,708	
Total	$236,966	$(123,565)	$113,401	

Amortizable intangible assets include a non-compete agreement, corporate logos and a fully amortized pressroom operating system. The associated amortization expense for the nine months ended September 30, 2002 was approximately $157,000. Amortization expense is expected to be approximately $210,000 for each of the next five succeeding years including the current year.

The following table presents actual results of operations for the third quarter 2002 and nine months ended September 30, 2002 and a reconciliation of reported net income to the adjusted net income for the same periods of 2001:

	Quarter ended		Nine Months Ended	
	Sept. 30, 2002	Sept. 30, 2001	Sept. 30, 2002	Sept. 30, 2001
Net earnings:				
Reported net earnings	$32,742	$23,426	$99,101	$89,622
Add back: goodwill and intangible amortization, after tax	--	566	--	1,572
	$32,742	$23,992	$99,101	$91,194
Basic earnings per share:				
Reported net income	$ 0.62	$ 0.44	$ 1.85	$ 1.67
Add back: goodwill and intangible amortization	--	0.01	--	0.03
	$ 0.62	$ 0.45	$ 1.85	$ 1.70
Diluted earnings per share:				
Reported net income	$ 0.61	$ 0.43	$ 1.83	$ 1.65
Add back: goodwill and intangible amortization	--	0.01	--	0.03
	$ 0.61	$ 0.44	$ 1.83	$ 1.68

4. Contingencies

On July 27, 2001 a federal court jury returned a verdict against Dennis D. Garberg & Associates, Inc. d/b/a The Sunflower Group (Sunflower) awarding the Company $16.6 million which included damages for past and future lost profits. The lawsuit, brought by the Company against Sunflower in February of 1999, asserted that Sunflower wrongfully obtained proprietary information from the Company's newspaper delivered sampling business. On April 5, 2002, after a series of post-trial motions, the Court granted remittitur and entered a total judgment of approximately $5.4 million. On August 30, 2002, the Court vacated its judgment after remittitur and ordered a new trial on damages. A reasonable estimation of the Company's ultimate recovery can not be made at this time and the Company has not recorded any amount in its financial statements.

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

5. Segment Reporting

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

1. Mass-Distributed Products - products which provide mass reach at low cost, including:
   - Free-standing inserts (FSI) - four color booklets containing promotions from multiple advertisers distributed through Sunday newspapers
   - Run-of-press (ROP) - on-page newspaper advertising and promotions
2. Cluster-Targeted Products - products targeted around geographic and demographic clusters, including:
   - Solo newspaper inserts
   - Newspaper-delivered product sampling/advertising
3. One-to-One Products - products and services that pinpoint individuals to build loyalty to a brand, including:
   - Customer Relationship Marketing (which includes PreVision and VRMS)
   - Promotion Watch - security consulting
   - Non-consolidated investments in one-to-one promotion companies

The Company has two reportable segments, Free-Standing Inserts (FSIs) and Cluster-Targeted Products and three segments which do not meet the quantitative thresholds for reporting separately -- ROP, Customer Relationship Marketing and Promotion Watch. These segments are strategic business units that offer different products and services. They are managed separately because each business requires different marketing strategies and caters to a different customer base.

(in millions)	Three Months Ended September 30			
	FSI	Cluster-Targeted	All Others*	Total
2002				
Revenues from external customers	$146.0	$43.7	$24.5	$214.2
Intersegment revenues	--	--	--	--
Depreciation/amortization	2.2	0.5	0.1	2.8
Segment profit/(loss)	$ 47.0	$ 4.1	$(0.1)	$ 51.0
2001				
Revenues from external customers	$141.0	$37.3	$19.1	$197.4
Intersegment revenues	--	--	--	--
Depreciation/amortization	2.4	0.5	0.5	3.4
Segment profit/(loss)	$ 39.7	$ 3.0	$(6.2)	$ 36.5

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

Reconciliations to consolidated financial statement totals are as follows:

	Three Months Ended September 30, 2002	2001
Profit for reportable segments	$50.7	$42.7
Profit/(loss) for other segments	0.3	(6.2)
Unallocated amounts:		
Interest income	--	1.0
Other income		
Earnings before taxes	$51.0	$37.5

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

	2002	2001
United States	$213.1	$197.4
Canada	1.2	1.0
Total	$214.3	$198.4

(in millions)	Nine Months Ended September 30			
	FSI	Cluster-Targeted	All Others*	Total
2002				
Revenues from external customers	$435.6	$126.6	$58.4	$620.6
Intersegment revenues	--	--	--	--
Depreciation/amortization	6.4	1.5	0.2	8.1
Segment profit	$138.8	$ 12.0	$ 2.3	$153.1
2001				
Revenues from external customers	$447.4	$143.7	$51.3	$642.4
Intersegment revenues	--	--	--	--
Depreciation/amortization	7.0	1.5	1.5	10.0
Segment profit/(loss)	$132.1	$ 16.5	$(6.4)	$142.2

