

VALASSIS COMMUNICATIONS INC

Form 10-K

February 27, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2011

or

☐ **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)

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Delaware
(State of Incorporation)

38-2760940
(IRS Employer

Identification Number)

19975 Victor Parkway

Livonia, MI 48152

(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Exchange on which registered
Common Stock, par value \$.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act:

Yes ☐ No ☒

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

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Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐ (Do not check if a smaller reporting company)

Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes ☐ No ☒

As of June 30, 2011, the aggregate market value of the voting and non-voting stock held by non-affiliates* of the registrant was approximately \$1.1 billion. As of February 21, 2012, there were 42,709,442 shares of the Registrant's Common Stock outstanding.

Documents Incorporated by Reference

The applicable portions of Valassis' Definitive Proxy Statement for the 2012 Annual Meeting of Stockholders to be held on or about May 3, 2012 are incorporated by reference herein into Part III of this Annual Report on Form 10-K.

* Without acknowledging that any individual director or executive officer of Valassis is an affiliate, the shares over which they have voting control have been included as owned by affiliates solely for purposes of this computation.

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PART I

ITEM 1. BUSINESS

The Company

Valassis is one of the nation's leading media and marketing services companies, offering unparalleled reach and scale to more than 15,000 advertisers. Our RedPlum media portfolio delivers value on a weekly basis to over 100 million shoppers across a multi-media platform in-home, in-store and in-motion. Through our digital offering, including redplum.com and save.com, consumers can find compelling national and local deals online.

Our products and services are positioned to help our clients reach their customers through mass-delivered or targeted programs. We provide our clients with blended solutions, including shared mail, newspaper, in-store and digital delivery. We offer the only national shared mail distribution network in the industry. We utilize a proprietary patent pending targeting tool that provides our clients with multi-media recommendations and optimization. We are committed to providing innovative marketing solutions to maximize the efficiency and effectiveness of promotions for our clients and to deliver value to consumers how, when and where they want.

We currently operate our business in the following reportable segments:

Shared Mail Products that have the ability to reach 9 out of 10 U.S. households through shared mail distribution. Our Shared Mail programs combine the individual print advertisements of various clients into a single shared mail package delivered primarily through the United States Postal Service (USPS).

Neighborhood Targeted Products that are targeted to specific newspaper zones or neighborhoods based on geographic and demographic characteristics.

Free-standing Inserts Four-color booklets that contain promotions, primarily coupons, from multiple advertisers (cooperative), which we publish and distribute to approximately 60 million households through newspapers and shared mail, as well as customized FSIs (custom co-ops) featuring multiple brands of a single client.

In addition, all other lines of business that are not separately reported are captioned as International, Digital Media & Services, which includes NCH Marketing Services, Inc. (NCH), Valassis Canada, Inc., Promotion Watch, direct mail, analytics, digital and in-store.

Shared Mail

We distribute, through our wholly-owned subsidiary, Valassis Direct Mail, Inc., shared mail advertising products to approximately 70 million U.S. households, primarily on a weekly basis, largely through the USPS. The Shared Mail segment also includes solo mail and other products and services.

We maintain one of the most comprehensive and up-to-date residential address lists in the United States and have a total reach of over 113 million U.S. households. Our client base for this segment consists principally of national and local grocers, restaurants, drug stores, discount, department and home furnishing stores, and other retailers.

Shared Mail programs combine the individual print advertisements of various clients into a single shared mail package delivered mainly through the USPS. Individual clients can select targeting levels by choosing all ZIP code zones, specific ZIP code zones, or sub-zip code zones; these sub-zip code zones average approximately 3,500 households. Our advanced targeting capabilities enable clients, such as retail chains, to select areas serviced by their stores and, at the same time, distribute different versions of the targeted advertisements to reach their target consumers. Shared Mail clients share bulk pre-sort mailing rates for a single package, generating substantial savings relative to an individual mailing. In addition, the Shared Mail nationwide network of state-of-the-art distribution facilities provide clients with the ability to reach consumers within a two-day window, assuring timely delivery of coupons, dated

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offers and sale-break announcements. In 2011, we distributed approximately 3.6 billion shared mail packages, including 36.8 billion shared mail pieces.

Our core Shared Mail program is published under our consumer brand name RedPlum®. The RedPlum Shared Mail Package is a four-page, color booklet wrapped around individual print advertisements of various clients. This program reaches approximately 70 million U.S. households on a weekly basis. Shared Mail can reach an additional 35 million U.S. households that extend coverage to markets not already served by Shared Mail's core distribution network. Shared Mail handles clients' orders directly and manages distribution of their advertising through its Allied National Network Extension, or A.N.N.E., a partnership of independent shared mail companies. Conversely, A.N.N.E. enables participating members to offer their clients extended marketplace reach with the shared mail household coverage.

Solo mail and other products and services included in this segment consist of list procurement, addressing, processing and the distribution of brochures and circulars for individual clients through the USPS. We also provide ancillary services to complement our mail programs, such as list rental, and provide direct mail advertising solutions for local neighborhood businesses utilizing an envelope format.

Distribution costs, which include postage, transportation and other alternative delivery costs, are the largest cost component of the Shared Mail segment. For the year ended December 31, 2011, distribution costs represented approximately 55% of total Shared Mail costs.

Shared Mail revenues for the year ended December 31, 2011 were \$1,350.8 million, or 60.4% of our total revenues. The top 10 clients accounted for approximately 17.0% of Shared Mail's revenues for the year ended December 31, 2011, and no one client accounted for over 10% of the segment revenues during the same period.

Neighborhood Targeted

We believe that our clients use us to place Neighborhood Targeted advertising because of our ability to negotiate favorable media rates, our experience in selecting the best newspapers to meet our clients' needs through our unique targeting capabilities, our well-developed production and national network placement capabilities. Media is the major cost component of the Neighborhood Targeted segment.

Newspaper Inserts We provide our clients with print and media placement of traditional free-standing solo insert formats, as well as specialty print promotion products in various customized formats. Because these promotions feature only one client, the client has the ability to create a completely individualized promotion. This allows clients the flexibility to run inserts any day of the week in newspapers and through shared mail throughout the United States and to efficiently target these promotions. We specialize in producing full-service promotions for a wide range of clients allowing orders to be placed on a national, regional or local basis.

Polybag Advertising and Sampling We offer newspaper-delivered or direct-to-door sampling products that give manufacturers the ability to cover over 60 million households. Samples can either be machine-inserted into newspapers (Newspac®), placed in a polybag around the newspaper, or pre-sealed in a pouch that forms part of the polybag (Newspouch®). In addition, Brand Bag and Brand Bag+ offer clients the opportunity to deliver an impactful advertising message on a newspaper polybag without including a sample. The bags feature the client's advertising with the option of a weather-resistant tear-off coupon.

Run-of-Press (ROP) We offer our clients the ability to run their promotional advertising directly on the pages of newspapers by brokering advertising space. We offer the flexibility to run promotional advertising in any number of the available newspapers in our network of over 15,000 publications. The short lead time associated with this business makes this medium attractive for last-minute marketing decisions by our clients.

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Neighborhood Targeted products generated revenues of \$374.7 million for the year ended December 31, 2011, or 16.8% of our total revenues. The top 10 clients accounted for approximately 50.8% of Neighborhood Targeted revenues for the year ended December 31, 2011, and no one client accounted for over 10% of the segment revenues during the same period.

Free-standing Inserts (FSI)

Cooperative FSIs are four-color booklets containing promotions, primarily coupons, from multiple clients, printed by us at our own facilities and distributed through newspapers and shared mail. In 2011, we delivered our traditional cooperative FSIs to approximately 60.4 million households on 42 publishing dates. We have also produced customized FSIs (custom co-ops) featuring multiple brands of a single client.

The majority of our cooperative FSI business is conducted under long-term contracts, which currently average over two years in duration. Under these contracts, clients typically guarantee us a percentage of their cooperative FSI pages at agreed upon pricing covering a specified amount of time. The FSI offers product category exclusivity for our clients so that competing products in the same product category will not be printed in the same FSI book. If a category is not available on the date requested, the client has the option to use our competitor's FSI or select another date from us to include their promotion. Due to this environment, many clients reserve their space well in advance of the actual promotion date.

At the end of the selling cycle for each cooperative FSI program, there is generally space in the booklet that has not been sold. This remnant space is sold at a discounted price, primarily to direct response marketers, who are placed on a waiting list for space that may become available. We select direct response marketers as remnant space clients on the basis of a number of factors, including price, circulation, reputation and credit-worthiness. Direct response clients are subject to being bumped in favor of a regular price client in need of space at the last minute. Remnant space represents approximately 20% of the total FSI pages we distribute annually and the associated revenues are included in total cooperative FSI revenues for financial reporting purposes.

The cost components of the FSI segment are media distribution, paper and manufacturing/transportation costs, which represented approximately 38%, 32% and 29% of total FSI segment costs, respectively, for the year ended December 31, 2011.

Total FSI segment revenues for the year ended December 31, 2011 were \$316.0 million, or 14.1% of our total revenues. The top 10 FSI clients accounted for approximately 45.3% of FSI segment revenues for the year ended December 31, 2011, and one client accounted for approximately 17.6% of FSI segment revenues for the same period.

International, Digital Media & Services

NCH NCH is a provider of coupon clearing, analytical promotion information management products and marketing services for retailers and consumer-packaged goods manufacturers in the United States and Europe and has production facilities in Mexico and Poland. Services include retailer coupon clearing, manufacturer redemption and promotion analysis. During 2011, approximately 27.1% of NCH revenues were from Europe. In 2011, consumers redeemed \$4.6 billion in coupons, an approximately \$500 million increase from 2010.

Valassis Canada, Inc. Valassis Canada provides promotional products and services in Canada, including FSIs, which reach approximately 7.5 million Canadian households.

Promotion Watch, Inc. Promotion Watch offers a variety of promotion security and consulting services, including the execution of sweepstakes and contests. Promotion Watch helps clients with the entire promotion process, from preliminary planning, through the writing of official rules, overseeing the printing and placement of winning pieces and conducting background investigations of winners.

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Direct Mail/Analytics We produce direct-mail programs based on multiple data sources, including frequent shopper card data. We also provide proprietary software solutions for clients to manage and analyze frequent shopper data.

Digital Our suite of digital products, including display advertisements, secure digital coupon prints and coupon and mobile offer to frequent shopper cards, provides our clients with the unique opportunity to integrate offline and online media. Redplum.com, save.com and our RedPlum Network of affiliate sites allow clients to reach consumers as they increasingly seek value online.

In-store Reaching a network of over 3,000 grocery stores, the Valassis RedPlum In-store portfolio consists of brand equity, price and coupon-driven solutions designed to increase brand awareness and influence purchases at shelf.

International, Digital Media & Services generated revenues of \$194.5 million for the year ended December 31, 2011, or 8.7% of our total revenues. The top 10 clients accounted for approximately 29.3% of International, Digital Media & Services revenues for the year ended December 31, 2011, and no one client accounted for over 10% of the segment revenues during the same period.

Competition

Shared Mail

Our Shared Mail segment competes for advertising dollars from clients who want the ability to target selected potential consumers on a cost-effective basis and provide a superior return on their advertising investment. This segment's principal direct marketing competitors are other companies with residential lists and similar cooperative mailing advertising programs. These companies have a significant presence in many of our markets and represent direct competition to the RedPlum Shared Mail package in those areas. Competition for market share and advertising dollars from clients comes from other forms of print media, such as newspapers, magazines and other advertising printers, and electronic media such as radio, broadcast, the Internet and other communication media. The extent and nature of such competition are, in large part, determined by location and demographics of the markets targeted by a particular advertiser and the number of media alternatives in those markets. To the extent our clients decide to use other forms of print and electronic media and other advertising in general, it could have a material adverse effect on our business, financial condition and results of operations.

Neighborhood Targeted

Our Neighborhood Targeted segment competes against commercial printers and media placement agencies for solo specialized promotional programs for single advertisers. While both types of competitors have a history of competing on the basis of price to increase volume and improve economies of scale, commercial printers tend to be particularly aggressive during the periods when they have unused capacity. To the extent our competitors in these businesses decide to compete more aggressively on price due to excess capacity or for other reasons, it could have a material adverse effect on our business, financial condition and results of operations.

We also compete with several newspaper network groups in the ROP market. While entering the ROP business does not require a significant investment in machinery and equipment, it does require a significant investment in systems and human resources in order to compete in today's environment. An increase in the number of ROP competitors could result in a loss of market share.

Free-standing Inserts

Our RedPlum cooperative FSI competes principally with the FSI distributed by News America Marketing FSI, or News America, a company owned by The News Corporation. We compete for business primarily on the basis of price, category availability, targeting ability and customer service and relationships. We believe our unique ability to blend our national shared mail network with

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newspaper-delivered distribution will differentiate us in the FSI industry as newspaper circulation continues to decline. The FSI industry as a whole has experienced a 2.8% decrease in FSI industry units in 2011. Our FSI segment profit has been impacted by a decrease in our market share in 2011 and substantial pricing pressure over the last several years.

International, Digital Media & Services

In our International, Digital Media & Services segment, NCH competes against Carolina Manufacturing Services and Carolina Services, both owned by Inmar, Inc., and International Outsourcing Services, LLC for coupon clearing services in the United States. To the extent our competitors in this business decide to compete more aggressively on price, it could reduce our market share and have a material adverse effect on our business, financial condition and results of operations.

In Direct Mail/Analytics, we compete against full-service direct mail providers, commercial letter shops and direct/loyalty marketing agencies. To the extent our competitors in this business decide to compete more aggressively on price, it could reduce our market share and have a material adverse effect on our business, financial condition and results of operations.

Our in-store business competes against News America primarily on the basis of our grocery store network, price and customer service and relationships. To the extent our competitor in this business decides to compete more aggressively on price or the acquisition or retention of grocery stores for its network, it could reduce our market share and have a material adverse effect on our business, financial condition and results of operations.

Clients

No single client accounted for more than 10% of our consolidated revenues during the years ended December 31, 2011, 2010 or 2009.

Employees

As of December 31, 2011, we had approximately 7,100 full-time employees worldwide. Approximately 4,500 are employed in the United States. One domestic and some foreign locations have employees represented by labor unions; we consider labor relations with employees to be good and have not experienced any interruption of our operations due to labor disagreements.

Raw Materials

Paper is the primary raw material essential to our business. A variety of factors, including demand, capacity, pulp supply and general economic conditions, can affect paper prices. To protect against significant price fluctuations and to maximize purchasing efficiencies, including volume discounts, from time to time we enter into long-term contracts which protect us from significant near-term increases in the price of paper. During 2011, we purchased approximately 85% of our paper from a single supplier pursuant to a contract which expired at the end of 2011. In 2012, we intend to enter into a new long-term contract. See Significant increases in the cost of paper, which are beyond our control, could adversely affect our business, results of operations and financial condition in **Item 1A. Risk Factors**.

Segment Reporting

For segment financial information for the years 2011, 2010 and 2009, see **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations** and Note 14, *Segment Reporting*, to our consolidated financial statements included in **Item 8. Financial Statements and Supplementary Data** of this Annual Report on Form 10-K.

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Availability of Filings

We make all of our reports filed under the Securities Exchange Act of 1934, as amended, or the Exchange Act, available, free of charge, on our Web site at www.valassis.com, as soon as reasonably practicable after electronically filing with the Securities and Exchange Commission, or the SEC.

ITEM 1A. RISK FACTORS

Before you make an investment decision with respect to any of our securities, you should carefully consider all the information we have included or incorporated by reference in this Annual Report on Form 10-K and our subsequent periodic filings with the SEC. In particular, you should carefully consider the risk factors described below and read the risks and uncertainties related to forward-looking statements as set forth in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that are not presently known to us or that we currently deem immaterial or that are not specific to us, such as general economic conditions, may also adversely affect our business and operations. The following risk factors should be read in conjunction with MD&A and our consolidated financial statements and related notes included in this Annual Report on Form 10-K.

Our substantial indebtedness could adversely affect our financial health and make it more difficult for us to service our debt or obtain additional financing, if necessary.

Our substantial level of indebtedness could have a material adverse effect on our business and make it more difficult for us to satisfy our obligations under our outstanding indebtedness. As a result of our significant amount of debt and debt service obligations, we face increased risks regarding, among other things, the following:

our ability to borrow additional amounts or refinance existing indebtedness in the future for working capital, capital expenditures, acquisitions, debt service requirements, investments, stock repurchases, execution of our growth strategy, or other purposes may be limited or such financing may be more costly;

we have reduced availability of cash flow to fund working capital requirements, capital expenditures, investments, acquisitions or other strategic initiatives and other general corporate purposes because a substantial portion of our cash flow is needed to pay principal and interest on our debt;

we are more vulnerable to competitive pressures and to general adverse economic or industry conditions, including fluctuations in market interest rates or a downturn in our business;

we may be placed at a competitive disadvantage relative to our competitors that have greater financial resources than us, including News America and its parent corporation;

it may be more difficult for us to satisfy our financial obligations; and

there could be a material adverse effect on our business and financial condition if we were unable to service our debt or obtain additional financing, as needed.

In addition, the indentures governing our unsecured 6 ⁵/₈% Senior Notes due 2021, or the 2021 Notes, and our Senior Secured Convertible Notes due 2033, or the 2033 Secured Notes, and our Senior Secured Credit Facility contain financial and other restrictive covenants that limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt. We cannot assure you that our assets or cash flow

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would be sufficient to fully repay such debt, if accelerated, or that we would be able to repay, refinance or restructure the payments on such debt. See The restrictive covenants in our Senior Secured Credit Facility and the indentures governing the 2021 Notes and the 2033 Secured Notes and any of the agreements governing our future indebtedness could adversely restrict our financial and operating flexibility and subject us to other risks.

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Despite our current indebtedness levels and the restrictive covenants set forth in the agreements governing our indebtedness, we and our subsidiaries may be able to incur substantially more indebtedness. This could increase the risks associated with our substantial indebtedness.

