

VALASSIS COMMUNICATIONS INC
Form 10-Q
May 09, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2005

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

Commission File Number: 1-10991

VALASSIS COMMUNICATIONS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

38-2760940
(IRS Employer
Identification Number)

19975 Victor Parkway

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Livonia, Michigan 48152

(address of principal executive offices)

Registrant's Telephone Number: (734) 591-3000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and, (2) has been subject to such filing requirements for the past 90 days: Yes No

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

As of May 2, 2005, there were 49,961,706 shares of the Registrant's Common Stock outstanding.

Part I - Financial Information

Item 1. Financial Statements

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

(U.S. dollars in thousands)

<u>Assets</u>	<u>Mar. 31,</u> <u>2005</u>	<u>Dec. 31,</u> <u>2004</u>
	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 103,708	\$ 85,214
Auction-rate securities	92,537	102,866
Accounts receivable (less allowance for doubtful accounts of \$5,251 at March 31, 2005 and \$4,755 at December 31, 2004)	260,390	264,924
Inventories:		
Raw materials	13,308	13,318
Work in progress	13,580	14,298
Prepaid expenses and other	11,735	16,449
Deferred income taxes	1,647	1,641
Refundable income taxes		2,473
Total current assets	496,905	501,183
Property, plant and equipment, at cost:		
Land and buildings	46,195	41,500
Machinery and equipment	135,160	127,737
Office furniture and equipment	56,242	54,916
Automobiles	715	738
Leasehold improvements	2,844	2,874
	241,156	227,765
Less accumulated depreciation and amortization	(137,783)	(134,276)
Net property, plant and equipment	103,373	93,489
Intangible assets:		
Goodwill	173,367	173,367
Other intangibles	35,555	35,555
	208,922	208,922
Less accumulated amortization	(74,254)	(74,125)
Net intangible assets	134,668	134,797

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Equity investments	323	283
Other assets	4,336	5,801
Deferred income taxes	2,414	2,412
	<u> </u>	<u> </u>
Total assets	\$ 742,019	\$ 737,965
	<u> </u>	<u> </u>

See accompanying notes to condensed consolidated financial statements.

VALASSIS COMMUNICATIONS, INC.

Condensed Consolidated Balance Sheets, Continued

(U.S. dollars in thousands)

Liabilities and Stockholders Equity	Mar. 31,	Dec. 31,
	2005	2004
	(unaudited)	
Current liabilities:		
Accounts payable	\$ 206,741	\$ 231,824
Accrued interest	2,162	2,179
Accrued expenses	37,946	49,586
Progress billings	46,279	31,806
Income taxes payable	12,016	
Total current liabilities	305,144	315,395
Long-term debt	273,814	273,703
Other non-current liabilities	8,297	8,361
Commitments and contingencies		
Stockholders equity:		
Preferred stock of \$.01 par value. Authorized 25,000,000 shares; no shares issued or outstanding at March 31, 2005 and December 31, 2004		
Common stock of \$.01 par value. Authorized 100,000,000 shares; issued 63,192,263 at March 31, 2005 and 63,125,207 at December 31, 2004; outstanding 50,577,928 at March 31, 2004 and 51,191,961 at December 31, 2003	632	631
Additional paid-in capital	37,333	26,211
Deferred compensation	(2,112)	(215)
Retained earnings	519,773	491,531
Accumulated other comprehensive income	3,818	3,785
Treasury stock, at cost (12,614,335 shares at March 31, 2005 and 11,933,246 shares at December 31, 2004)	(404,680)	(381,437)
Total stockholders equity	154,764	140,506
Total liabilities and stockholders equity	\$ 742,019	\$ 737,965

See accompanying notes to condensed consolidated financial statements.

VALASSIS COMMUNICATIONS, INC.

Condensed Consolidated Statements of Income

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

(unaudited)

	Three Months Ended	
	Mar. 31, 2005	Mar. 31, 2004
Revenues	\$ 279,284	\$ 237,353
Costs and expenses:		
Cost of products sold	199,656	165,524
Selling, general and administrative	34,067	30,544
Total costs and expenses	233,723	196,068
Earnings from operations	45,561	41,285
Other expenses (income):		
Interest expense	2,677	3,167
Other income, net	(1,074)	(529)
Total other expenses (income)	1,603	2,638
Earnings before income taxes	43,958	38,647
Income taxes	15,716	14,025
Net earnings	\$ 28,242	\$ 24,622
Net earnings per common share, basic	\$ 0.56	\$ 0.47
Net earnings per common share, diluted	\$ 0.55	\$ 0.47
Shares used in computing net earnings per share, basic	50,687,098	52,091,874
Shares used in computing net earnings per share, diluted	51,430,015	52,546,646

See accompanying notes to condensed consolidated financial statements.

VALASSIS COMMUNICATIONS, INC.

Condensed Consolidated Statements of Cash Flows

(U.S. dollars in thousands)

(unaudited)

	Three Months Ended	
	March 31, 2005	March 31, 2004
Cash flows from operating activities:		
Net earnings	\$ 28,242	\$ 24,622
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of intangibles	3,792	3,681
Amortization of bond discount	111	395
Provision for losses on accounts receivable	496	1,627
Loss (gain) on sale of property, plant and equipment	271	(5)
Gain on equity investments	(40)	
Stock-based compensation charge	414	241
Changes in assets and liabilities which (decrease) increase cash flow:		
Accounts receivable	4,037	(21,977)
Inventories	728	1,101
Prepaid expenses and other	4,626	(1,974)
Other liabilities	(64)	(194)
Other assets	1,459	3,238
Accounts payable	(25,083)	(7,580)
Accrued expenses and interest	(11,534)	(12,359)
Income taxes	14,898	14,147
Progress billings	14,473	6,687
Total adjustments	8,584	(12,972)
Net cash provided by operating activities	36,826	11,650
Cash flows from investing activities:		
Additions to property, plant and equipment	(9,054)	(2,203)
Replacement equipment reimbursed by insurance companies from damage claims	(4,757)	
Proceeds from sale of property, plant and equipment		37
Purchases of auction-rate securities	(61,584)	(83,020)
Proceeds from sales of auction-rate securities	71,913	71,760
Other	(33)	86
Net cash used in investing activities	(3,515)	(13,340)
Cash flows from financing activities:		
Repurchase of common stock	(29,900)	(3,956)
Proceeds from the issuance of common stock	15,016	1,483
Net cash used in financing activities	(14,884)	(2,473)
Effect of exchange rate changes on cash	67	37

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Net increase (decrease) in cash	18,494	(4,126)
Cash at beginning of period	85,214	62,764
	<u> </u>	<u> </u>
Cash at end of period	\$ 103,708	\$ 58,638
	<u> </u>	<u> </u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 2,694	\$ 4,174
Cash paid during the period for income taxes	\$ 224	\$
Non-cash financing activities:		
Stock issued under stock-based compensation plan	\$ 2,346	\$ 1,057

See accompanying notes to condensed consolidated financial statements.

VALASSIS COMMUNICATIONS, INC.

Notes to Condensed Consolidated Financial Statements

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the information contained herein reflects all adjustments necessary for a fair presentation of the information presented. All such adjustments are of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of results to be expected for the fiscal year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Valassis Communications, Inc. (Valassis) Annual Report on Form 10-K/A for the year ended December 31, 2004. Certain amounts for 2004 have been reclassified to conform to current period classifications.

2. STOCK-BASED COMPENSATION

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