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

Reconciliations to consolidated financial statement totals are as follows:

	Nine Months Ended September 30, 2002	2001
Profit for reportable segments	$150.8	$148.6
Profit/(loss) for other segments	2.3	(6.4)

Unallocated amounts:		
Interest income	0.3	0.1
Other income	1.5	1.1
Earnings before taxes	$154.9	$143.4

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

	2002	2001
United States	$618.5	$639.6
Canada	3.9	3.9
Total	$622.4	$643.5

6. Earnings Per Share

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

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001
Net Earnings	$32,742	$23,426
Basic EPS:		
Weighted average common shares outstanding	53,119	53,792
Earnings per common share - basic		
Before extraordinary item	$ 0.62	$ 0.46
Extraordinary item	$ 0.00	(0.02)
Total	$ 0.62	$ 0.44
Diluted EPS:		
Weighted average common shares outstanding	53,119	53,792
Weighted average shares purchased on exercise of dilutive options	4,537	4,166
Shares purchased with proceeds of options	(4,058)	(3,418)
Shares contingently issuable	58	50
Shares applicable to diluted earnings	53,656	54,590
Earnings per common share - diluted		
Before extraordinary item	$ 0.61	$ 0.45
Extraordinary item	--	(0.02)
Total	$ 0.61	$ 0.43

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001

Net Earnings	$99,101	$89,622
Basic EPS:		
Weighted average common shares outstanding	53,442	53,584
Earnings per common share - basic		
Before extraordinary item	$ 1.85	$ 1.70
Extraordinary item		(0.03)
Total	$ 1.85	$ 1.67
Diluted EPS:		
Weighted average common shares outstanding	53,442	53,584
Weighted average shares purchased on exercise of dilutive options	5,350	4,480
Shares purchased with proceeds of options	(4,755)	(3,634)
Shares contingently issuable	58	50
Shares applicable to diluted earnings	54,095	54,480
Earnings per common share - diluted		
Before extraordinary item	$ 1.83	$ 1.67
Extraordinary item	--	(0.02)
Total	$ 1.83	$ 1.65

Unexercised employee stock options to purchase 327,564 shares and 376,529 shares of the Company's common stock as of September 30, 2002 and for the three month and nine month periods, respectively, were not included in the computations of diluted EPS because the options exercise prices were greater than the average market price of the Company's common stock during the respective periods.

7. Subsequent Event

On November 1, 2002, the Company replaced its existing revolving line of credit with a $125 million revolving credit facility pursuant to an agreement with Standard Federal Bank, N.A., Comerica Bank, Harris Trust and Savings Bank and Fifth Third Bank (collectively, the "Banks") with Standard Federal Bank, N.A. acting as Agent for the Banks (the "Revolving Credit Agreement".) The Revolving Credit Agreement matures in November 2006 and contains a provision whereby the Company may request an increase in the line of credit to up to $175 million. The floating-rate interest is calculated on either a Eurocurrency-based rate or a prime rate. The Revolving Credit Agreement contains general covenants, including without limitation, a fixed charge coverage ratio, a funded debt to EBITDA ratio and non-financial covenants.

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

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

Results of Operations

Three Months Ended September 30, 2002 and September 30, 2001

Net sales increased 8.5% to $214.2 million for the third quarter of 2002 from $197.4 million for the third quarter of 2001. Free-standing insert (FSI) revenues were $146.0 million for the quarter ended September 30, 2002 up 3.5% from the same quarter last year. The increase is primarily a result of industry growth and market share compared with the year-ago period. Revenues for cluster-targeted products increased 17.2% to $43.7 million for the quarter. The increase is attributed to stronger sales of solo inserts while sampling/advertising polybag sales continued to be soft due to fewer new customer product introductions. Net sales included $13.6 million in ROP (run-of-press) sales, representing a 44.7% increase from the third quarter of 2001. This increase is attributable to enhanced capabilities and expansion in business with both new and existing customers.

Gross profit margin increased to 36.9% in the third quarter of 2002, up from 35.7% in the third quarter of 2001. The increase is largely due to a decrease in paper costs for the current quarter. The Company has successfully placed the majority of its paper requirements under multi-year contracts, providing long-term cost stability.