The terms of our Senior Secured Credit Facility and the indentures governing our 2021 Notes and the 2033 Secured Notes permit us and our subsidiaries (including non-guarantor subsidiaries) to incur certain additional indebtedness, including additional secured indebtedness, and other liabilities that do not constitute indebtedness. If we or our subsidiaries are in compliance with the financial covenants set forth in these agreements, if any, we and our subsidiaries may be able to incur substantial additional indebtedness, including secured indebtedness. The indentures governing our 2021 Notes and 2033 Notes allow us to issue additional notes and other indebtedness in certain circumstances which may also be guaranteed by the guarantors and future domestic subsidiaries. In addition, under certain circumstances we will have the right to increase the size of our Senior Secured Credit Facility and incur additional secured indebtedness thereunder. As of December 31, 2011, we had \$40.1 million available under the Revolving Line of Credit portion of our Senior Secured Credit Facility after giving effect to outstanding letters of credit. If new indebtedness is added to our or our subsidiaries' current indebtedness levels, the related risks that we and they now face could intensify.

We may not be able to generate a sufficient amount of cash flow to meet our debt obligations.

Our ability to make scheduled payments or to refinance our obligations with respect to our indebtedness depends on our future financial and operating performance, which, in turn, will be subject to prevailing economic conditions and certain financial, business, competitive and other factors beyond our control. If we cannot make scheduled payments on our debt, we will be in default and, as a result, holders of our debt could declare all outstanding principal and interest on our debt to be due and payable and we could be forced into bankruptcy or liquidation. If our cash flow and capital resources are insufficient to fund our debt obligations, we would face substantial liquidity problems and may be forced to reduce or delay scheduled expansions and capital expenditures, sell material assets or operations, obtain additional capital, restructure our debt or revise or delay our strategic plans. In addition, we cannot assure you that our operating performance, cash flow and capital resources will be sufficient for payment of our debt in the future. If we are required to take any of the actions referred to above, it could have a material adverse effect on our business, financial condition and results of operations. We cannot assure you that we would be able to take any of these actions on terms acceptable to us, or at all, that these actions would enable us to continue to satisfy our capital requirements or that these actions would be permitted under the terms of our various debt instruments. In addition, any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations.

The restrictive covenants in our Senior Secured Credit Facility and the indentures governing the 2021 Notes and the 2033 Secured Notes and any of the agreements governing our future indebtedness could adversely restrict our financial and operating flexibility and subject us to other risks.

Our Senior Secured Credit Facility and the indentures governing the 2021 Notes and the 2033 Secured Notes contain affirmative and negative covenants that limit our and our subsidiaries' ability to take certain actions. Our Senior Secured Credit Facility requires us to maintain specified financial ratios and satisfy other financial conditions. Our Senior Secured Credit Facility and the indentures governing the 2021 Notes and the 2033 Secured Notes also restrict, among other things, our and our subsidiaries' ability to:

incur additional debt;

pay dividends and make other restricted payments;

make certain investments, loans and advances;

create or permit certain liens;

issue or sell capital interests of restricted subsidiaries;

use the proceeds from sales of assets and subsidiary interests;

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enter into certain types of transactions with affiliates;

create or permit restrictions on the ability of our restricted subsidiaries to pay dividends or make other distributions to us;

enter into sale and leaseback transactions; and

sell all or substantially all of our assets or consolidate or merge with or into other companies.

These restrictions may limit our ability to operate our business and may prohibit or limit our ability to execute our business strategy, compete, enhance our operations, take advantage of potential business opportunities as they arise or meet our capital needs. Furthermore, future debt instruments or other contracts could contain financial or other covenants more restrictive than those applicable to our Senior Secured Credit Facility, the 2033 Secured Notes or the 2021 Notes.

The breach of any of these covenants by us or the failure by us to meet any of these conditions or requirements could result in a default under any or all of such indebtedness. Our ability to continue to comply with these covenants and requirements may be affected by events beyond our control, including prevailing economic, financial and industry conditions. An event of default under our debt agreements could trigger events of default under our other debt agreements and the holders of the defaulted debt could declare all of the amounts outstanding thereunder, together with accrued interest, to become immediately due and payable. If such acceleration occurs, we would not be able to repay our debt and we may not be able to borrow sufficient funds to refinance our debt. Even if new financing is made available to us, it may not be on terms acceptable to us.

The borrowings under our Senior Secured Credit Facility are based on variable rates of interest, which could result in higher interest expense in the event of an increase in interest rates.

As of December 31, 2011, \$342.5 million of aggregate indebtedness remains outstanding under our Senior Secured Credit Facility and was subject to variable interest rates. However, in December 2009, we entered into an interest rate swap agreement with an effective date of December 31, 2010 and an initial notional amount of \$300.0 million, which amortizes by \$40.0 million at the end of each quarter subsequent to the effective date until it reaches \$100.0 million for the quarter ended June 30, 2012, the expiration date of the interest rate swap agreement. This interest rate swap agreement effectively fixes, at 3.755% (including the current applicable margin), the interest rate for the portion of our variable rate debt outstanding under our Senior Secured Credit Facility equal to the outstanding notional amount of the interest rate swap agreement, which was \$140.0 million as of December 31, 2011. In addition, on July 6, 2011, we entered into an interest rate swap agreement with an initial notional amount of \$186.3 million. The effective date of this agreement is June 30, 2012. Once effective, this interest rate swap agreement will effectively fix, at 3.6195% (including the current applicable margin), the interest rate for the portion of our variable rate debt outstanding under our Senior Secured Credit Facility equal to the outstanding notional amount of the interest rate swap agreement. The initial notional amount of \$186.3 million amortizes quarterly by (i) \$2.8 million from the effective date through the quarter ended September 30, 2013, (ii) \$5.6 million from September 30, 2013 through the quarter ended September 30, 2014, and (iii) \$8.4 million from September 30, 2014 until June 30, 2015, the expiration date of the agreement.

As of December 31, 2011, the variable rate indebtedness outstanding under our Senior Secured Credit Facility in excess of the outstanding notional amount of the effective interest rate swap agreement described above was an aggregate principal amount of \$202.5 million, and is subject to interest rate risk, as our interest payments will fluctuate as the underlying interest rate changes. If there is a 1% increase in the Eurodollar Rate, the interest rate currently applicable to this variable rate indebtedness, and we do not alter the terms of our current interest rate swap agreements or enter into a new interest rate swap agreement, our debt service obligations on our variable rate indebtedness would increase by a total of \$6.4 million between January 1, 2012 and June 27, 2016, the maturity date of the Senior Secured Credit Facility, which would affect our cash flows and results of operations. If we borrow additional amounts under the Revolving Line of Credit portion of our Senior Secured Credit Facility, our interest rate risk may increase.

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Increased competition could reduce the demand for our products and services, which could have a material adverse effect on our business, financial condition, results of operations and business prospects.

It is possible that alternative media or changes in promotional materials, strategies or coupon delivery methods, including, without limitation, as a result of declines in newspaper circulation, could make our products less attractive to our clients and could cause a loss of demand for our products and services.

Our products that reach a large area at low cost compete in the cooperative FSI business principally with News America. We compete for business primarily on the basis of price, category availability, targeting ability and customer service and relationships.

FSI prices have declined substantially over the last several years. We cannot predict when, or if, FSI prices will stabilize or increase. This has resulted generally in decreasing revenues and profitability for our FSI segment. When FSI contracts come up for renewal, we may not be able to renew them on favorable terms or at all. In addition, our primary competitor, News America, and its parent corporation, have substantially greater financial resources than we do and may be better able to withstand changes in conditions within the industries in which we operate and may have significantly greater operating and financial flexibility than we do. During 2011, News America took a greater market share and could take a greater market share going forward and cause us to lose business from our clients.

Our Shared Mail segment is our largest revenue producer and most profitable segment. Our Shared Mail segment's media business faces intense competition based primarily on the ability to target selected potential consumers on a cost-effective basis and provide a satisfactory return on advertising investment. Shared Mail products also compete for advertising dollars against other forms of print and electronic media and other advertising in general. Competition for market share also comes from magazines, radio, broadcast and cable television, shoppers, the Internet, other communications media and other advertising printers that operate in Shared Mail markets. The extent and nature of such competition are, in large part, determined by the location and demographics of the markets targeted by a particular advertiser and the number of media alternatives in those markets. Shared Mail clients and prospective clients are operating with lower advertising budgets, while trying to allocate their spending across a growing number of media channels. They are increasingly faced with the challenge of doing more with less. The failure to develop new products and services could result in the loss of clients to current or future competitors. In addition, failure to gain market acceptance of new products and services could adversely affect growth.

Our Neighborhood Targeted segment competes against commercial printers and media placement agencies for solo specialized promotional programs for single advertisers. While both types of competitors have a history of competing on the basis of price to increase volume and improve economies of scale, commercial printers tend to be particularly aggressive during periods when they have unused capacity. In addition, we compete with Sunflower Marketing with respect to our polybag advertising and sampling products. To the extent our competitors in these businesses decide to compete more aggressively on price due to excess capacity or for other reasons, it could have a material adverse effect on our business, financial condition and results of operations.

Our Neighborhood Targeted products also compete with several newspaper network groups in the ROP market. While entering the ROP market does not require a significant investment in machinery and equipment, it does require a significant investment in systems and human resources in order to compete effectively. An increase in the number of ROP competitors could result in a loss of market share.

In our International, Digital Media & Services segment, our subsidiary, NCH Marketing Services, Inc., competes against Carolina Manufacturing Services and Carolina Services, both owned by Inmar, Inc., and International Outsourcing Services, LLC for coupon clearing and redemption services in the U.S., and our in-store business competes against News America. To the extent that our competitors in these businesses decide to compete more aggressively on price, it could lower our market share and have a material adverse effect on our business, financial condition and results of operations.

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Our Shared Mail segment depends on the USPS for delivery of its products. If the USPS does not fulfill their obligations, our Shared Mail segment may lose clients and experience reduced revenues and profitability.

Our Shared Mail segment's products are primarily delivered through the USPS. Postage expense is our Shared Mail segment's largest expense. The inability of the USPS to deliver our Shared Mail segment's products on a timely basis or a significant reduction in the number of days the USPS delivers mail could disrupt our Shared Mail segment's business and, in turn, have a material adverse effect on our business, financial condition and results of operations. Furthermore, USPS rates increase periodically, and we have no control over increases that may occur in the future. An increase in the cost of postage combined with our Shared Mail segment's inability to successfully pass through such postage rate increase directly to its clients could have a material adverse effect on our business, financial condition and results of operations.

Significant increases in the cost of paper, which are beyond our control, could adversely affect our business, financial condition and results of operations.

We are dependent upon the availability of paper to print our clients' advertising circulars. Paper costs have historically experienced significant fluctuations. During 2011, we purchased approximately 85% of our paper from a single supplier pursuant to a contract that expired at the end of 2011 and the remainder of our paper purchases were subject to variable market prices. We intend to enter into new long-term contracts in the future; however, we may be unable to do so upon similar terms and conditions, including price increase limitations and volume discounts. Changes in the supply of, or demand for, paper could affect the cost of paper or delivery times. We do not engage in hedging activities to limit our exposure to increases in paper prices and we have a limited ability to pass increased costs along to our clients. In the future, the price of paper may fluctuate significantly due to changes in supply and demand. We cannot assure you that we will have access to paper in the necessary amounts or at reasonable prices or that any increases in paper costs would not have a material adverse effect on our business, financial condition and results of operations.

The possibility of consolidation in our client base, the loss of clients to alternative advertising methods or decreases in the frequency or amount of clients' programs could impact our revenue growth and profitability.

In recent years, there has been a growing trend toward retailer consolidation. As a result of this consolidation, the number of retailers to which we sell our products and services may decline and lead to a decrease in our revenues. In addition, we may lose clients due to the acquisition of such clients by companies that are not interested in using our products and services or that eliminate retail locations of our existing clients. Also, a client may decide to decrease its program frequency or modify the amount, pages and weight, and kind of advertising pieces it purchases from us, whether due to the increased use of alternative advertising methods or shifts in consumer behavior, such as the recent increase in coupon redemption rates that has increased the cost per program for our clients, which has resulted in our clients in the consumer packaged goods vertical reducing the number of programs across many of our products. Our clients may be impacted by the items detailed above and by other general economic and business conditions that could affect their demand for our products and services. In the event of significant revenue decreases in our Shared Mail segment, we may experience a corresponding impact to profit due to the fixed cost nature of postage expense. Postage costs associated with advertising packages are fixed in nature for packages that weigh 3.3 ounces or less, whether or not the package is partially or completely filled. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

Our clients may be susceptible to changes in general economic conditions.

Our revenues are affected by our clients' marketing spending and advertising budgets. Our revenues and results of operations may be subject to fluctuations based upon general economic conditions in the geographic locations where we offer services or distribute content. A continued recession or slower than anticipated improvement in economic conditions in these geographic locations may

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reduce demand for our products and services or depress pricing or prevent us from increasing pricing of those products and services and have a material adverse effect on our business, financial condition and results of operations. Changes in global economic conditions could also shift demand to products and services for which we do not have competitive advantages, and this could negatively affect the amount of business that we are able to obtain. In addition, if we are unable to successfully anticipate changing economic and political conditions, we may be unable to effectively plan for and respond to those changes, and our business could be negatively affected.

We depend on vendors to timely supply us with quality materials at the right prices.

Global economic and political conditions may affect our vendors. A prolonged economic downturn could limit their ability to timely provide us with acceptable materials at affordable prices. To the extent that the financial condition of our vendors changes or deteriorates, including possible bankruptcies, mergers or liquidations or their sales otherwise decline, we may need to find alternative vendors. Our inability to acquire suitable materials on acceptable terms or in a timely manner or the loss of key vendors could have a material adverse effect on our business, financial condition and results of operations.

If a client experiences financial difficulty, or is otherwise unable to meet its obligations as they become due, our financial condition and results of operations could be adversely affected.

If a client's financial difficulties become severe, the client may be unwilling or unable to pay our invoices in the ordinary course of business, which could adversely affect collections of both our accounts receivable and unbilled services. Bankruptcy filings by or relating to one of our clients could bar us from collecting pre-bankruptcy debts from that client. A client bankruptcy would delay our efforts to collect past due balances and could ultimately preclude full collection of these amounts. We may recover substantially less than the full value of any unsecured claims in the event of the bankruptcy and there is no guarantee our allowance for doubtful accounts would adequately cover such unrecovered amounts, which could adversely impact our financial condition and results of operations.

Failure to maintain adequate internal controls may affect our ability to report timely and accurate financial statements and adversely affect our business and stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that companies design and maintain an adequate system of internal control over financial reporting and assess and report on such internal control structure annually. Such a system of controls, however well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. In addition, the design of any internal control system is based in part upon certain assumptions regarding the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

There can be no assurance that our internal control systems and procedures will not result in or lead to a future material weakness, or that we or our independent registered public accounting firm will not identify a material weakness in our internal controls in the future. A material weakness in internal control over financial reporting would require our management and independent registered public accounting firm to evaluate our internal controls as ineffective. Furthermore, if we fail to maintain proper and effective internal controls, our ability to report our financial results on a timely and accurate basis may be impaired. If our internal control over financial reporting is not considered adequate, or if as a result we are unable to report our financial results on a timely and accurate basis, we may, among other things, experience a loss of public confidence, which could have an adverse effect on our business and stock price.

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Because we self-insure a number of our benefit plans, unexpected changes in claim trends may negatively impact our financial condition.

We self-insure a significant portion of expected losses under our workers' compensation program and medical benefits claims. While we maintain third-party stop-loss insurance policies to cover certain liability costs in excess of predetermined retained amounts, unexpected changes in claim trends, including the severity and frequency of claims, actuarial estimates and medical cost inflation could result in costs that are significantly different than initially reported. If future claims-related liabilities increase due to unforeseen circumstances, our self-insurance costs could increase significantly.

Due to uncertainty in the application and interpretation of applicable state sales tax laws, we may be exposed to additional sales tax liability.

The application and interpretation of applicable state sales tax laws to certain of our products is uncertain. Accordingly, we may be exposed to additional sales tax liability to the extent various state jurisdictions determine that certain of our products are subject to such jurisdictions' sales tax. We have recorded a liability of \$10.0 million, reflecting our best estimate of our potential sales tax liability. While we believe all of our estimates and assumptions are reasonable and will be sustained upon audit, the actual liabilities may exceed such estimates. If so, it could have a material adverse effect on our business, financial condition and results of operations.

The uncertainty of current economic and political conditions make budgeting and forecasting difficult and may reduce sales promotion spending.

The future direction of the overall domestic and global economies could have a significant impact on our business. The potential for future terrorist attacks, increased global conflicts and the escalation of existing conflicts has created worldwide uncertainties that may have a negative impact on demand for our products. In addition, the continuing economic downturn of the past several years has decreased the advertising budgets of our client base, which could have a material impact on our business, results of operations and financial condition. Because all components of our budgeting and forecasting, as well as that of our clients, are dependent upon estimates of growth in the markets served and demand for our products and services, the global economic downturn of the past several years and related financial market uncertainties may render estimates of future income and expenditures even more difficult to make than usual. Future events that may not have been anticipated could have a material adverse effect on our business, financial condition and results of operations.

These risk factors that may affect future performance and the accuracy of forward-looking statements are illustrative. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our corporate headquarters are located in a leased office complex in Livonia, Michigan. In addition, throughout the United States, we have 45 total leased office buildings and operations facilities. Internationally, we have three leased sales offices and five leased operations facilities. Below is a listing of our owned facilities:

Location	Type	Primary Segment
Delicias, Mexico	Production/Office	International, Digital Media & Services
Durham, NC USA	Printing	FSI/Shared Mail
Juarez, Mexico	Operations	International, Digital Media & Services
Livonia, MI USA*	Printing/Warehouse	Neighborhood Targeted
Livonia, MI USA*	Operations	FSI/Neighborhood Targeted
Nuevo Laredo, Mexico	Operations	International, Digital Media & Services
Wichita, KS USA	Printing	FSI/Shared Mail

* In connection with entering into the credit agreement governing our new senior secured credit facility, we granted a security interest in these domestic locations.