Selling, general and administrative expenses increased 17.4% from $21.0 million in the third quarter of 2001 to $24.7 million in the third quarter of 2002. This increase is primarily the result of the consolidation of the financial results of VRMS beginning July 1, 2002. VRMS was previously accounted for as an equity investment. The remaining increase is primarily driven by performance based compensation programs.

During the third quarter of 2001, the Company took a charge of $6.1 million relating to the closedown of Save.com, its formerly 50% owned investment.

Amortization expense of intangible assets and goodwill decreased from $0.9 million to $0.1 million in the third quarter ended September 30, 2002. The reduction is the result of the Company's adoption of SFAS No. 142 for which the effect on earnings per share was an increase of $.01 in the three months ended September 30, 2002.

During the third quarter of 2001, the Company retired $15.8 million in aggregate principal amount of its 9.55% Senior Notes due 2003. In connection with this retirement, the Company paid a premium in an amount equal to $2.0 million. Accordingly, the Company incurred extraordinary charges of $1.3 million (net of tax).

Earnings before extraordinary items were $32.7 million for the third quarter of 2002 versus $24.7 million for the same period last year.

Nine Months Ended September 30, 2002 and September 30, 2001

For the nine months ended September 30, 2002, net sales decreased 3.4% to $620.6 million from $642.3 million for the comparable period in 2001. Free-standing insert (FSI) revenues were down from $447.4 million for the first nine months of 2001 to $435.6 million for the first nine months of 2002. This decrease is primarily the result of a reduction of average price as compared to the first nine months of 2001. Cluster-targeted revenues decreased 11.9% to $126.6 million for the nine months ended September 30, 2002. The decrease is driven primarily by decreases in new customer product introductions by clients which adversely affects sampling/advertising polybag programs. Net sales included $30.1 million in ROP (run-of-press) sales, which represents a 40.0% increase from the same period last year. This increase is attributable to enhanced capabilities and increased demand.

Gross margin increased to 37.9% for the first nine months of 2002, from 36.8% for the same period in 2001. The increase is largely due to decreases in paper costs during 2002. The Company has successfully placed the majority of its paper requirements under multi-year contracts, providing long-term cost stability.

Selling, general and administrative expenses increased 2.1% to $69.1 million for the nine months ended September 30, 2002 from $67.7 million during the comparable 2001 period. This increase is primarily the result of the consolidation of the results of VRMS as of July 1, 2002.

During the third quarter of 2001, the Company took a charge of $6.1 million relating to the closedown of Save.com, its formerly 50% owned investment.

Amortization expense of intangible assets and goodwill decreased from $2.6 million to $.2 million for the nine months ended September 30, 2002. The reduction is the result of the Company's adoption of SFAS No. 142 for which the effect on earnings per share was an increase of $.03 in the nine months ended September 30, 2002, versus the same period last year.

During the third quarter of 2001, the Company retired $15.8 million in aggregate principal amount of its 9.55% Senior Notes due 2003. In connection with this retirement, the Company paid a premium in an amount equal to $2.0 million. Accordingly, the Company incurred extraordinary charges of $1.3 million (net of tax).

Earnings before extraordinary items were $99.1 million for the nine months ended September 30, 2002 versus $90.9 million for the same period last year.

Financial Condition, Liquidity and Sources of Capital

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

Cash and cash equivalents totaled $66.6 million at September 30, 2002 versus $10.6 million at December 31, 2001. This was the result of cash provided by operating activities of $135.9 million, and cash used in investing activities and financing activities of $32.8 million and $47.2 million, respectively, during the first nine months of 2002.

Cash flow provided by operating activities increased to $135.9 million for the nine months ended September 30, 2002, primarily due to increased earnings and also a $9.4 million decrease in inventories, as a result of a decrease in the cost of paper. Additionally, a return to a normalized accounts payable balance attributed to $7.2 million of operating cash flow.

Net cash used in investing activities was $32.8 million. The Company paid $8.0 million in a contingent purchase price payment for PreVision in the first quarter of 2002. The Company made advances to and investments in VRMS of $9.6 million during the first nine months of 2002. On July 1, 2002, the Company exercised its option to acquire the remaining shares of RMG for $4.5 million ($2.9 million, net of cash acquired).

As of September 30, 2002, the Company's debt balance is $256.1, which consists of $100.0 million of its 6-5/8% Senior Notes due 2009 and $156.1 million of Zero Coupon Convertible Notes due 2021. On November 1, 2002, the Company replaced its existing revolving line of credit with a $125 million revolving credit facility pursuant to an agreement with Standard Federal Bank, N.A., Comerica Bank, Harris Trust and Savings Bank and Fifth Third Bank (collectively, the "Banks") with Standard Federal Bank, N.A. acting as Agent for the Banks (the "Revolving Credit Agreement".) The Revolving Credit Agreement matures in November 2006 and contains a provision whereby the Company may request an increase in the line of credit to up to $175 million.