We have renewal rights for most of the leases and anticipate that we will be able to extend these leases on terms satisfactory to us or, if necessary, locate substitute facilities on acceptable terms. We believe our facilities are in good condition and have sufficient capacity to handle present volumes although, during periods of unusual demand, we may require services of contract printers.

ITEM 3. LEGAL PROCEEDINGS

We are 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 effect on our financial position, results of operations or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the New York Stock Exchange (ticker symbol: VCI). There were approximately 760 record holders of Valassis common stock at December 31, 2011.

High and low stock prices per share during the years ended December 31, 2011 and 2010:

Quarter Ended	2011		2010	
	High	Low	High	Low
March 31,	\$ 33.48	\$ 27.00	\$ 29.45	\$ 18.23
June 30,	\$ 30.81	\$ 25.70	\$ 38.43	\$ 27.19
September 30,	\$ 31.95	\$ 18.50	\$ 35.82	\$ 27.74
December 31,	\$ 23.11	\$ 14.71	\$ 37.44	\$ 30.02

Currently, we have no plans to pay cash dividends. In addition, should we change our dividend policy, the payment of future dividends would be dependent on covenants contained in the documents governing our indebtedness, future earnings, capital requirements and alternate uses of our cash. Currently, the documents governing our indebtedness restrict the payment of cash dividends.

Purchases of Equity Securities by the Issuer

The following table reflects our repurchases of our common stock during the three months ended December 31, 2011:

Period	Total Number of Shares Purchased	Average Price Paid per Share (including broker commissions)	Total Number of Shares Purchased as Part of Publicly Announced Plan (a)	Maximum Number of Shares that May Yet be Purchased under the Plan (b)
October 1, 2011 to October 31, 2011	210,000	\$ 19.54	210,000	4,286,273
November 1, 2011 to November 30, 2011	2,765,738	\$ 19.71	2,765,738	1,520,535
December 1, 2011 to December 31, 2011	32,600	\$ 19.27	32,600	1,487,935
	3,008,338	\$ 19.70	3,008,338	

- (a) On August 25, 2005, our Board of Directors approved the repurchase of 5 million shares of our common stock. This share repurchase plan was suspended in February 2006. On May 6, 2010, our Board of Directors reinstated this share repurchase plan. In May 2011, our Board of Directors approved an increase of 6 million shares to this share repurchase plan.
- (b) Our ability to make share repurchases may be limited by the documents governing our indebtedness.

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	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(in millions of U.S. dollars, except per share data and ratios)				
Revenues	\$ 2,236.0	\$ 2,333.5	\$ 2,244.2	\$ 2,381.9	\$ 2,242.2
Net earnings (loss)	113.4(a)	385.4(b)	66.8(c)	(209.7)(d)	52.2
Total assets	1,644.4	1,845.7	1,744.0	1,853.2	2,190.5
Long-term debt, less current portion	587.6	699.2	1,004.9	1,111.7	1,279.6
Net earnings (loss) per share, basic	2.43(a)	7.84(b)	1.39(c)	(4.37)(d)	1.09
Net earnings (loss) per share, diluted	2.33(a)	7.42(b)	1.36(c)	(4.37)(d)	1.09
Ratio of earnings to fixed charges (e)	5.01x	9.54x	2.15x	(f)	1.78x

- (a) Includes \$4.3 million, net of tax, or \$0.09 per common share, basic and common share, diluted, in intangible asset write-offs (for further information, see Note 2, *Goodwill and Other Intangible Assets*, to our consolidated financial statements included in **Item 8. Financial Statements and Supplementary Data** of this Annual Report on Form 10-K) and \$4.2 million, net of tax, \$0.09 per common share, basic or \$0.08 per common share, diluted, in postemployment and other reorganization costs. Includes a \$11.6 million loss on extinguishment of debt and related charges, net of tax, \$0.25 per common share, basic or \$0.24 per common share, diluted, related to our cash tender offer, consent solicitation and redemption of our outstanding 2015 Notes and the replacement and termination of our Prior Senior Secured Credit Facility (for further information, see Note 3, *Long-Term Debt*, to our consolidated financial statements included in **Item 8. Financial Statements and Supplementary Data** of this Annual Report on Form 10-K).
- (b) Includes a \$301.4 million gain on litigation settlement, net of tax and related payments, \$6.13 per common share, basic or \$5.80 per common share, diluted, associated with the News America litigation settlement proceeds (for further information, see Note 8, *Gain from Litigation Settlement*, to our consolidated financial statements included in **Item 8. Financial Statements and Supplementary Data** of this Annual Report on Form 10-K) and \$14.7 million loss on extinguishment of debt, net of tax, \$0.30 per common share, basic or \$0.28 per common share, diluted, related to our tender offer and open market repurchases of \$297.8 million aggregate principal amount of our 8 ¹/₄% Senior Notes due 2015 (for further information, see Note 3, *Long-Term Debt*, to our consolidated financial statements included in **Item 8. Financial Statements and Supplementary Data** of this Annual Report on Form 10-K).
- (c) Includes a \$6.2 million gain on extinguishment of debt, net of tax, or \$0.13 per common share, basic and common share, diluted, related to our repurchases of an aggregate principal amount of \$133.5 million of outstanding term loans under our Senior Secured Credit Facility. For further information, see Note 3, *Long-Term Debt*, to our consolidated financial statements included in **Item 8. Financial Statements and Supplementary Data** of this Annual Report on Form 10-K.
- (d) Includes a \$223.4 million non-cash impairment charge, net of tax, or \$4.66 per common share, basic and common share, diluted, related to the carrying value of the goodwill and intangible assets associated with the Shared Mail and International, Digital Media & Services segments.
- (e) The ratio of earnings to fixed charges was computed by dividing (a) earnings before fixed charges, income taxes and extraordinary items by (b) fixed charges, which consist of interest expense, amortization of debt issuance costs and the interest portion of rent expense.
- (f) Earnings for the year ended December 31, 2008 were inadequate to cover fixed charges by \$215.8 million.

This information should be read in conjunction with our consolidated financial statements and the notes thereto included in **Item 8. Financial Statements and Supplementary Data** of this Annual Report on Form 10-K. See also **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**.

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
Forward-Looking Statements

Certain statements under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as statements made elsewhere in this Annual Report on Form 10-K, 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 our actual results, performance or achievements 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. For a discussion of certain of these risks, uncertainties and other factors, see **Item 1A. Risk Factors**. There can be no assurances that our expectations will necessarily come to pass. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Consolidated Results of Operations

Our results of operations for the years ended December 31, 2011, 2010 and 2009 were as follows:

	2011		Year Ended December 31, 2010		2009	
	Actual	% of Revenues	Actual	% of Revenues	Actual	% of Revenues
(in millions of U.S. dollars)						
Revenues:						
Shared Mail	\$ 1,350.8	60.4%	\$ 1,307.2	56.0%	\$ 1,279.1	57.0%
Neighborhood Targeted	374.7	16.8	479.9	20.6	444.7	19.8
FSI	316.0	14.1	367.6	15.7	361.4	16.1
International, Digital Media & Services	194.5	8.7	178.8	7.7	159.0	7.1
Total revenues	2,236.0	100.0	2,333.5	100.0	2,244.2	100.0
Cost of sales	1,670.3	74.7	1,724.6	73.9	1,693.7	75.5
Gross profit	565.7	25.3	608.9	26.1	550.5	24.5
Selling, general and administrative	329.1	14.7	371.3	15.9	354.9	15.8
Amortization expense	12.6	0.6	12.6	0.5	12.6	0.6
Gain from litigation settlement, net			490.1	21.0		
Earnings from operations	224.0	10.0	715.1	30.6	183.0	8.1
Other expenses and income:						
Interest expense, net	35.3	1.6	64.2	2.8	86.5	3.9
Loss (gain) on extinguishment of debt	16.3	0.7	23.9	1.0	(10.0)	(0.4)
Other income, net	(7.3)	(0.3)	(5.7)	(0.2)	(4.4)	(0.2)
Total other expenses, net	44.3	2.0	82.4	3.5	72.1	3.2
Earnings before income taxes	179.7	8.0	632.7	27.1	110.9	4.9
Income tax expense	66.3	2.9	247.3	10.6	44.1	1.9
Net earnings	\$ 113.4	5.1%	\$ 385.4	16.5%	\$ 66.8	3.0%
Net earnings per common share, diluted	\$ 2.33		\$ 7.42		\$ 1.36	
Weighted average common shares, diluted	48,777		51,957		49,270	

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General

Our Shared Mail segment and NCH businesses were strong contributors to revenues and earnings from operations in the year ended December 31, 2011, while our Neighborhood Targeted and Free-standing Inserts segments were adversely impacted by global economic uncertainty and a pullback in spend by consumer packaged goods (CPG) clients resulting in a reduced number of programs across many of our products (the reduction of CPG programs).

Revenues

We reported revenues of \$2.2 billion for the year ended December 31, 2011, compared to revenues of \$2.3 billion for the year ended December 31, 2010, a decrease of 4.2%. These declines in revenues resulted from the negative impact of the macroeconomic climate on client advertising budgets, decreased Run-of-Press (ROP) revenues within the Neighborhood Targeted segment and the reduction in CPG programs.

We reported revenues of \$2.3 billion for the year ended December 31, 2010, compared to revenues of \$2.2 billion for the year ended December 31, 2009, an increase of 4.0%. This increase in revenues reflects the successful execution of our recession-based strategy to grow volume across our product portfolio, which was partially offset by a decline in prices.

Cost of Sales

Cost of sales was \$1.7 billion for the years ended December 31, 2011, 2010 and 2009. Gross profit as a percentage of revenues was 25.3%, 26.1% and 24.5% for the years ended December 31, 2011, 2010 and 2009, respectively. The decrease in gross profit as a percentage of revenues for the year ended December 31, 2011 as compared to the year ended December 31, 2010 resulted primarily from the declines in revenues discussed above and was also impacted by \$7.1 million in intangible asset impairment charges and \$0.3 million in postemployment and other reorganization costs recognized in the year ended December 31, 2011. The increase in gross profit as a percentage of revenues for the year ended December 31, 2010 as compared to the year ended December 31, 2009 was primarily the result of improvements made in the cost structure of our business.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses were \$329.1 million, \$371.3 million and \$354.9 million for the years ended December 31, 2011, 2010 and 2009.

The decrease in SG&A expenses for the year ended December 31, 2011 as compared to the year ended December 31, 2010 reflects a \$19.2 million decrease in stock-based compensation expense, reduced incentive compensation expense, our cost containment efforts and the non-recurrence of \$2.1 million in legal costs associated with the News America litigation settled in February 2010 (as defined and further described in *Gain from Litigation Settlement* below), which were offset, in part, by \$6.6 million in postemployment and other reorganization costs recognized in the year ended December 31, 2011.

The increase in SG&A expenses for the year ended December 31, 2010 as compared to the year ended December 31, 2009 was due primarily to an increase in stock-based compensation expense of \$25.0 million, which resulted from the following:

The appreciation of our stock price, which triggered the accelerated vesting of certain executives' stock options, resulting in the immediate recognition of the related remaining unrecognized stock-based compensation expense;

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Our modification of outstanding stock option and restricted stock awards to employees and directors to provide for the continued vesting and exercisability in accordance with the terms as originally granted of any outstanding stock options or restricted stock awards held by a grantee, if the grantee has satisfied specified service and age requirements at the time the grantee's employment or directorship with the Company terminates. As a result of this modification, we recognized previously unrecognized compensation expense that we would have been required to be expensed in future periods related to grantees that had met or will meet the specified service and age requirements prior to the original vesting date. The fair value of outstanding awards did not change based on the modified terms; and

In 2009 and 2010, annual stock awards were granted to executives on January 1st. However, the 2011 stock awards were granted as of the close of the trading day on December 14, 2010, the date of approval of the awards by the Compensation/Stock Option Committee of our Board of Directors.

These increases were offset, in part, by reduced legal costs of \$8.8 million for the year ended December 31, 2010 compared to the year ended December 31, 2009 related to the News America litigation.

Gain from Litigation Settlement

On February 4, 2010, we executed a settlement agreement and release (the "Settlement Agreement") with News America Incorporated, a/k/a News America Marketing Group, News America Marketing, FSI, Inc. a/k/a News America Marketing FSI, LLC and News America Marketing In-Store Services, Inc. a/k/a News America Marketing In-Store Services, LLC (collectively, "News"), and pursuant to the terms of the Settlement Agreement, News paid us \$500.0 million. During the year ended December 31, 2010, in connection with the successful settlement of these lawsuits, we made \$9.9 million in related payments, including special bonuses to certain of our employees (including our named executive officers in our proxy statement) in an aggregate amount of \$8.1 million. These expenses were netted against the \$500.0 million of proceeds received, and the net proceeds of \$490.1 million have been recorded as a separate line item "Gain from litigation settlement, net" in our consolidated statement of income for the year ended December 31, 2010.

Loss (Gain) on Extinguishment of Debt

On June 27, 2011, we entered into the Senior Secured Credit Facility, which replaced and terminated our Prior Senior Secured Credit Facility (both of which as defined and further described below). We used the proceeds of the Senior Secured Credit Facility along with existing cash to repay all outstanding borrowings under our Prior Senior Secured Credit Facility, to pay accrued interest with respect to such loans and to pay the fees and expenses related to the Senior Secured Credit Facility. As a result, we recognized a pre-tax loss on extinguishment of debt of \$3.0 million during the year ended December 31, 2011, which represents the write-off of related capitalized debt issuance costs.

On January 13, 2011, we commenced a cash tender offer and consent solicitation to purchase any and all of our outstanding 8 1/4% Senior Notes due 2015 (the "2015 Notes") and to amend the indenture governing the 2015 Notes, which we refer to as the 2015 Indenture, to eliminate substantially all of the restrictive covenants and certain events of default. We used the net proceeds from the 2021 Notes (described below) to fund the purchase of the 2015 Notes, the related consent payments pursuant to the tender offer and consent solicitation, and the subsequent redemption of the 2015 Notes that were not tendered and remained outstanding after the expiration of the tender offer and consent solicitation. As a result, we recognized a pre-tax loss on extinguishment of debt of \$13.3 million during the year ended December 31, 2011, which represents the difference between the aggregate purchase price and the aggregate principal amount of the 2015 Notes purchased and the write-off of related capitalized debt issuance costs.

During the year ended December 31, 2010, we purchased \$297.8 million aggregate principal amount of the 2015 Notes pursuant to a cash tender offer and open market repurchases. As a result, we recognized a pre-tax loss on extinguishment of debt of \$23.9 million

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during the year ended December 31, 2010, which represents the difference between the aggregate purchase price and the aggregate principal amount of the 2015 Notes purchased and the proportionate write-off of related capitalized debt issuance costs.

During the year ended December 31, 2009, we repurchased, at a discount to par, an aggregate principal amount of \$133.5 million of outstanding term loans under our Prior Senior Secured Credit Facility for an aggregate purchase price of \$123.5 million, including fees. As a result of these repurchases, during the year ended December 31, 2009, we recognized a pre-tax gain on extinguishment of debt of \$10.0 million, which represents the difference between the aggregate purchase price and the aggregate principal amount of the term loans repurchased.

Interest Expense, Net

Interest expense, net was \$35.3 million, \$64.2 million and \$86.5 million for the years ended December 31, 2011, 2010 and 2009, respectively. The decreases in interest expense, net were due to the following:

A decrease in outstanding indebtedness resulting from our repurchase of \$297.8 million aggregate principal amount of the 2015 Notes during the second quarter of 2010;

A decrease in outstanding indebtedness resulting from our repurchase of an aggregate principal amount of \$133.5 million of outstanding term loans under our Prior Senior Secured Credit Facility during the year ended December 31, 2009;

The \$112.2 million reduction in outstanding indebtedness that resulted from the replacement and termination of our Prior Senior Secured Credit Facility with the Senior Secured Credit Facility on June 27, 2011; and

The reduced interest rate associated with the 2021 Notes as compared to the 2015 Notes and the reduced margins associated with the Senior Secured Credit Facility as compared to the Prior Senior Secured Credit Facility.

On December 17, 2009, we entered into an interest rate swap agreement with an initial notional amount of \$300.0 million to fix three-month LIBOR at 2.005%, plus the applicable margin, for \$300.0 million of our variable rate debt under our Prior Senior Secured Credit Facility. The swap was designated as and qualified as a cash flow hedge through the termination of the Prior Senior Secured Credit Facility on June 27, 2011. During the year ended December 31, 2011, as a result of the termination of the Prior Senior Secured Credit Facility, pre-tax losses of \$2.6 million were reclassified from accumulated other comprehensive income to earnings as a component of interest expense, which partially offset the decreases in interest expense, net for the year ended December 31, 2011 described above.

Income Tax Expense

Income tax expense represented 36.9%, 39.1% and 39.8% of earnings before income taxes for the years ended December 31, 2011, 2010 and 2009, respectively. The decrease in income tax expense as a percentage of earnings before income taxes for the year ended December 31, 2011 as compared to the years ended December 31, 2010 and 2009, reflect certain discrete items favorably impacting the period. Prospectively, we expect our effective tax rate to be approximately 38.5%.

Net Earnings

Net earnings were \$113.4 million, \$385.4 million and \$66.8 million for the years ended December 31, 2011, 2010 and 2009, respectively. Net earnings per common share, diluted were \$2.33, \$7.42 and \$1.36 for the years ended December 31, 2011, 2010 and 2009, respectively. Net earnings and net earnings per common share, diluted for the years ended December 31, 2011, 2010 and 2009 included certain items affecting the comparability of such periods; specifically, an intangible asset impairment and non-recurring

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postemployment and other reorganization costs in the year ended December 31, 2011, losses on extinguishment of debt and related charges in the years ended December 31, 2011 and 2010, a gain from litigation settlement in the year ended December 31, 2010 and a gain on extinguishment of debt in the year ended December 31, 2009. In **Non-GAAP Financial Measures** below, we compare net earnings and net earnings per common share, diluted for the years ended December 31, 2011, 2010 and 2009 excluding these items. In addition, net earnings per common share, diluted was favorably impacted by the repurchases of our common stock during the year ended December 31, 2011.

Non-GAAP Financial Measures

We define adjusted net earnings and adjusted net earnings per common share, diluted, as net earnings excluding the gain from litigation settlement, net of tax, losses and gains on extinguishment of debt (including the related reclassification of previously unrealized losses on interest rate swaps from accumulated other comprehensive income to earnings, net of tax), the impairment of intangible assets and non-recurring postemployment and other reorganization costs. We present adjusted net earnings and adjusted net earnings per common share, diluted, because we believe these measures are useful to investors as they provide measures of our profitability on a more comparable basis to historical periods because they exclude items we do not believe are indicative of our core operating performance. In addition, we exclude these items when we internally evaluate our company's performance.

Adjusted net earnings and adjusted net earnings per common share, diluted, are not calculated or presented in accordance with U.S. GAAP and have limitations as analytical tools and should not be considered in isolation from, or as alternatives to, operating income, net income, cash flow, EPS or other income or cash flow data prepared in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using these non-GAAP financial measures only supplementally. Further, other companies, including companies in our industry, may calculate adjusted net earnings and adjusted net earnings per common share, diluted, differently and as the differences in the way two different companies calculate these measures increase, the degree of their usefulness as comparative measures correspondingly decreases.

The following table reconciles net earnings and net earnings per common share, diluted, for the year ended December 31, 2011, 2010 and 2009 to adjusted net earnings and adjusted net earnings per common share, diluted:

	2011		Year Ended December 31, 2010		2009	
	U.S. Dollars in Millions	Per Diluted Common Share	U.S. Dollars in Millions	Per Diluted Common Share	U.S. Dollars in Millions	Per Diluted Common Share
Net earnings	\$ 113.4	\$ 2.33	\$ 385.4	\$ 7.42	\$ 66.8	\$ 1.36
Excluding, net of tax:						
Gain from litigation settlement			(301.4)	(5.80)		
Loss (gain) on extinguishment of debt and related charges	11.6	0.24	14.7	0.28	(6.2)	(0.13)
Intangible asset impairment	4.3	0.09				
Postemployment and other reorganization costs	4.2	0.08				
Adjusted net earnings	\$ 133.5	\$ 2.74	\$ 98.7	\$ 1.90	\$ 60.6	\$ 1.23

The increases in adjusted net earnings and adjusted net earnings per common share, diluted, for the year ended December 31, 2011 as compared to the year ended December 31, 2010 reflect, as further discussed above, decreased selling, general and administrative and interest expense, which were offset, in part, by reduced gross profit associated with the decline in revenues. The increases in adjusted net earnings and adjusted net earnings per common share, diluted, for the year ended December 31, 2010 as compared to the year

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ended December 31, 2009 reflect, as further discussed above, increased gross profit associated with the increase in revenues and decreased interest expense, which were offset, in part, by increased selling, general and administrative expenses. In addition, adjusted net earnings per common share, diluted was favorably impacted by repurchases of our common stock during the year ended December 31, 2011.

Segment Results

We currently operate our business in the following reportable segments:

Shared Mail Products that have the ability to reach 9 out of 10 U.S. households through shared mail distribution. Our Shared Mail programs combine the individual print advertisements of various clients into a single shared mail package delivered primarily through the United States Postal Service (USPS).

Neighborhood Targeted Products that are targeted to specific newspaper zones or neighborhoods based on geographic and demographic characteristics.

Free-standing Inserts Four-color booklets that contain promotions, primarily coupons, from multiple advertisers (cooperative), which we publish and distribute to approximately 60 million households through newspapers and shared mail.

In addition, all other lines of business that are not separately reported are captioned as International, Digital Media & Services, which includes NCH Marketing Services, Inc. (NCH), Valassis Canada, Inc., Promotion Watch, direct mail, analytics, digital and in-store.

We evaluate reportable segment performance based on segment profit, which we define as earnings (loss) from operations excluding unusual or non-recurring items. For additional information, including a reconciliation of total segment profit to earnings from operations, see Note 13, *Segment Reporting*, to our consolidated financial statements included in **Item 8. Financial Statements and Supplementary Data** of this Annual Report on Form 10-K.

Shared Mail

Shared Mail revenues were \$1,350.8 million, \$1,307.2 million and \$1,279.1 million for the years ended December 31, 2011, 2010 and 2009, respectively. These increases in revenues were primarily attributable to volume gains in inserts. For the year ended December 31, 2011 as compared to the year ended December 31, 2010, incremental printing revenue also contributed to the growth in revenues. For the year ended December 31, 2010 as compared to year ended December 31, 2009, the volume gains in inserts were offset to a degree by lower priced and lighter weight inserts.

The volume gains in inserts were demonstrated in the Shared Mail piece growth which increased 2.0% to 36.8 billion pieces for the year ended December 31, 2011 as compared to the year ended December 31, 2010, and increased 9.4% to 36.1 billion pieces for the year ended December 31, 2010 as compared to the year ended December 31, 2009. Shared Mail packages delivered were 3.6 billion, 3.6 billion and 3.8 billion for the years ended December 31, 2011, 2010 and 2009, respectively. Shared Mail packages were relatively flat for the year ended December 31, 2011 compared to the year ended December 31, 2010; however, Shared Mail packages decreased 4.8% for the years ended December 31, 2010 compared to December 31, 2009 due to the reduction of underperforming packages in certain markets. As a result of the year over year growth in Shared Mail pieces for all periods presented, relatively flat growth in packages in 2011 and the decreases in packages delivered in 2010, Shared Mail average pieces per package have increased to 9.8 pieces, 9.7 pieces and 8.4 pieces for the years ended December 31, 2011, 2010 and 2009, respectively.

Shared Mail's gross margin as a percentage of revenues was 28.7%, 28.5% and 25.8% for the years ended December 31, 2011, 2010 and 2009, respectively. Gross margin as a percentage of revenues was favorably impacted for all periods by the flow-through of the

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increased volume and related efficiencies in unused postage. Unused postage as a percentage of base postage decreased to 14.9% for the year ended December 31, 2011 from 16.6% for the year ended December 31, 2010 and from 19.9% for the year ended December 31, 2009. Offsetting the favorable impact in gross margin as a percentage of revenues for the year ended December 31, 2011 were increased print costs due to a product mix shift toward printed products. For the year ended December 31, 2010 compared to December 31, 2009, our business optimization efforts from distribution savings from newspaper alliances and fewer packages contributed to the gross margin improvement.

Segment profit was \$191.9 million, \$156.8 million and \$110.2 million for the years ended December 31, 2011, 2010 and 2009, respectively. Segment profit as a percentage of revenues was 14.2%, 12.0% and 8.6% for the years ended December 31, 2011, 2010 and 2009, respectively. The increases in segment profit and segment profit as a percentage of revenues were the result of the growth in revenues, gross margin improvement and decreased SG&A costs.

Neighborhood Targeted

Neighborhood Targeted segment revenues were \$374.7 million and \$479.9 million for the years ended December 31, 2011 and 2010, respectively, a decrease of 21.9%. This decrease resulted from a significant decline in ROP revenues associated with reduced advertising spending by one client in each of the telecommunications and energy verticals, a decrease in our Newspaper Inserts product line related to the loss of two large retailers that liquidated in the first quarter of 2011, overall softness in our telecommunications vertical and the reduction in CPG programs. Segment profit was \$7.7 million and \$20.6 million for the years ended December 31, 2011 and 2010, respectively, a decrease of 62.6%. In addition to the items impacting revenues detailed above, segment profit decreased as a result of continued margin pressure associated with the products in this segment.

Neighborhood Targeted segment revenues were \$479.9 million and \$444.7 million for the years ended December 31, 2010 and 2009, respectively, an increase of 7.9%. This increase reflected the continued execution of our strategy of building market share in newspaper insert distribution with the intention of shifting a portion of this distribution to Shared Mail. Segment profit was \$20.6 million and \$36.3 million for the years ended December 31, 2010 and 2009, respectively, a decrease of 43.3%. This decrease was due primarily to pricing declines, changes in product mix, an increase in SG&A allocation and a significant client bankruptcy.

FSI

FSI segment revenues were \$316.0 and \$367.6 million for the years ended December 31, 2011 and 2010, respectively, a decrease of 14.0%. Segment profit was \$14.1 million and \$24.9 million for the years ended December 31, 2011 and 2010, respectively, a decrease of 43.4%. These decreases in revenues and segment profit reflect industry volume declines due to the reduction in CPG programs, the absence of custom co-op business in the fourth quarter of 2011 and a decrease in market share.

FSI segment revenues were \$367.6 million and \$361.4 million for the years ended December 31, 2010 and 2009, respectively, an increase of 1.7%. Industry pages were up 4.6% for the year; however, our pricing declined slightly. Segment profit was \$24.9 million and \$11.5 million for the years ended December 31, 2010 and 2009, respectively, an increase of 116.5%. This increase reflected lower costs and efficiencies gained through increased volume resulting from industry growth, which was partially offset by lower pricing.

International, Digital Media & Services

International, Digital Media & Services segment revenues were \$194.5 million and \$178.8 million for the years ended December 31, 2011 and 2010, respectively, an increase of 8.8%. The increase in revenues reflects the positive effect on NCH of increased coupon redemptions by consumers and the continued growth of our digital business. Segment profit was \$24.3 million and \$22.7 million

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for the years ended December 31, 2011 and 2010, respectively, an increase of 7.0%. The increase in segment profit reflects strong performance by NCH, which was partially offset by pressure on the in-store business resulting from the reduction in consumer packaged goods spend and our continued investment in our digital and in-store businesses.

International, Digital Media & Services segment revenues were to \$178.8 million and \$159.0 million for the years ended December 31, 2010 and 2009, respectively, an increase of 12.5%. Segment profit was \$22.7 million and \$25.0 million for the years ended December 31, 2010 and 2009, respectively, a decrease of 9.2%. This decrease in segment profit primarily resulted from reduced volume in our European business, the loss of a significant customer and continued investment in our digital business.

Financial Condition, Liquidity and Sources of Capital

Our operating cash flows are our primary source of liquidity. We believe we will generate sufficient cash flows from operating activities and will have sufficient existing cash balances and lines of credit available to meet currently anticipated short- and long-term liquidity needs, including the working capital requirements of our operations, interest and required repayments of indebtedness and capital expenditures necessary to support growth and productivity improvement. We may consider other uses for our cash flows from operating activities and other sources of cash (such as additional borrowings under our Senior Secured Credit Facility), including, without limitation, future acquisitions and repurchases of our common stock.

The following table presents our available sources of liquidity as of December 31, 2011:

(in millions of U.S. dollars)	Facility Amount	Amount Outstanding	Available
Cash and cash equivalents			\$ 102.0
Debt facilities:			
New Senior Secured Revolving Credit Facility	\$ 100.0	59.9(a)	40.1
Total Available			\$ 142.1

(a) Represents \$50.0 million outstanding under the senior secured revolving line of credit and \$9.9 million in outstanding letters of credit.

Sources and Uses of Cash and Cash Equivalents

The following table summarizes the decrease in cash and cash equivalents for the indicated period:

(in millions of U.S. dollars)	Year Ended December 31, 2011
Net cash provided by operating activities	\$ 200.2
Net cash used in investing activities	(20.0)
Net cash used in financing activities	(323.6)
Effect of exchange rate changes on cash and cash equivalents	(0.5)
Net decrease in cash and cash equivalents	(143.9)
Cash and cash equivalents at beginning of year	245.9
Cash and cash equivalents at end of year	\$ 102.0

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Operating Activities Net cash provided by operating activities was \$200.2 million for the year ended December 31, 2011. In addition to cash received related to our net earnings, the following changes in assets and liabilities affected cash from operating activities for the year ended December 31, 2011:

a net cash inflow of \$7.6 million associated with the decrease in accounts receivable, net;

a net cash inflow of \$4.8 million related to the increase in accounts payable; and

net cash outflows of \$13.0 million and \$7.2 million related to decreases in progress billings and accrued expenses, respectively.

Investing Activities Net cash used in investing activities was \$20.0 million for the year ended December 31, 2011, which reflects capital acquisitions of property, plant and equipment of \$21.7 million, offset by proceeds of \$1.7 million related to the sales of property, plant and equipment and available-for-sale securities.

Financing Activities Net cash used in financing activities was \$323.6 million for the year ended December 31, 2011, which resulted from \$350.0 million in proceeds from the Senior Secured Credit Facility (as defined and further described below), \$260.0 million in proceeds related to the issuance of the 2021 Notes (as defined and further described below) and \$6.8 million of proceeds from stock option exercises, offset by \$713.7 million of principal payments of long-term debt, primarily related to the repayment and termination of the Prior Senior Secured Credit Facility (as defined and further described below) and the cash tender offer, consent solicitation and redemption of the 2015 Notes (described in *Loss on Extinguishment of Debt* above) and \$11.7 million of costs associated with the Senior Secured Credit Facility and issuance of the 2021 Notes. In addition, during the year ended December 31, 2011, we repurchased 8.9 million shares of our common stock for \$215.1 million, at an average price of \$24.25 per share.

Current and Long-term Debt

As of December 31, 2011, we had outstanding \$602.6 million in aggregate indebtedness, which consisted of \$260.0 million of our unsecured 6⁵/₈% Senior Notes due 2021, or the 2021 Notes, \$292.5 million and \$50.0 million under the Term Loan A and Revolving Line of Credit portions of our Senior Secured Credit Facility, respectively, and \$0.1 million of our Senior Secured Convertible Notes due 2033, or the 2033 Secured Notes. As of December 31, 2011, we had total outstanding letters of credit of approximately \$9.9 million.

Our Senior Secured Credit Facility

General On June 27, 2011, we entered into a new senior secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a syndicate of lenders jointly arranged by J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBS Securities Inc. (the Senior Secured Credit Facility). The Senior Secured Credit Facility and related loan documents replaced and terminated our prior credit agreement, dated as of March 2, 2007, as amended (the Prior Senior Secured Credit Facility), by and among Valassis, Bear Stearns Corporate Lending Inc., as Administrative Agent, and a syndicate of lenders jointly arranged by Bear, Stearns & Co. Inc. and Banc of America Securities LLC. In connection with the termination of the Prior Senior Secured Credit Facility, all obligations and rights under the related guarantee, security and collateral agency agreement, dated as of March 2, 2007, as amended (the Prior Security Agreement), by Valassis and certain of its domestic subsidiaries signatory thereto, as grantors, in favor of Bear Stearns Corporate Lending Inc., in its capacity as collateral agent for the benefit of the Secured Parties (as defined in the Prior Security Agreement), were also simultaneously terminated.

The Senior Secured Credit Facility consists of:

a five-year term loan A in an aggregate principal amount equal to \$300.0 million, with principal repayable in quarterly installments at a rate of 5.0% during each of the first two years from issuance, 10% during the third year from issuance, 15% during the fourth year from issuance and 11.25% during the fifth year from issuance, with the remaining 53.75% due at maturity (the Term Loan A);

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a five-year revolving credit facility in an aggregate principal amount of \$100 million (the Revolving Line of Credit), including \$15.0 million available in Euros, Pounds Sterling or Canadian Dollars, \$50.0 million available for letters of credit and a \$20.0 million swingline loan subfacility, of which \$50.0 million was drawn at closing and remains outstanding as of December 31, 2011 (exclusive of outstanding letters of credit described below); and

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an incremental facility pursuant to which, prior to the maturity of the Senior Secured Credit Facility, we may incur additional indebtedness in an amount up to \$150.0 million under the Revolving Line of Credit or the Term Loan A or a combination thereof, subject to certain conditions, including receipt of additional lending commitments for such additional indebtedness. The terms of the incremental facility will be substantially similar to the terms of the Senior Secured Credit Facility, except with respect to the pricing of the incremental facility, the interest rate for which could be higher than that for the Revolving Line of Credit and the Term Loan A.

We used the initial borrowing under the Revolving Line of Credit, the proceeds from the Term Loan A and existing cash of \$120.0 million to repay the \$462.2 million outstanding under the Term Loan B and Delayed Draw Term Loan portions of our Prior Senior Secured Credit Facility (reflecting all outstanding borrowings thereunder), to pay accrued interest with respect to such loans and to pay the fees and expenses related to the Senior Secured Credit Facility.

All borrowings under our Senior Secured Credit Facility, including, without limitation, amounts drawn under the Revolving Line of Credit, are subject to the satisfaction of customary conditions, including absence of a default and accuracy of representations and warranties. As of December 31, 2011, we had approximately \$40.1 million available under the Revolving Line of Credit portion of our Senior Secured Credit Facility (after giving effect to the reductions in availability pursuant to \$9.9 million in standby letters of credit outstanding as of December 31, 2011).

Interest and Fees Borrowings under our Senior Secured Credit Facility bear interest, at our option, at either the alternate base rate (defined as the higher of the prime rate announced by the Administrative Agent, the federal funds effective rate plus 0.5% or one-month LIBOR plus 1%) (the Base Rate) or at the Eurodollar Rate (one-, two-, three- or six-month LIBOR, at our election, as defined in the credit agreement governing the Senior Secured Credit Facility), except for borrowings made in alternate currencies which may not accrue interest based upon the alternate base rate, in each case, plus an applicable interest rate margin. The applicable margins are currently 0.75% per annum for Base Rate loans and 1.75% per annum for Eurodollar Rate loans. The margins applicable to the borrowings under our Senior Secured Credit Facility may be adjusted based on our consolidated leverage ratio, with 1.00% being the maximum Base Rate margin and 2.00% being the maximum Eurodollar Rate. See Note 11, *Derivative Financial Instruments and Fair Value Measurements*, to our consolidated financial statements included in **Item 8. Financial Statements and Supplementary Data** of this Annual Report on Form 10-K for discussion regarding our various interest rate swap agreements.