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

As of September 30, 2002, the Company had authorization to repurchase an additional 3.6 million shares of its common stock under its existing share repurchase program.

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

Capital Expenditures - The Company operates three printing facilities. Capital expenditures were $13.3 million for the nine month period ended September 30, 2002, largely representing the addition of a new printing press. Management expects future capital expenditure requirements of approximately $15 million over each of the next three to five years to meet increased capacity needs and to replace or rebuild equipment as required. It is expected that equipment will be purchased using funds provided by operations.

Business Outlook for 2003

The following statements are based on current expectations. These statements are forward looking and actual results may differ materially.

.. FSI revenues are expected to be down 12% - 16%, due primarily to a reduction in market share and resultant slight decline in price. FSI margin percentage is projected to be down only slightly, due to efficiencies driven by a reduction in the 2003 published date schedule, which will include 40 dates, versus 44 in 2002. The Company expects that it will publish 8 custom co-ops (FSIs sponsored by a single corporation) in both 2002 and 2003. FSI circulation is expected to remain flat with 2002.

.. ROP revenues are expected to be up 10% - 15%, due to additional sales resources that have been added and are successfully in place. ROP margin percentages are projected to be flat.

.. Cluster targeted product revenues are expected to be up 10% - 15%, with flat margins as a percent of revenues. Solo insert revenue is projected to increase due to an expanded customer base. Polybag sampling/advertising is expected to grow as a result of more new customer product introductions.

.. One-to-one revenues are expected to be up 25% - 30%. The Company expects growth in all four of the product lines that comprise one-to-one.

.. Cost of goods sold is expected to be down by a low single-digit percentage. The Company has placed over 85% of its FSI paper requirements for the year under long term contracts, providing a stable cost environment for this commodity. SG&A is expected to be up 5% - 8%, due primarily to the consolidation of VRMS for the full year.

.. Free cash flow is projected to be between $100 million - $110 million for the year. Capital expenditures will be approximately $15 million.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that in certain circumstances affect amounts reported in the accompanying consolidated financial statements. The U.S. Securities and Exchange Commission ("SEC") has defined a company's most critical accounting policies as the ones that are most important to the portrayal of the Company's financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the critical accounting policies and estimates addressed below. We also have other key accounting policies, which involve the use of estimates, judgments and assumptions. For additional information see Note 2, "Significant Accounting Policies", of our Annual Report on Form 10-K for the year ended December 31, 2001. The Company does not believe there is a great likelihood that materially different amounts would be reported under different conditions or using different assumptions related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

Impairment of Long-Lived Assets - Long-lived assets historically have been reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future net cash flows estimated to be generated by such assets. If such assets are considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. We are currently investigating a possible indicator of impairment of goodwill within our Customer Relationship Marketing segment. As described in Note 3, "Adoption of SFAS No. 141 and 142" of this Form 10-Q, the accounting treatment for goodwill and other intangible assets changed effective January 1, 2002.

Other Matters - The Company does not have off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as "special purpose entities."

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There are no material changes since December 31, 2001 in the Company's exposure to market risk.

Item 4. Controls and Procedures

Within the 90 days prior to the filing of this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company's Disclosure Committee, including the Chief Executive Officer and Chief Financial Officer, of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

Part II - Other

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

10.25 Credit Agreement dated as of November 1, 2002 among Valassis Communications, Inc. and various financial institutions and Standard Federal Bank, N.A., as Administrative Agent and Lead Arranger with Harris Trust and Savings Bank, as Syndication Agent and Comerica Bank, as Documentation Agent.

99.1 Section 906 Certification from Alan F. Schultz

99.2 Section 906 Certification from Robert L. Recchia

b. Form 8-K

(1) The Company filed a report on Form 8-K, dated July 1, 2002, announcing that it increased its ownership in VRMS to 87.96%.

(2) The Company filed a report on Form 8-K, dated August 14, 2002, containing the certifications of the Company's officers, pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.

Signatures

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

Dated: November 14, 2002

Valassis Communications, Inc.
(Registrant)

By: /s/ Robert L. Recchia

Robert L. Recchia
Executive Vice President and Chief Financial Officer

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

CERTIFICATION

I, Alan F. Schultz, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Valassis Communications, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Alan F. Schultz

Alan F. Schultz
Chief Executive Officer

CERTIFICATION

I, Robert L. Recchia, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Valassis Communications, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Robert L. Recchia

Robert L. Recchia
Chief Financial Officer