Guarantees and Security Our Senior Secured Credit Facility is guaranteed by certain of our existing and future domestic restricted subsidiaries pursuant to a Guarantee and Collateral Agreement. In addition, our obligations under our Senior Secured Credit Facility and the guarantee obligations of the subsidiary guarantors are secured by first priority liens on substantially all of our and our subsidiary guarantors' present and future assets and by a pledge of all of the equity interests in our domestic subsidiary guarantors and 65% of the capital stock of certain of our existing and future foreign subsidiaries.

The Guarantee and Collateral Agreement also secures our Senior Secured Convertible Notes due 2033 on an equal and ratable basis with the indebtedness under our Senior Secured Credit Facility to the extent required by the indenture governing such notes.

Prepayments The Senior Secured Credit Facility also contains a requirement that we make mandatory principal prepayments on the Term Loan A and Revolving Line of Credit in certain circumstances, including, without limitation, with 100% of the aggregate net cash proceeds from certain asset sales, casualty events or condemnation recoveries (in each case, to the extent not otherwise used for reinvestment in our business or related business and subject to certain other exceptions). The Senior Secured Credit Facility further provides that, subject to customary notice and minimum amount conditions, we may make voluntary prepayments without payment of premium or penalty.

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Covenants Subject to customary and otherwise agreed upon exceptions, our Senior Secured Credit Facility contains affirmative and negative covenants, including, but not limited to:

the payment of other obligations;

the maintenance of organizational existences, including, but not limited to, maintaining our property and insurance;

compliance with all material contractual obligations and requirements of law;

limitations on the incurrence of indebtedness;

limitations on creation and existence of liens;

limitations on certain fundamental changes to our corporate structure and nature of our business, including mergers;

limitations on asset sales;

limitations on restricted payments, including certain dividends and stock repurchases and redemptions;

limitations on capital expenditures;

limitations on any investments, provided that certain permitted acquisitions and strategic investments are allowed;

limitations on optional prepayments and modifications of certain debt instruments;

limitations on modifications to organizational documents;

limitations on transactions with affiliates;

limitations on entering into certain swap agreements;

limitations on negative pledge clauses or clauses restricting subsidiary distributions;

limitations on sale-leaseback and other lease transactions; and

limitations on changes to our fiscal year.

Our Senior Secured Credit Facility also requires us to comply with:

a maximum consolidated leverage ratio, as defined in our Senior Secured Credit Facility (generally, the ratio of our consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization, or EBITDA, for the most recent four quarters), of 3.50:1.00; and

a minimum consolidated interest coverage ratio, as defined in our Senior Secured Credit Facility (generally, the ratio of our consolidated EBITDA to consolidated interest expense for the most recent four quarters), of 3.00:1.00.

The following table shows the required and actual financial ratios under our Senior Secured Credit Facility as of December 31, 2011:

	Required Ratio	Actual Ratio
Maximum consolidated leverage ratio	No greater than 3.50:1.00	1.88:1.00
Minimum consolidated interest coverage ratio	No less than 3.00:1.00	10.18:1.00

In addition, we are required to give notice to the administrative agent and the lenders under our Senior Secured Credit Facility of defaults under the facility documentation and other material events, make any wholly-owned domestic subsidiary (other than an immaterial subsidiary) a subsidiary guarantor and pledge substantially all after-acquired property as collateral to secure our and our subsidiary guarantors' obligations in respect of the facility.

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Events of Default Our Senior Secured Credit Facility contains customary events of default, including upon a change in control. If such an event of default occurs, the lenders under our Senior Secured Credit Facility would be entitled to take various actions, including in certain circumstances increasing the effective interest rate and accelerating the amounts due under our Senior Secured Credit Facility.

Prior Senior Secured Credit Facility

On January 22, 2009, we entered into an amendment to our Prior Senior Secured Credit Facility, which permitted us to use up to \$125.0 million to repurchase from tendering lenders term loans outstanding under the Prior Senior Secured Credit Facility at prices below par acceptable to such lenders through one or more modified Dutch auctions at any time or times during 2009. During the year ended December 31, 2009, we repurchased, at a discount to par, an aggregate principal amount of \$133.5 million of outstanding term loans under our Prior Senior Secured Credit Facility for an aggregate purchase price of \$123.5 million, including fees. As discussed above, on June 27, 2011, we entered into the Senior Secured Credit Facility, which replaced and terminated our Prior Senior Secured Credit Facility.

8 1/4% Senior Notes due 2015

On January 13, 2011, we commenced a cash tender offer and consent solicitation to purchase any and all of our outstanding 8 1/4% Senior Notes due 2015 (the "2015 Notes") and to amend the indenture governing the 2015 Notes, which we refer to as the 2015 Indenture, to eliminate substantially all of the restrictive covenants and certain events of default. We used the net proceeds from the 2021 Notes (described below) to fund the purchase of the 2015 Notes, the related consent payments pursuant to the tender offer and consent solicitation, and the subsequent redemption of the 2015 Notes that were not tendered and remained outstanding after the expiration of the tender offer and consent solicitation.

During the year ended December 31, 2010, we purchased \$297.8 million aggregate principal amount of the 2015 Notes pursuant to a cash tender offer and open market repurchases.

6 5/8% Senior Notes due 2021

On January 28, 2011, we issued in a private placement \$260.0 million aggregate principal amount of our 6 5/8% Senior Notes due 2021 (the "2021 Notes"). The net proceeds were used to fund the purchase of the outstanding 2015 Notes and the related consent payments in a concurrent tender offer and consent solicitation as described above and the redemption of the remaining outstanding 2015 Notes. We capitalized related debt issuance costs of \$5.1 million, which will be amortized over the term of the 2021 Notes.

Interest on the 2021 Notes is payable every six months on February 1 and August 1. The 2021 Notes are fully and unconditionally guaranteed, jointly and severally, by substantially all of our existing and future domestic restricted subsidiaries on a senior unsecured basis.

In July 2011, in accordance with the terms of the registration rights agreement between us and the initial purchasers of the 2021 Notes, we completed an exchange offer to exchange the original notes issued in the private placement for a like principal amount of exchange notes registered under the Securities Act of 1933, as amended. An aggregate principal amount of \$260.0 million, or 100%, of the original notes were exchanged for exchange notes in the exchange offer. The exchange notes are substantially identical to the original notes, except that the exchange notes are not subject to certain transfer restrictions.

The 2021 Notes were issued under an indenture with Wells Fargo Bank, National Association, as trustee (the "2021 Indenture"). Subject to a number of exceptions, the 2021 Indenture restricts our ability and the ability of our restricted subsidiaries (as defined in the 2021 Indenture) to incur or guarantee additional indebtedness, transfer or sell assets, make certain investments, pay dividends or make distributions or other restricted payments, create certain liens, merge or consolidate, repurchase stock, create or permit

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restrictions on the ability of our restricted subsidiaries to pay dividends or make other distributions to us and enter into transactions with affiliates.

We may redeem all or a portion of the 2021 Notes at our option at any time prior to February 1, 2016, at a redemption price equal to 100% of the principal amount of 2021 Notes to be redeemed, plus a make-whole premium as described in the 2021 Indenture, plus accrued and unpaid interest to the redemption date, if any. At any time on or after February 1, 2016, we may redeem all or a portion of the 2021 Notes at our option at the following redemption prices (expressed as percentages of the principal amount thereof) if redeemed during the twelve-month period commencing on February 1 of the years set forth below:

Year	Percentage
2016	103.313%
2017	102.208%
2018	101.104%
2019 and thereafter	100.000%

In addition, we must pay accrued and unpaid interest to the redemption date, if any. On or prior to February 1, 2014, we may also redeem at our option up to 35% of the principal amount of the outstanding 2021 Notes with the proceeds of certain equity offerings at the redemption price specified in the 2021 Indenture, plus accrued and unpaid interest to the date of redemption, if any. Upon the occurrence of a change of control, as defined in the 2021 Indenture, we must make a written offer to purchase all of the 2021 Notes for cash at a purchase price equal to 101% of the principal amount of the 2021 Notes, plus accrued and unpaid interest to the date of repurchase, if any.

Additional Provisions

The indenture governing the 2033 Secured Notes contains a cross-default provision which becomes applicable if we default under any mortgage, indenture or instrument evidencing indebtedness for money borrowed by us and the default results in the acceleration of such indebtedness prior to its express maturity, and the principal amount of any such accelerated indebtedness aggregates in excess of \$25.0 million. The 2021 Indenture contains a cross-default provision which becomes applicable if we (a) fail to pay the stated principal amount of any of our indebtedness at its final maturity date, or (b) default under any of our indebtedness and the default results in the acceleration of indebtedness, and, in each case, the principal amount of any such indebtedness, together with the principal amount of any other such indebtedness under which there has been a payment default or the maturity of which has been so accelerated, aggregates \$50.0 million or more. Our credit agreement contains a cross-default provision which becomes applicable if we (a) fail to make any payment under any indebtedness for money borrowed by us (other than the obligations under such credit agreement) in an aggregate outstanding principal amount of at least \$50.0 million or, (b) otherwise default under any such indebtedness, or trigger another event which causes such indebtedness to become due or to be repurchased, prepaid, defeased or redeemed or become subject to an offer to repurchase, prepay, defease or redeem such indebtedness prior to its stated maturity.

Subject to applicable limitations in our Senior Secured Credit Facility and indentures, we may from time to time repurchase our debt in the open market, through tender offers, through exchanges for debt or equity securities, by exercising rights to call, by satisfying put obligations, or in privately negotiated transactions or otherwise.

Other Indebtedness

We have entered into various interest rate swap agreements. For further detail regarding these agreements, see Note 11, *Derivative Financial Instruments*, to our Consolidated Financial Statements included in **Item 8. Financial Statements and Supplementary Data**.

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As of December 31, 2011, we were in compliance with all of our indenture and Senior Secured Credit Facility covenants.

Future Commitments and Contractual Obligations

Our contractual obligations as of December 31, 2011 were as follows:

(in millions of U.S. dollars)	Total	Payments due by Period			
		Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Debt	\$ 602.6	\$ 15.0	\$ 60.0	\$ 267.5	\$ 260.1
Interest on debt	\$ 210.6	27.2	57.7	55.4	70.3
Executive employment and retirement agreements	\$ 24.2	3.6	6.7	4.6	9.3
Operating leases	\$ 109.9	22.3	35.7	21.6	30.3
Unrecognized tax benefits	\$ 2.4	0.5	1.9		
Total	\$ 949.7	\$ 68.6	\$ 162.0	\$ 349.1	\$ 370.0

* We have an additional \$9.7 million in gross unrecognized tax benefits for which the amount or period of related future payments cannot be reasonably estimated.

Off-balance Sheet Arrangements

As of December 31, 2011, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Capital Expenditures

Capital expenditures were \$21.7 million for the year ended December 31, 2011, largely representing technology enhancements. Management expects future capital spending to meet the business needs of enhancing technology and replacing equipment as required. It is expected these expenditures will be made using funds provided by operations.

New Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, which provides companies with the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. ASU 2011-08 is effective for fiscal years beginning after December 15, 2011, with early adoption permitted. When adopted, ASU 2011-08 will have no impact on our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, which eliminates the option to present the components of other comprehensive income as a part of the statement of stockholders' equity. Instead, ASU 2011-05 requires all non-owner transactions that affect an entity's equity be presented either in a single continuous statement of comprehensive income or in two separate, but consecutive, statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present the components of other comprehensive income, total other comprehensive income and the total of comprehensive income. In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation*

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of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, which defers certain aspects of ASU 2011-05 related to the presentation of reclassification adjustments. We have adopted the provisions of ASU 2011-05 that were not deferred by ASU 2011-12 and retrospectively applied herein the two-statement approach described above.

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements*, which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. The adoption of ASU 2009-13, applied prospectively for revenue arrangements entered into or materially modified beginning on or after January 1, 2011, did not have a material impact on our financial position or results of operations.

Critical Accounting Policies and Estimates

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements and notes. Generally, matters subject to estimation and judgment include amounts related to accounts receivable realization, useful lives of intangible and fixed assets, fair value of reporting units for goodwill impairment testing and income taxes. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Revenue Recognition

Our revenue recognition policies vary by product and are summarized as follows:

Revenues for newspaper-delivered promotions are recognized in the period the product is distributed in the newspaper. In accordance with industry practice, we generally bill clients in advance of the related distribution date. However, these billings are reflected as a progress billings liability until the distribution date.

Products and services not distributed via newspapers are recognized as revenues when the product is shipped, accepted by the USPS or the service is performed.

Coupon processing fee revenues are recognized on completion of coupon processing, and do not include the face value of the coupon or the retailer handling fee.

Taxes collected from clients are reported on a net basis and, as such, excluded from revenues.

Shared Mail Revenues are recognized when persuasive evidence of a sales arrangement exists and when services are rendered. Shared Mail services are considered rendered when all printing, sorting, labeling and ancillary services have been provided and the package has been shipped and accepted by the USPS. There is no risk pertaining to customer acceptance and the sales arrangement specifies a fixed and determinable price and collectibility is reasonably assured. We provide for an allowance for sales adjustments to estimate claims resulting from billing and sales adjustments in the event of incorrect invoicing, pricing disputes or untimely mailings of clients' advertising material. The amount of this reserve is evaluated monthly taking into account historical trends, specific items and trended sales adjustments.

Neighborhood Targeted The majority of Neighborhood Targeted products are newspaper delivered, and revenues are recognized in the period that the product is distributed within the newspapers. For non-newspaper-delivered products, revenues are recognized when the product is shipped to the customer or distributed to the consumer via direct to door.

ROP revenues are recognized on the date that the advertisement runs in the newspaper. Some clients have contracts whereby we earn a transaction fee and the media costs are pass-through costs to the client. In such cases, we only recognize the transaction fee as

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revenue on the date the advertisement runs in the newspaper. Client contracts can vary, which may lead to material changes in revenues recognized for this segment, while not materially affecting absolute gross margin dollars.

FSI Revenues from FSIs and custom cooperative FSIs are recognized in the period that the product is distributed in the newspaper or shared mail package. In accordance with industry practice, we generally pre-bill FSI customers (except remnant space) in advance of the related distribution date. However, these billings are reflected as progress billings (liability) until the appropriate distribution period. Provision for rebates or pricing adjustments is made at the time that the related revenues are recognized.

International, Digital Media & Services Revenues for coupon clearing do not include the face value of the coupons processed or the retailer service fee. However, clients are billed for the face value and retailer fee which are included in both accounts receivable and accounts payable. Once coupon processing has been completed, fee revenues are recognized.

Revenues for solo direct-mail products are recognized when the product is accepted by the USPS for insertion into the mail stream. In most cases, postage costs are passed through directly to the client and are not recognized as revenues.

Accounts Receivable

Accounts receivables are stated at amounts estimated by management to be the net realizable value. An allowance for doubtful accounts is recorded when it is probable amounts will not be collected based on specific identification of customer circumstances or age of the receivable. Accounts receivable are written off when it becomes apparent such amounts will not be collected. Generally, we do not require collateral or other security to support client receivables.

Client Contract Incentives

We occasionally provide upfront cash incentives to key clients to secure the value of a long-term contract. The cost of such incentives is capitalized and amortized as a reduction to revenues using the straight-line method over the life of the client contract.

Goodwill, Intangible Assets and Other Long-Lived Assets

Our long-lived assets consist primarily of plant, property and equipment, mailing lists, customer relationships, trade names and goodwill. An intangible asset with a finite useful life is amortized; an intangible asset with an indefinite useful life is not amortized but is evaluated at least annually as of December 31st for impairment and more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Reaching a determination on useful life requires significant judgments and assumptions regarding the future effects of obsolescence, competition and other economic factors. We have determined that our trade names have indefinite useful lives and, therefore, we do not amortize them. We periodically review the carrying amounts of all of our long-lived assets. We undertake this review when facts and circumstances suggest that cash flows emanating from those assets may be diminished. The identification of units of accounting and the allocation of intangible assets by unit of accounting during 2011 were consistent with prior periods.

For goodwill, our annual impairment evaluation compares the fair value of each of our reporting units to its respective carrying amount and consists of two steps. First, we determine the fair values of each of our reporting units, as described below, and compare them to the corresponding carrying amounts. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of the goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner equivalent to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit's goodwill.

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We perform our impairment testing at the reporting unit level. The following table provides a summary of our goodwill by reporting unit as of December 31, 2011 (U.S. dollars in millions):

Shared Mail	\$ 534.2
NCH Marketing Services, Inc.	64.9
Free-standing Inserts	22.4
Neighborhood Targeted	5.3
Valassis Relationship Marketing Systems	6.1
Solo Direct Mail	3.6
Goodwill	\$ 636.5

We estimate the fair values of our reporting units based on projected future debt-free cash flows that are discounted to present value using factors that consider the timing and risk of the future cash flows. We believe this approach is appropriate because it provides a fair value estimate based upon the expected long-term operations and cash flow performance of each reporting unit. We estimate future cash flows for each of our reporting units based on our operating result projections for the respective operating unit. These projected cash flows are discounted to present value using a weighted average cost of capital thought to be indicative of market participants.

Based on the valuation approach described above, our estimated fair values exceeded the carrying values for all reporting units and no impairment charge was warranted as of December 31, 2011. A 1% change in any of the assumptions used in our analysis would not have a material effect on this conclusion.

Consistent with the prior year, we tested the value assigned to our trade names utilizing an estimated market royalty rate representing the percentage of revenues a market participant would be willing to pay as a royalty for their use. As of December 31, 2011, the resulting fair value based on this calculation indicated no impairment.

Income Taxes

Deferred income tax assets and liabilities are computed annually for differences between the consolidated financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Derivatives and Hedging Transactions

We use derivative financial instruments, including forward foreign exchange and interest rate swap contracts, to manage our exposure to fluctuations in foreign exchange rates and interest rates. The use of these financial instruments mitigates exposure to these risks with the intent of reducing the variability of our operating results. We are not a party to leveraged derivatives and do not enter into derivative financial instruments for trading or speculative purposes. All derivatives are recorded at fair value and the changes in fair value are immediately included in earnings if the derivatives are not designated and do not qualify as effective hedges. If a derivative is a fair value hedge, then changes in the fair value of the derivative are offset against the changes in the fair value of the underlying hedged item. If a derivative is a cash flow hedge, then changes in the fair value of the derivative are recognized as a component of accumulated other comprehensive earnings until the underlying hedged item is recognized in earnings.

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Foreign Currency Translation

The financial statements of foreign subsidiaries have been translated into U.S. dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Income statement amounts have been translated using the average exchange rate for the year. The gains and losses resulting from the changes in exchange rates from year-to-year have been reported as a component of stockholders' equity in accumulated other comprehensive income/loss.

Concentrations of Credit Risk

Financial instruments that potentially subject our Company to concentrations of credit risk consist principally of temporary cash investments and accounts receivable. We place our cash in short-term high credit quality securities. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of clients comprising our client base and their dispersion across many different industries and geographies. No single client accounted for more than 10% of our consolidated accounts receivable or revenues as of and for the years ended December 31, 2011, 2010 and 2009. Generally, we do not require collateral or other security to support client receivables.

Off-Balance Sheet Arrangements

We do not have off-balance sheet arrangements, financings or other relationships with unconsolidated entities or other persons, also known as variable interest entities.

We also have other key accounting policies, which involve the use of estimates, judgments and assumptions. For additional information see Note 1, *Basis of Presentation and Significant Accounting Policies*, to our consolidated financial statements included in **Item 8. Financial Statements and Supplementary Data** to this Annual Report on Form 10-K.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal market risks are interest rates on various debt instruments and foreign exchange rates at our international subsidiaries.

Interest Rates

As of December 31, 2011, \$342.5 million of aggregate indebtedness remains outstanding under our Senior Secured Credit Facility and was subject to variable interest rates. However, in December 2009, we entered into an interest rate swap agreement with an effective date of December 31, 2010 and an initial notional amount of \$300.0 million, which amortizes by \$40.0 million at the end of each quarter subsequent to effective date until it reaches \$100.0 million for the quarter ended June 30, 2012, the expiration date of the interest rate swap agreement. This interest rate swap agreement effectively fixes, at 3.755% (including the current applicable margin), the interest rate for the portion of our variable rate debt outstanding our Senior Secured Credit Facility equal to the outstanding notional amount of the interest rate swap agreement, which was \$140.0 million as of December 31, 2011. In addition, on July 6, 2011, we entered into an interest rate swap agreement with an initial notional amount of \$186.3 million. The effective date of this agreement is June 30, 2012. Once effective, this interest rate swap agreement will effectively fix, at 3.6195% (including the current applicable margin), the interest rate for the portion of our variable rate debt outstanding our Senior Secured Credit Facility equal to the outstanding notional amount of the interest rate swap agreement. The initial notional amount of \$186.3 million amortizes quarterly by (i) \$2.8 million from the effective date through the quarter ended September 30, 2013, (ii) \$5.6 million from September 30, 2013 through the quarter ended September 30, 2014, and (iii) \$8.4 million from September 30, 2014 until June 30, 2015, the expiration date of the agreement.

As of December 31, 2011, the variable rate indebtedness outstanding under our Senior Secured Credit Facility in excess of the outstanding notional amount of the effective interest rate swap agreement described above was an aggregate principal amount of \$202.5 million, and is subject to interest rate risk, as our interest payments will fluctuate as the underlying interest rate changes. If there is a 1% increase in the Eurodollar Rate, the interest rate currently applicable to this variable rate indebtedness, and we do not alter the terms of our current interest rate swap agreements or enter into a new interest rate swap agreement, our debt service obligations on our variable rate indebtedness would increase by a total of \$6.4 million between January 1, 2012 and June 27, 2016, the maturity date of the Senior Secured Credit Facility, which would affect our cash flows and results of operations. If we borrow additional amounts under the Revolving Line of Credit portion of our Senior Secured Credit Facility, our interest rate risk may increase.

Foreign Currency

Currencies to which we have exposure are the Mexican peso, Canadian dollar, Polish zloty, British pound and Euro. Currency restrictions are not expected to have a significant effect on our cash flows, liquidity, or capital resources. Our forward exchange contracts have not been designated and do not qualify as cash flow hedges. Accordingly, realized and unrealized exchange losses or gains are recorded against production expense monthly. As of December 31, 2011, we had commitments to purchase \$10.8 million in Mexican pesos and \$0.9 million in Polish zlotys over the next year.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
VALASSIS COMMUNICATIONS, INC.****Consolidated Balance Sheets****(in thousands of U.S. dollars)**

	December 31,	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 101,971	\$ 245,935
Accounts receivable, net (Note 1)	448,320	459,952
Inventories (Note 1)	41,120	41,987
Prepaid expenses and other	37,655	38,657
Total current assets	629,066	786,531
Property, plant and equipment, net (Note 1)	148,905	175,567
Goodwill (Note 2)	636,471	636,471
Other intangible assets, net (Note 2)	213,613	233,817
Other assets	16,392	13,272
Total assets	\$ 1,644,447	\$ 1,845,658
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion long-term debt (Note 3)	\$ 15,000	\$ 7,058
Accounts payable	334,378	329,602
Progress billings	39,975	53,001
Accrued expenses (Note 4)	98,409	99,612
Total current liabilities	487,762	489,273
Long-term debt (Note 3)	587,560	699,169
Deferred income taxes	67,404	78,764
Other non-current liabilities	52,187	49,568
Total liabilities	1,194,913	1,316,774
Commitments and contingencies (Note 6 and Note 7)		
Stockholders' equity:		
Preferred stock (\$0.01 par value; 25,000,000 shares authorized; no shares issued or outstanding at December 31, 2011 and 2010)		
Common stock (\$0.01 par value; 100,000,000 shares authorized; 65,398,539 and 65,283,749 shares issued at December 31, 2011 and 2010, respectively; 42,347,368 and 50,361,749 shares outstanding at December 31, 2011 and 2010, respectively)	654	653
Additional paid-in capital	123,881	124,988
Retained earnings	1,021,566	908,136
Accumulated other comprehensive income	2,775	3,299
Treasury stock, at cost (23,051,171 and 14,922,000 shares at December 31, 2011 and 2010, respectively)	(699,342)	(508,192)
Total stockholders' equity	449,534	528,884
Total liabilities and stockholders' equity	\$ 1,644,447	\$ 1,845,658

See accompanying notes to consolidated financial statements.

Table of Contents**VALASSIS COMMUNICATIONS, INC.****Consolidated Statements of Income**

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

	Year Ended December 31,		
	2011	2010	2009
Revenues	\$ 2,235,959	\$ 2,333,512	\$ 2,244,248
Costs and expenses:			
Cost of sales	1,670,271	1,724,606	1,693,652
Selling, general and administrative	329,060	371,264	354,933
Amortization expense	12,624	12,624	12,624
Total costs and expenses	2,011,955	2,108,494	2,061,209
Gain from litigation settlement, net (Note 8)		490,085	
Earnings from operations	224,004	715,103	183,039
Other expenses and income:			
Interest expense	35,696	64,904	87,041
Interest income	(372)	(653)	(546)
Loss (gain) on extinguishment of debt (Note 3)	16,318	23,873	(10,028)
Other income, net	(7,382)	(5,676)	(4,371)
Total other expenses, net	44,260	82,448	72,096
Earnings before income taxes	179,744	632,655	110,943
Income tax expense	66,314	247,250	44,175
Net earnings	\$ 113,430	\$ 385,405	\$ 66,768
Net earnings per common share, basic (Note 9)	\$ 2.43	\$ 7.84	\$ 1.39
Net earnings per common share, diluted (Note 9)	\$ 2.33	\$ 7.42	\$ 1.36
Weighted average common shares, basic (Note 9)	46,684	49,140	48,129
Weighted average common shares, diluted (Note 9)	48,777	51,957	49,270

See accompanying notes to consolidated financial statements.

Table of Contents**VALASSIS COMMUNICATIONS, INC.****Consolidated Statements of Comprehensive Income****(in thousands of U.S. dollars)**

	Year Ended December 31,		
	2011	2010	2009
Net earnings	\$ 113,430	\$ 385,405	\$ 66,768
Other comprehensive income, net of tax of \$(4), \$4,528 and \$6,292 for the years ended December 31, 2011, 2010 and 2009, respectively:			
Unrealized changes in fair value of cash flow hedges	(3,116)	(3,276)	2,118
Unrealized changes in fair value of available for sale securities	(117)	117	
Realized losses on cash flow hedges reclassified from AOCI into earnings	3,040		
Amortization of realized losses and unrealized changes in fair value of discontinued cash flow hedges		10,721	10,146
Foreign currency translation adjustment	(331)	6	1,786
Total other comprehensive (loss) income	(524)	7,568	14,050
Comprehensive income	\$ 112,906	\$ 392,973	\$ 80,818

Table of Contents**VALASSIS COMMUNICATIONS, INC.****Consolidated Statements of Stockholders' Equity**

(in thousands of U.S. dollars)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Loss)	Treasury Stock	Total Stockholders Equity
Balances at December 31, 2008	\$ 635	\$ 87,305	\$ 455,963	\$ (18,319)	\$ (520,170)	\$ 5,414
Net earnings			66,768			66,768
Other comprehensive income, net of tax				14,050		14,050
Grant/exercise of stock awards	7	4,513				4,520
Stock-based compensation expense		7,109				7,109
Balances at December 31, 2009	\$ 642	\$ 98,927	\$ 522,731	\$ (4,269)	\$ (520,170)	\$ 97,861
Net earnings			385,405			385,405
Other comprehensive income, net of tax				7,568		7,568
Grant/exercise of stock awards	11	(6,064)			70,203	64,150
Stock-based compensation expense		32,125				32,125
Repurchases of common stock					(58,225)	(58,225)
Balances at December 31, 2010	\$ 653	\$ 124,988	\$ 908,136	\$ 3,299	\$ (508,192)	\$ 528,884
Net earnings			113,430			113,430
Other comprehensive loss, net of tax				(524)		(524)
Grant/exercise of stock awards	1	(14,015)			23,921	9,907
Stock-based compensation expense		12,908				12,908
Repurchases of common stock					(215,071)	(215,071)
Balances at December 31, 2011	\$ 654	\$ 123,881	\$ 1,021,566	\$ 2,775	\$ (699,342)	\$ 449,534

See accompanying notes to consolidated financial statements.

Table of Contents**VALASSIS COMMUNICATIONS, INC.****Consolidated Statements of Cash Flows**

(in thousands of U.S. dollars)

	Year Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net earnings	\$ 113,430	\$ 385,405	\$ 66,768
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	60,708	61,446	67,848
Amortization of debt issuance costs	3,028	2,353	3,281
Provision for losses on accounts receivable	4,024	10,138	5,732
Loss (gain) on debt extinguishment, net	5,748	3,429	(10,028)
Loss on derivatives, net	6,326	18,816	2,513
Loss (gain) on sale of property, plant and equipment	72	(47)	(228)
Stock-based compensation expense	12,908	32,125	7,109
Deferred income taxes	(7,951)	(3,520)	(10,965)
Intangible asset impairment	7,134		
Changes in operating assets and liabilities:			
Accounts receivable, net	7,608	(41,254)	45,181
Inventories	867	(1,515)	7,701
Prepaid expenses and other	(221)	4,297	(5,810)
Other assets	(532)	(1,259)	2,799
Accounts payable	4,776	(8,817)	1,059
Progress billings	(13,026)	12,469	(4,007)
Accrued expenses	(7,194)	(18,262)	7,889
Other non-current liabilities	2,536	7,522	10,571
Total adjustments	86,811	77,921	130,645
Net cash provided by operating activities	200,241	463,326	197,413
Cash flows from investing activities:			
Additions to property, plant and equipment	(21,720)	(26,678)	(19,104)
Additions to intangible assets		(7,582)	
Proceeds from sales of property, plant and equipment	200	99	96
Proceeds from sales of available-for-sale securities	1,494	465	
Net cash used in investing activities	(20,026)	(33,696)	(19,008)
Cash flows from financing activities:			
Borrowings of long-term debt	610,000		20,000
Repayments of long-term debt	(713,667)	(304,845)	(200,134)
Debt issuance costs	(11,695)		(1,335)
Repurchases of common stock	(215,071)	(58,225)	
Proceeds from issuance of common stock	6,814	49,461	4,520
Net cash used in financing activities	(323,619)	(313,609)	(176,949)
Effect of exchange rate changes on cash and cash equivalents	(560)	68	1,834
Net (decrease) increase in cash and cash equivalents	(143,964)	116,089	3,290

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Cash and cash equivalents at beginning of the year	245,935	129,846	126,556
Cash and cash equivalents at end of the year	\$ 101,971	\$ 245,935	\$ 129,846
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	\$ 31,349	\$ 72,394	\$ 79,501
Cash paid during the year for income taxes	\$ 81,539	\$ 237,674	\$ 43,518
Non-cash financing activities:			
Stock issued under stock-based compensation plan	\$ 3,385	\$ 7,634	\$ 68
See accompanying notes to consolidated financial statements.			

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VALASSIS COMMUNICATIONS, INC.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Valassis Communications, Inc. (referred to herein as Valassis, we, and our) and domestic and non-U.S. subsidiaries in which we hold a controlling financial interest. Our share of the earnings or losses of non-controlled affiliates over which we exercise significant influence (generally a 20% to 50% ownership interest) is included in Other income, net in the consolidated statements of income using the equity method of accounting. All intercompany balances and transactions between consolidated entities have been eliminated.

Revenue Recognition

Our revenue recognition policies vary by product and are summarized as follows:

Revenues for newspaper-delivered promotions are recognized in the period the product is distributed in the newspaper. In accordance with industry practice, we generally bill clients in advance of the related distribution date. However, these billings are reflected as a progress billings liability until the distribution date.

Products and services not distributed via newspapers are recognized as revenues when the product is shipped, accepted by the USPS or the service is performed.

Coupon processing fee revenues are recognized on completion of coupon processing, and do not include the face value of the coupon or the retailer handling fee.

Taxes collected from clients are reported on a net basis and, as such, excluded from revenues.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Generally, matters subject to estimation and judgment include amounts related to accounts receivable realization, useful lives of intangible and fixed assets, fair value of reporting units for goodwill impairment testing and income taxes. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Cash Equivalents

All highly-liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

Accounts Receivable

Accounts receivables are stated at amounts estimated by management to be the net realizable value. An allowance for doubtful accounts is recorded when it is probable amounts will not be collected based on specific identification of customer circumstances

Table of Contents**VALASSIS COMMUNICATIONS, INC.****Notes to Consolidated Financial Statements**

or the age of the receivable. The allowance for doubtful accounts was \$6.9 million and \$12.1 million as of December 31, 2011 and 2010, respectively. Accounts receivable are written off when it becomes apparent such amounts will not be collected. Generally, we do not require collateral or other security to support client receivables.

Inventories

Inventories are accounted for at the lower of cost, determined on a first in, first out (FIFO) basis, or market. Inventories included on the consolidated balance sheets consist of:

(in thousands of U.S. dollars)	December 31,	
	2011	2010
Raw materials	\$ 28,075	\$ 27,035
Work in progress	13,045	14,952
Inventories	\$ 41,120	\$ 41,987

Client Contract Incentives

We occasionally provide upfront cash incentives to key clients to secure the value of a long-term contract. The cost of such incentives is capitalized and amortized as a reduction to revenues using the straight-line method over the life of the client contract.

Property, Plant and Equipment

Property, plant, and equipment are stated at cost less accumulated depreciation. Improvements that add significantly to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the estimated life of the related asset or the lease-term using the straight-line method. We review the carrying amounts of our plant, property and equipment when facts and circumstances suggest the cash flows emanating from those assets may be diminished. The following table summarizes the cost and ranges of useful lives of the major classes of property, plant and equipment and the total accumulated depreciation related to the Property, plant and equipment, net included on the consolidated balance sheets:

	Useful Lives (in years)	December 31,	
		2011 (in thousands of U.S. dollars)	2010 (in thousands of U.S. dollars)
Land, at cost	N/A	\$ 7,167	\$ 7,195
Buildings, at cost	10 30	37,511	37,657
Machinery and equipment, at cost	3 20	217,764	225,762
Office furniture and equipment, at cost	3 10	236,994	221,804
Leasehold improvements, at cost	5 10	28,563	28,174
		527,999	520,592
Less accumulated depreciation		(379,094)	(345,025)
Property, plant and equipment, net		\$ 148,905	\$ 175,567

Depreciation expense was \$48.1 million, \$48.8 million and \$55.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.

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VALASSIS COMMUNICATIONS, INC.

Notes to Consolidated Financial Statements

Goodwill and Other Intangible Assets

Our intangible assets consist primarily of mailing lists, customer relationships, trade names and goodwill. An intangible asset with a finite useful life is amortized on a straight-line basis over its expected useful life, which approximates the manner in which the economic benefits of the intangible asset will be consumed. We review the carrying amounts of our finite-lived assets when facts and circumstances suggest the cash flows emanating from those assets may be diminished. An intangible asset with an indefinite useful life is not amortized but is evaluated at least annually as of December 31st for impairment and more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Reaching a determination on useful life requires significant judgments and assumptions regarding the future effects of obsolescence, competition and other economic factors. We have determined that our trade names have indefinite useful lives; therefore, we do not amortize them. The identification of units of accounting and the allocation of intangible assets by unit of accounting during 2011 were consistent with prior periods.

For goodwill, our annual impairment evaluation compares the fair value of each of our reporting units to its respective carrying amount and consists of two steps. First, we determine the fair values of each of our reporting units, as described below, and compare them to the corresponding carrying amounts. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of the goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner equivalent to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit's goodwill.

We estimate the fair values of our reporting units based on projected future debt-free cash flows that are discounted to present value using factors that consider the timing and risk of the future cash flows. We believe this approach is appropriate because it provides a fair value estimate based upon the expected long-term operations and cash flow performance of each reporting unit. We estimate future cash flows for each of our reporting units based on our operating result projections for the respective operating unit. These projected cash flows are discounted to present value using a weighted average cost of capital thought to be indicative of market participants.

Consistent with the prior year, we tested the value assigned to our trade names utilizing an estimated market royalty rate representing the percentage of revenues a market participant would be willing to pay as a royalty for their use.

Income Taxes

Deferred income tax assets and liabilities are computed annually for differences between the consolidated financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Derivatives and Hedging Transactions

We use derivative financial instruments, including forward foreign exchange and interest rate swap contracts, to manage our exposure to fluctuations in foreign exchange rates and interest rates. The use of these financial instruments mitigates exposure to these risks with the intent of reducing the variability of our operating results. We are not a party to leveraged derivatives and do not enter into derivative financial instruments for trading or speculative purposes. All derivatives are recorded at fair value and the changes in fair

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value are immediately included in earnings if the derivatives are not designated and do not qualify as effective hedges. If a derivative is a fair value hedge, then changes in the fair value of the derivative are offset against the changes in the fair value of the underlying hedged item. If a derivative is a cash flow hedge, then changes in the fair value of the derivative are recognized as a component of accumulated other comprehensive income until the underlying hedged item is recognized in earnings.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income included the following:

(in thousands of U.S. dollars)	December 31,	
	2011	2010
Unrealized changes in fair value of cash flow hedges	\$ (2,863)	\$ (2,787)
Unrealized changes in fair value of available for sale securities		117
Foreign currency translation	5,638	5,969
Accumulated other comprehensive income, net of tax of \$1,768 and \$1,764 as of December 31, 2011 and 2010, respectively	\$ 2,775	\$ 3,299

Foreign Currency Translation

The financial statements of foreign subsidiaries have been translated into U.S. dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Income statement amounts have been translated using the average exchange rate for the year. The gains and losses resulting from the changes in exchange rates from year-to-year have been reported as a component of stockholders' equity in accumulated other comprehensive income.

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of temporary cash investments and accounts receivable. We place our cash in short-term high credit quality securities. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of clients comprising our client base and their dispersion across many different industries and geographies. No single client accounted for more than 10% of our consolidated accounts receivable or revenues as of or for the years ended December 31, 2011, 2010 or 2009.

New Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-08, *Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, which provides companies with the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. ASU 2011-08 is effective for fiscal years beginning after December 15, 2011, with early adoption permitted. When adopted, ASU 2011-08 will have no impact on our consolidated financial statements.

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In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, which eliminates the option to present the components of other comprehensive income as a part of the statement of stockholders' equity. Instead, ASU 2011-05 requires all non-owner transactions that affect an entity's equity be presented either in a single continuous statement of comprehensive income or in two separate, but consecutive, statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present the components of other comprehensive income, total other comprehensive income and the total of comprehensive income. In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which defers certain aspects of ASU 2011-05 related to the presentation of reclassification adjustments. We have adopted the provisions of ASU 2011-05 that were not deferred by ASU 2011-12 and retrospectively applied herein the two-statement approach described above.

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements*, which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. The adoption of ASU 2009-13, applied prospectively for revenue arrangements entered into or materially modified beginning on or after January 1, 2011, did not have a material impact on our financial position or results of operations.

2. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes the goodwill by reportable segment for the years ended December 31, 2011 and 2010 (there were no changes in the gross amount, accumulated impairment losses or allocation by reportable segment of goodwill for the years then ended):

(in thousands of U.S. dollars)	Shared Mail	Neighborhood Targeted	Free-standing Inserts	International, Digital Media & Services	Total
Goodwill acquired	\$ 721,384	\$ 5,325	\$ 22,357	\$ 93,405	\$ 842,471
Accumulated impairment losses	(187,200)			(18,800)	(206,000)
Goodwill	\$ 534,184	\$ 5,325	\$ 22,357	\$ 74,605	\$ 636,471

We performed annual impairment tests of goodwill as of December 31, 2011, 2010 and 2009. As of December 31, 2011, 2010 and 2009, the estimated fair values of our reporting units were in excess of the carrying values of the reporting units; therefore, we concluded goodwill was not impaired as of these dates.

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The components of intangible assets were as follows:

	December 31, 2011				December 31, 2010			
(in thousands of U.S. dollars)	Gross Amount	Accumulated Amortization	Net Amount	Weighted Average Remaining Useful Life (in years)	Gross Amount	Accumulated Amortization	Net Amount	Weighted Average Remaining Useful Life (in years)
Finite-lived intangible assets:								
Mailing lists, non compete agreements and other	\$ 40,457	\$ (9,894)	\$ 30,563	15.1	\$ 48,037	\$ (7,871)	\$ 40,166	15.0
Customer relationships	140,000	(44,591)	95,409	9.0	140,000	(33,990)	106,010	10.0
Total	\$ 180,457	\$ (54,485)	\$ 125,972		\$ 188,037	\$ (41,861)	\$ 146,176	
Indefinite-lived intangible assets:								
Valassis name, tradenames, trademarks and other			87,641				87,641	
Other intangible assets, net			\$ 213,613				\$ 233,817	

During the year ended December 31, 2011, the gross amount of finite-lived intangible assets was reduced by \$7.6 million as a result of the impairment of certain acquired patents, which will not be placed into service. This write-off resulted in a pre-tax charge of \$7.1 million, which is included in Cost of sales in the consolidated statement of income for the year ended December 31, 2011.

Amortization expense related to finite-lived intangible assets was \$12.6 million for each of the years ended December 31, 2011, 2010 and 2009. Amortization related to these intangible assets is expected to be \$12.6 million for the years ending December 31, 2012, 2013, 2014, 2015 and 2016, and \$63.0 million thereafter.

3. LONG-TERM DEBT

Long-term debt is summarized as follows:

(in thousands of U.S. dollars)	December 31, 2011	December 31, 2010
Senior Secured Revolving Credit Facility	\$ 50,000	\$
Senior Secured Term Loan A	292,500	
Senior Secured Convertible Notes due 2033, net of discount	60	58
8 1/4% Senior Notes due 2015		242,224
6 5/8% Senior Notes due 2021	260,000	
Senior Secured Term Loan B		347,723
Senior Secured Delayed Draw Term Loan		116,222

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Total debt	602,560	706,227
Current portion long-term debt	15,000	7,058
Long-term debt	\$ 587,560	\$ 699,169

Maturities of long-term debt are \$15.0 million, \$22.5 million, \$37.5 million, \$45.0 million and \$222.5 million for the years ended December 31, 2012, 2013, 2014, 2015 and 2016, respectively, and \$260.1 million thereafter.

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Senior Secured Credit Facility

General

On June 27, 2011, we entered into a new senior secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, and a syndicate of lenders jointly arranged by J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBS Securities Inc. (the Senior Secured Credit Facility). The Senior Secured Credit Facility and related loan documents replaced and terminated our prior credit agreement, dated as of March 2, 2007, as amended (the Prior Senior Secured Credit Facility), by and among Valassis, Bear Stearns Corporate Lending Inc., as Administrative Agent, and a syndicate of lenders jointly arranged by Bear, Stearns & Co. Inc. and Banc of America Securities LLC. In connection with the termination of the Prior Senior Secured Credit Facility, all obligations and rights under the related guarantee, security and collateral agency agreement, dated as of March 2, 2007, as amended (the Prior Security Agreement), by Valassis and certain of its domestic subsidiaries signatory thereto, as grantors, in favor of Bear Stearns Corporate Lending Inc., in its capacity as collateral agent for the benefit of the Secured Parties (as defined in the Prior Security Agreement), were also simultaneously terminated.

The Senior Secured Credit Facility consists of:

a five-year term loan A in an aggregate principal amount equal to \$300.0 million, with principal repayable in quarterly installments at a rate of 5.0% during each of the first two years from issuance, 10% during the third year from issuance, 15% during the fourth year from issuance and 11.25% during the fifth year from issuance, with the remaining 53.75% due at maturity (the Term Loan A);

a five-year revolving credit facility in an aggregate principal amount of \$100 million (the Revolving Line of Credit), including \$15.0 million available in Euros, Pounds Sterling or Canadian Dollars, \$50.0 million available for letters of credit and a \$20.0 million swingline loan subfacility, of which \$50.0 million was drawn at closing and remains outstanding as of December 31, 2011 (exclusive of outstanding letters of credit described below); and

an incremental facility pursuant to which, prior to the maturity of the Senior Secured Credit Facility, we may incur additional indebtedness in an amount up to \$150.0 million under the Revolving Line of Credit or the Term Loan A or a combination thereof, subject to certain conditions, including receipt of additional lending commitments for such additional indebtedness. The terms of the incremental facility will be substantially similar to the terms of the Senior Secured Credit Facility, except with respect to the pricing of the incremental facility, the interest rate for which could be higher than that for the Revolving Line of Credit and the Term Loan A.

We used the initial borrowing under the Revolving Line of Credit, the proceeds from the Term Loan A and existing cash of \$120.0 million to repay the \$462.2 million outstanding under the Term Loan B and Delayed Draw Term Loan portions of our Prior Senior Secured Credit Facility (reflecting all outstanding borrowings thereunder), to pay accrued interest with respect to such loans and to pay the fees and expenses related to the Senior Secured Credit Facility. We recognized a pre-tax loss on extinguishment of debt of \$3.0 million during the year ended December 31, 2011, which represents the write-off of related capitalized debt issuance costs. In addition, as further discussed in Note 11, *Derivative Financial Instruments and Fair Value Measurements*, we recorded in interest expense a pre-tax loss of \$2.6 million related to the discontinuation of hedge accounting on the related interest rate swap. We capitalized related debt issuance costs of \$6.6 million, which will be amortized over the term of the Senior Secured Credit Facility.

All borrowings under our Senior Secured Credit Facility, including, without limitation, amounts drawn under the Revolving Line of Credit, are subject to the satisfaction of customary conditions, including absence of a default and accuracy of representations and warranties. As of December 31, 2011, we had approximately \$40.1 million available under the Revolving Line of Credit portion of

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VALASSIS COMMUNICATIONS, INC.

Notes to Consolidated Financial Statements

our Senior Secured Credit Facility (after giving effect to the reductions in availability pursuant to \$9.9 million in standby letters of credit outstanding as of December 31, 2011).

Interest and Fees

Borrowings under our Senior Secured Credit Facility bear interest, at our option, at either the alternate base rate (defined as the higher of the prime rate announced by the Administrative Agent, the federal funds effective rate plus 0.5% or one-month LIBOR plus 1%) (the "Base Rate") or at the Eurodollar Rate (one-, two-, three- or six-month LIBOR, at our election, as defined in the credit agreement governing the Senior Secured Credit Facility), except for borrowings made in alternate currencies which may not accrue interest based upon the alternate base rate, in each case, plus an applicable interest rate margin. The applicable margins are initially 0.75% per annum for Base Rate loans and 1.75% per annum for Eurodollar Rate loans. The margins applicable to the borrowings under our Senior Secured Credit Facility may be adjusted based on our consolidated leverage ratio, with 1.00% being the maximum Base Rate margin and 2.00% being the maximum Eurodollar Rate. See Note 11, *Derivative Financial Instruments and Fair Value Measurements*, for discussion regarding our various interest rate swap agreements.

Guarantees and Security

Our Senior Secured Credit Facility is guaranteed by certain of our existing and future domestic restricted subsidiaries pursuant to a Guarantee and Collateral Agreement. In addition, our obligations under our Senior Secured Credit Facility and the guarantee obligations of the subsidiary guarantors are secured by first priority liens on substantially all of our and our subsidiary guarantors' present and future assets and by a pledge of all of the equity interests in our domestic subsidiary guarantors and 65% of the capital stock of certain of our existing and future foreign subsidiaries.

The Guarantee and Collateral Agreement also secures our Senior Secured Convertible Notes due 2033 on an equal and ratable basis with the indebtedness under our Senior Secured Credit Facility to the extent required by the indenture governing such notes.

Prepayments

The Senior Secured Credit Facility also contains a requirement that we make mandatory principal prepayments on the Term Loan A and Revolving Line of Credit in certain circumstances, including, without limitation, with 100% of the aggregate net cash proceeds from certain asset sales, casualty events or condemnation recoveries (in each case, to the extent not otherwise used for reinvestment in our business or related business and subject to certain other exceptions). The Senior Secured Credit Facility further provides that, subject to customary notice and minimum amount conditions, we may make voluntary prepayments without payment of premium or penalty.

Covenants

Subject to customary and otherwise agreed upon exceptions, our Senior Secured Credit Facility contains affirmative and negative covenants, including, but not limited to:

the payment of other obligations;

the maintenance of organizational existences, including, but not limited to, maintaining our property and insurance;

compliance with all material contractual obligations and requirements of law;

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limitations on the incurrence of indebtedness;

limitations on creation and existence of liens;

limitations on certain fundamental changes to our corporate structure and nature of our business, including mergers;

limitations on asset sales;

limitations on restricted payments, including certain dividends and stock repurchases and redemptions;

limitations on capital expenditures;

limitations on any investments, provided that certain permitted acquisitions and strategic investments are allowed;

limitations on optional prepayments and modifications of certain debt instruments;

limitations on modifications to organizational documents;

limitations on transactions with affiliates;

limitations on entering into certain swap agreements;

limitations on negative pledge clauses or clauses restricting subsidiary distributions;

limitations on sale-leaseback and other lease transactions; and

limitations on changes to our fiscal year.

Our Senior Secured Credit Facility also requires us to comply with:

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a maximum consolidated leverage ratio, as defined in our Senior Secured Credit Facility (generally, the ratio of our consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization, or EBITDA, for the most recent four quarters), of 3.50:1.00; and

a minimum consolidated interest coverage ratio, as defined in our Senior Secured Credit Facility (generally, the ratio of our consolidated EBITDA to consolidated interest expense for the most recent four quarters), of 3.00:1.00.

The following table shows the required and actual financial ratios under our Senior Secured Credit Facility as of December 31, 2011:

	Required Ratio	Actual Ratio
Maximum consolidated leverage ratio	No greater than 3.50:1.00	1.88:1.00
Minimum consolidated interest coverage ratio	No less than 3.00:1.00	10.18:1.00

In addition, we are required to give notice to the administrative agent and the lenders under our Senior Secured Credit Facility of defaults under the facility documentation and other material events, make any wholly-owned domestic subsidiary (other than an immaterial subsidiary) a subsidiary guarantor and pledge substantially all after-acquired property as collateral to secure our and our subsidiary guarantors' obligations in respect of the facility.

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Events of Default

Our Senior Secured Credit Facility contains customary events of default, including upon a change in control. If such an event of default occurs, the lenders under our Senior Secured Credit Facility would be entitled to take various actions, including in certain circumstances increasing the effective interest rate and accelerating the amounts due under our Senior Secured Credit Facility.

Prior Senior Secured Credit Facility

On January 22, 2009, we entered into an amendment to our Prior Senior Secured Credit Facility, which permitted us to use up to \$125.0 million to repurchase from tendering lenders term loans outstanding under the Prior Senior Secured Credit Facility at prices below par acceptable to such lenders through one or more modified Dutch auctions at any time or times during 2009. During the year ended December 31, 2009, we repurchased, at a discount to par, an aggregate principal amount of \$133.5 million of outstanding term loans under our Prior Senior Secured Credit Facility for an aggregate purchase price of \$123.5 million, including fees. As a result of these repurchases, during the year ended December 31, 2009, we recognized a pre-tax gain of \$10.0 million, which represents the difference between the face amounts (par value) of the term loans repurchased and the actual repurchase prices of the term loans, including fees. As discussed above, on June 27, 2011, we entered into the Senior Secured Credit Facility, which replaced and terminated our Prior Senior Secured Credit Facility.

8 1/4% Senior Notes due 2015

On January 13, 2011, we commenced a cash tender offer and consent solicitation to purchase any and all of our outstanding 8 1/4% Senior Notes due 2015 (the 2015 Notes) and to amend the indenture governing the 2015 Notes, which we refer to as the 2015 Indenture, to eliminate substantially all of the restrictive covenants and certain events of default. We used the net proceeds from the 2021 Notes (described below) to fund the purchase of the 2015 Notes, the related consent payments pursuant to the tender offer and consent solicitation, and the subsequent redemption of the 2015 Notes that were not tendered and remained outstanding after the expiration of the tender offer and consent solicitation. We recognized a pre-tax loss on extinguishment of debt of \$13.3 million during the year ended December 31, 2011, which represents the difference between the aggregate purchase price and the aggregate principal amount of the 2015 Notes purchased and the write-off of related capitalized debt issuance costs.

During the year ended December 31, 2010, we purchased \$297.8 million aggregate principal amount of the 2015 Notes pursuant to a cash tender offer and open market repurchases. We recognized a pre-tax loss on extinguishment of debt of \$23.9 million during the year ended December 31, 2010, which represents the difference between the aggregate purchase price and the aggregate principal amount of the 2015 Notes purchased and the proportionate write-off of related capitalized debt issuance costs.

6 5/8% Senior Notes due 2021

On January 28, 2011, we issued in a private placement \$260.0 million aggregate principal amount of our 6 5/8% Senior Notes due 2021 (the 2021 Notes). The net proceeds were used to fund the purchase of the outstanding 2015 Notes and the related consent payments in a concurrent tender offer and consent solicitation as described above and the redemption of the remaining outstanding 2015 Notes. We capitalized related debt issuance costs of \$5.1 million, which will be amortized over the term of the 2021 Notes.

Interest on the 2021 Notes is payable every six months on February 1 and August 1. The 2021 Notes are fully and unconditionally guaranteed, jointly and severally, by substantially all of our existing and future domestic restricted subsidiaries on a senior unsecured basis.

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In July 2011, in accordance with the terms of the registration rights agreement between us and the initial purchasers of the 2021 Notes, we completed an exchange offer to exchange the original notes issued in the private placement for a like principal amount of exchange notes registered under the Securities Act of 1933, as amended. An aggregate principal amount of \$260.0 million, or 100%, of the original notes were exchanged for exchange notes in the exchange offer. The exchange notes are substantially identical to the original notes, except that the exchange notes are not subject to certain transfer restrictions.

The 2021 Notes were issued under an indenture with Wells Fargo Bank, National Association, as trustee (the "2021 Indenture"). Subject to a number of exceptions, the 2021 Indenture restricts our ability and the ability of our restricted subsidiaries (as defined in the 2021 Indenture) to incur or guarantee additional indebtedness, transfer or sell assets, make certain investments, pay dividends or make distributions or other restricted payments, create certain liens, merge or consolidate, repurchase stock, create or permit restrictions on the ability of our restricted subsidiaries to pay dividends or make other distributions to us and enter into transactions with affiliates.

We may redeem all or a portion of the 2021 Notes at our option at any time prior to February 1, 2016, at a redemption price equal to 100% of the principal amount of 2021 Notes to be redeemed, plus a make-whole premium as described in the 2021 Indenture, plus accrued and unpaid interest to the redemption date, if any. At any time on or after February 1, 2016, we may redeem all or a portion of the 2021 Notes at our option at the following redemption prices (expressed as percentages of the principal amount thereof) if redeemed during the twelve-month period commencing on February 1 of the years set forth below:

Year	Percentage
2016	103.313%
2017	102.208%
2018	101.104%
2019 and thereafter	100.000%

In addition, we must pay accrued and unpaid interest to the redemption date, if any. On or prior to February 1, 2014, we may also redeem at our option up to 35% of the principal amount of the outstanding 2021 Notes with the proceeds of certain equity offerings at the redemption price specified in the 2021 Indenture, plus accrued and unpaid interest to the date of redemption, if any. Upon the occurrence of a change of control, as defined in the 2021 Indenture, we must make a written offer to purchase all of the 2021 Notes for cash at a purchase price equal to 101% of the principal amount of the 2021 Notes, plus accrued and unpaid interest to the date of repurchase, if any.

Senior Secured Convertible Notes due 2033 ("2033 Secured Notes")

As of December 31, 2011, an aggregate principal amount of \$85,000 (or approximately \$60,000 net of discount) of the 2033 Secured Notes remained outstanding pursuant to the 2033 Secured Notes indenture.

Additional Provisions

The indenture governing the 2033 Secured Notes contains a cross-default provision which becomes applicable if we default under any mortgage, indenture or instrument evidencing indebtedness for money borrowed by us and the default results in the acceleration of such indebtedness prior to its express maturity, and the principal amount of any such accelerated indebtedness aggregates in excess of \$25.0 million. The 2021 Indenture contains a cross-default provision which becomes applicable if we (a) fail to pay the stated principal amount of any of our indebtedness at its final maturity date, or (b) default under any of our indebtedness and the default

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results in the acceleration of indebtedness, and, in each case, the principal amount of any such indebtedness, together with the principal amount of any other such indebtedness under which there has been a payment default or the maturity of which has been so accelerated, aggregates \$50.0 million or more. Our credit agreement contains a cross-default provision which becomes applicable if we (a) fail to make any payment under any indebtedness for money borrowed by us (other than the obligations under such credit agreement) in an aggregate outstanding principal amount of at least \$50.0 million or, (b) otherwise default under any such indebtedness, or trigger another event which causes such indebtedness to become due or to be repurchased, prepaid, defeased or redeemed or become subject to an offer to repurchase, prepay, defease or redeem such indebtedness prior to its stated maturity.

Subject to applicable limitations in our Senior Secured Credit Facility and indentures, we may from time to time repurchase our debt in the open market, through tender offers, through exchanges for debt or equity securities, by exercising rights to call, by satisfying put obligations, or in privately negotiated transactions or otherwise.

Covenant Compliance

As of December 31, 2011, we were in compliance with all of our indenture and Senior Secured Credit Facility covenants.

4. ACCRUED EXPENSES

Accrued expenses included on the consolidated balance sheets consisted of:

(in thousands of U.S. dollars)	December 31,	
	2011	2010
Accrued interest	\$ 7,205	\$ 6,710
Accrued compensation and benefits	55,030	57,781
Other accrued expenses	36,174	35,121
Accrued expenses	\$ 98,409	\$ 99,612

5. INCOME TAXES

The components of earnings before income taxes for our domestic and foreign operations were as follows:

(in thousands of U.S. dollars)	Year Ended December 31,		
	2011	2010	2009
United States	\$ 174,357	\$ 626,755	\$ 106,237
Foreign	5,387	5,900	4,706
Earnings before income taxes	\$ 179,744	\$ 632,655	\$ 110,943

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Income taxes have been charged to earnings as follows:

(in thousands of U.S. dollars)	Year Ended December 31,		
	2011	2010	2009
Current:			
Federal	\$ 64,328	\$ 228,683	\$ 43,839
Foreign	1,554	1,825	1,122
State	10,553	35,028	10,175
Total current taxes	76,435	265,536	55,136
Deferred:			
Federal	(6,834)	(19,647)	(7,009)
Foreign	223	1,743	410
State	(3,510)	(382)	(4,362)
Total deferred taxes	(10,121)	(18,286)	(10,961)
Income tax expense	\$ 66,314	\$ 247,250	\$ 44,175

Undistributed earnings of foreign subsidiaries that are deemed to be permanently reinvested amounted to \$30.5 million and \$25.0 million at December 31, 2011 and December, 31 2010, respectively. As such, we have not provided U.S. income taxes on these reinvested earnings.

The actual income tax expense differs from expected amounts computed by applying the U.S. federal income tax rate to earnings before income taxes as follows:

(in thousands of U.S. dollars)	Year Ended December 31,		
	2011	2010	2009
Expected income tax expense at statutory rate	\$ 62,910	\$ 221,429	\$ 38,830
Increase (decrease) in taxes resulting from:			
Domestic production activities	(2,450)	(2,625)	(1,050)
Valuation allowance			27
State and local income taxes, net of federal benefit	4,766	22,275	3,759
Tax credits	(128)	(140)	(109)
Tax exempt interest income		(2)	(81)
Other items, net	1,216	6,313	2,799
Income tax expense	\$ 66,314	\$ 247,250	\$ 44,175

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Significant components of our deferred tax assets and liabilities are as follows:

(in thousands of U.S. dollars)	December 31,	
	2011	2010
Long-term deferred income tax assets (liabilities):		
Intangibles	\$ (80,372)	\$ (85,538)
Depreciation on plant and equipment	(33,037)	(36,826)
Deferred compensation	20,008	17,537
Cancellation of indebtedness income	(3,830)	(3,858)
Loss and tax credit carryforwards	7,316	5,957
Stock compensation	4,552	3,510
Partnership losses	2,603	2,849
Investment impairments	5,202	5,663
Foreign	315	285
Acquisition costs	13,634	13,778
Interest rate swaps	2,083	1,752
Allowance for uncollectible accounts	1,288	1,397
Other reserves	8,958	10,334
Long-term deferred income tax liabilities	(51,280)	(63,160)
Valuation allowance	(16,124)	(15,604)
Net long-term deferred income tax liabilities	\$ (67,404)	\$ (78,764)
Current deferred income tax assets (liabilities):		
Inventory	\$ 622	\$ 894
Accrued expense	5,141	5,501
Allowance for uncollectible accounts	7,972	9,306
Other reserves	(203)	(794)
Prepaid expense	(3,465)	(4,487)
Intangibles	(4,976)	(3,560)
Current deferred income tax assets:	5,091	6,860
Valuation allowance	(1,731)	(2,278)
Net current deferred income tax assets	\$ 3,360	\$ 4,582

Our net current deferred income tax assets of \$3.4 million and \$4.6 million as of December 31, 2011 and 2010, respectively, are recorded in Prepaid expenses and other in the consolidated balance sheets.

Our net deferred tax assets and liabilities are summarized as follows:

(in thousands of U.S. dollars)	December 31,	
	2011	2010
Total deferred tax assets	\$ 76,193	\$ 76,432

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Total deferred tax liabilities	(140,237)	(150,614)
Net deferred income tax liabilities	\$ (64,044)	\$ (74,182)

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For financial statement purposes, the tax benefits of net operating/capital loss and tax credit carryforwards are recognized as deferred tax assets and are subject to appropriate valuation allowances when we determine that the likelihood of recovering the deferred tax asset falls below the more likely than not threshold. We evaluate our net operating loss and credit carryforwards on an ongoing basis. The following table summarizes the expiration periods and corresponding valuation allowances for the deferred tax assets related to net operating/capital loss and tax credit carryforwards:

(in millions of U.S. dollars)	2012	2016	2017	2026	Indefinite	Total
Gross deferred tax asset	\$	0.5	\$	0.8	\$	6.0
Valuation allowance		(0.5)			(4.1)	(4.6)
Net deferred tax asset	\$		\$	0.8	\$	1.9
						\$ 2.7

An additional valuation allowance of \$13.3 million exists for capitalized costs associated with the ADVO acquisition.

We recognize tax benefits only for tax positions that are more-likely-than-not to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold represents a positive assertion by management that a company is entitled to the economic benefit of a tax position. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, the company cannot recognize any benefit for the tax position. In addition, the tax position must continue to meet the more-likely-than-not threshold in each reporting period after initial recognition in order to support continued recognition of a benefit.

A reconciliation of the beginning and ending balances for the total amounts of gross unrecognized tax benefits is as follows:

(in thousands of U.S. dollars)	2011	2010
Gross unrecognized tax benefits January 1,	\$ 12,536	\$ 11,124
Gross increases in tax positions for prior years	404	3,383
Gross decreases in tax positions for prior years	(1,728)	(189)
Gross increases in tax positions for current year	38	367
Gross decreases in tax positions for current year	(15)	
Settlements	(444)	(899)
Lapse of statute of limitations	(1,182)	(1,250)
Gross unrecognized tax benefits December 31,	\$ 9,609	\$ 12,536

A portion of our unrecognized tax benefits would, if recognized, reduce our effective tax rate. The remaining unrecognized tax benefits relate to tax positions for which only the timing of the benefit is uncertain. As of December 31, 2011 and 2010, the amounts of gross unrecognized tax benefits that would reduce our effective income tax rate were \$9.1 million and \$11.2 million, respectively.

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We file tax returns in various federal, state, and local jurisdictions. In many cases, our liabilities for unrecognized tax benefits relate to tax years that remain open for examination by a jurisdiction's taxing authority. The following table summarizes open tax years by major jurisdiction:

Jurisdiction	Open Tax Years
United States	9/2005 3/2/2007, 2008 2011
California	3/2/2007, 2007 2011
Connecticut	2008 2011
Illinois	2008 2011
Kansas	2008 2011
Massachusetts	2008 2011
Michigan	2008 2011
North Carolina	2008 2011
Pennsylvania	2007 2011
Texas	3/2/2007, 2007 2011

As of December 31, 2011, we anticipate events may occur over the next twelve months that could have an effect on the liabilities for unrecognized tax benefits. These events could result in a decrease in our liability for unrecognized tax benefits of up to \$9.1 million. Other events may occur over the next twelve months that could impact our unrecognized tax benefits; however, it is not possible to reasonably estimate the expected change for these events.

Our policy for recording interest and penalties associated with liabilities for unrecognized tax benefits is to record these items as part of income tax expense, which is consistent with prior periods. We recorded \$0.8 million in gross interest for the year ended December 31, 2011. Gross interest of \$2.4 million and penalties of \$0.1 million were accrued as of December 31, 2011, and gross interest of \$2.1 million and penalties of \$0.1 million were accrued as of December 31, 2010.

6. COMMITMENTS

Total operating lease rentals, for various office space and equipment, charged to expense were \$27.4 million, \$27.5 million and \$28.5 million for the years ended December 31, 2011, 2010 and 2009, respectively. Minimum rental payments required under noncancelable operating leases as of December 31, 2011 are as follows:

2012	2013	Year Ended December 31,		2015	2016	Thereafter	Total
		2014					
(in thousands of U.S. dollars)							
\$22,283	\$ 19,386	\$ 16,324		\$ 12,164	\$ 9,386	\$ 30,348	\$ 109,891

Future commitments pursuant to senior executive employment agreements, which include non-compete clauses, and excluding any discretionary bonuses, are as follows:

	Year Ended December 31,						Total
(in thousands of U.S. dollars)	2012	2013	2014	2015	2016	Thereafter	
Base Salary	\$ 1,560	\$ 1,560	\$ 1,560	\$ 515	\$ 515	\$ 1,030	\$ 6,740
Maximum Cash Bonus	530						530

Total	\$ 2,090	\$ 1,560	\$ 1,560	\$ 515	\$ 515	\$ 1,030	\$ 7,270
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VALASSIS COMMUNICATIONS, INC.

Notes to Consolidated Financial Statements

Our obligation to pay the maximum cash bonus is based on Valassis attaining certain earnings and/or sales and cost targets. In addition, we have commitments to certain former and current senior executives under a supplemental executive retirement plan (SERP). The present value of expected payments under the SERP was \$12.4 million and \$10.1 million at December 31, 2011 and 2010, respectively, and benefits are payable over the ten years following the cessation of employment by the executive. In addition, the employment agreement of a former executive provides for supplemental benefits for a period of 10 years similar to those provided under the SERP plan. The present value of expected payments under this employment agreement was \$1.4 million and \$1.5 million at December 31, 2011 and 2010, respectively.

7. CONTINGENCIES

The application and interpretation of applicable state sales tax laws to certain of our products is uncertain. Accordingly, we may be exposed to additional sales tax liability to the extent various state jurisdictions determine that certain of our products are subject to such jurisdictions' sales tax. We have recorded a liability of \$10.0 million as of December 31, 2011, reflecting our best estimate of our potential sales tax liability.

In addition to the above matter, we are 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 effect on our financial position, results of operations or liquidity.

8. GAIN FROM LITIGATION SETTLEMENT

On February 4, 2010, we executed a settlement agreement and release (the Settlement Agreement) with News America Incorporated, a/k/a News America Marketing Group, News America Marketing, FSI, Inc. a/k/a News America Marketing FSI, LLC and News America Marketing In-Store Services, Inc. a/k/a News America Marketing In-Store Services, LLC (collectively, News). The operative complaint alleged violations of the Sherman Act and various state competitive statutes and the commission of torts by News in connection with the marketing and sale of FSI space and in-store promotion and advertising services. Pursuant to the terms of the Settlement Agreement, News paid us \$500.0 million and entered into a 10-year shared mail distribution agreement with our subsidiary, Valassis Direct Mail, Inc., which provides for our sale of certain shared mail services to News on specified terms.

In connection with the settlement, the parties worked with the United States District Court for the Eastern District of Michigan (the Court), under the Honorable Arthur J. Tarnow, on a set of procedures to handle future disputes among the parties with respect to conduct at issue in the litigation. The Court issued the order on this matter on June 15, 2011.

The settlement resolved all outstanding claims between us and News as of February 4, 2010. As a result, the parties dismissed all outstanding litigation between them and released all existing and potential claims against each other that were or could have been asserted in the litigation as of the date of the Settlement Agreement.

During the year ended December 31, 2010, in connection with the successful settlement of these lawsuits, we made \$9.9 million in related payments, including special bonuses to certain of our employees (including our named executive officers in our proxy statement) in an aggregate amount of \$8.1 million. These expenses were netted against the \$500.0 million of proceeds received, and the net proceeds of \$490.1 million were recorded as a separate line item Gain from litigation settlement, net in our consolidated statement of income for the year ended December 31, 2010.

Table of Contents**VALASSIS COMMUNICATIONS, INC.****Notes to Consolidated Financial Statements****9. EARNINGS PER SHARE**

Earnings per common share data were as follows:

(in thousands, except per share data)	Year Ended December 31,		
	2011	2010	2009
Net earnings	\$ 113,430	\$ 385,405	\$ 66,768
Weighted-average common shares outstanding, basic	46,684	49,140	48,129
Shares issued on exercise of dilutive options	5,537	8,178	3,490
Shares purchased with assumed proceeds of options and unearned restricted shares	(3,448)	(5,370)	(2,363)
Shares contingently issuable	4	9	14
Weighted-average common shares outstanding, diluted	48,777	51,957	49,270
Net earnings per common share, diluted	\$ 2.33	\$ 7.42	\$ 1.36
Anti-dilutive options excluded from calculation of weighted-average common shares outstanding, diluted	3,263	1,400	7,100

10. STOCK-BASED COMPENSATION PLANS

The 2008 Omnibus Incentive Compensation Plan authorizes 7.3 million shares to be issued by way of stock options, stock appreciation rights, restricted stock, restricted stock units or other equity-based awards. Stock options must be awarded at exercise prices at least equal to the fair market value of the shares on the date of grant and expire not later than 10 years from the date of grant, with vesting terms ranging from six months to five years from the date of grant. The 2008 Omnibus Incentive Compensation Plan was approved by our shareholders on April 24, 2008 as a successor to the:

2002 Long-Term Incentive Plan, as amended;

Broad-based Incentive Plan, as amended;

2005 Executive Restricted Stock Plan; and

2005 Employee and Director Restricted Stock Award Plan.

Although awards remain outstanding under these predecessor plans, no additional awards may be granted under these plans commencing with the approval of the 2008 Omnibus Incentive Compensation Plan. In addition, substantially all shares available under the ADVOC, Inc. 2006 Incentive Compensation Plan, which we assumed as part of the March 2007 acquisition, were transferred to the 2008 Omnibus Incentive Compensation Plan.

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At December 31, 2011, there were outstanding stock options held by 1,568 participants for the purchase of 8,131,242 shares of our common stock and there were 1,084,260 shares available for grant under the 2008 Omnibus Incentive Compensation Plan.

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A summary of Valassis stock option activity for the year ended December 31, 2011, is as follows:

	Shares	Weighted Average per Share Exercise Price	Remaining Contractual Life (in years)	Aggregate Intrinsic Value (\$ in millions)
Outstanding at beginning of year	9,157,633	\$ 19.96		
Granted	539,322	\$ 23.52		
Exercised	(542,047)	\$ 12.47		
Forfeited/Expired	(1,023,666)	\$ 29.93		
Outstanding at end of year	8,131,242	\$ 19.45	5.23	\$ 33.8
Options exercisable at year end	5,134,247	\$ 20.70	3.83	\$ 17.3
Options expected to vest	2,748,974	\$ 17.42	7.63	\$ 15.0

The intrinsic value of options exercised (the amount by which the market price of the Company's stock on the date