VALASSIS COMMUNICATIONS INC
Form 10-K
March 01, 2011

Table of Contents

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

FORM 10-K

(Mark One)

þ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2010
or

o **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number: 1-10991
VALASSIS COMMUNICATIONS, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**38-2760940**
(State of Incorporation)	(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 þ No o

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 o No þ

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 þ No o

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 o No o

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: o

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):

Large Accelerated Filer þ	Accelerated Filer o	Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

Yes o No þ

As of June 30, 2010, the aggregate market value of the voting and non-voting stock held by non-affiliates* of the registrant was approximately $1.5 billion. As of February 22, 2011, there were 50,569,476 shares of the Registrant s Common Stock outstanding.

Documents Incorporated by Reference

The applicable portions of Valassis Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders to be held on or about May 5, 2011 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.

Valassis Communications, Inc.
Index to Annual Report on Form 10-K
Year Ended December 31, 2010

	Page
Part I	
Item 1. Business	1
Item 1A. Risk Factors	6
Item 1B. Unresolved Staff Comments	11
Item 2. Properties	12
Item 3. Legal Proceedings	12
Item 4. Removed and Reserved	12
Part II	
Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	13
Item 6. Selected Financial Data	14
Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations	15
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	32
Item 8. Financial Statements and Supplementary Data	33
Reports of Independent Registered Public Accounting Firm	66
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	68
Item 9A. Controls and Procedures	68
Item 9B. Other Information	68
Part III	
Item 10. Directors, Executive Officers and Corporate Governance	69
Item 11. Executive Compensation	69
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	69
Item 13. Certain Relationships and Related Transactions, and Director Independence	69
Item 14. Principal Accountant Fees and Services	69
Part IV	
Item 15. Exhibits and Financial Statement Schedules	70

Signatures
EX-10.22
EX-10.30
EX-12.1
EX-21.1
EX-23.1
EX-31.1
EX-31.2
EX-32.1
EX-32.2

Table of Contents

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 media 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 130 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 offers and sale-break announcements. In 2010, we distributed approximately 3.6 billion shared mail packages, including 36.1 billion shared mail pieces.

Table of Contents

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 34 million 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, 2010, distribution costs represented approximately 54% of total Shared Mail costs.

Shared Mail revenues for the year ended December 31, 2010 were $1,307.2 million, or 56.0% of our total revenue. The top 10 clients accounted for approximately 22.7% of Shared Mail s revenues for the year ended December 31, 2010, 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, our well-developed production and national network placement capabilities and our ability to integrate Run of Press (ROP) programs with our other products and services. 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 promotions 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.

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.

Neighborhood Targeted products generated revenues of $479.9 million for the year ended December 31, 2010, or 20.6% of our total revenues. The top 10 clients accounted for approximately 44.6% of Neighborhood Targeted revenues for the year ended December 31, 2010, and one client accounted for 11.2% of Neighborhood Targeted revenues for 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 2010, we delivered our traditional cooperative FSIs, via newspapers and shared mail, to approximately 60.2 million households on 42 publishing dates. We also produce customized FSIs (custom co-ops) featuring multiple brands of a single client.

Table of Contents

The majority of 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 40%, 32% and 28% of total FSI segment costs, respectively, for the year ended December 31, 2010.

Total FSI segment revenues for the year ended December 31, 2010 were $367.6 million, or 15.8% of our total revenues. The top 10 FSI clients accounted for approximately 50.8% of FSI segment revenues for the year ended December 31, 2010, and one client accounted for approximately 22.0% of FSI segment revenues for the same period.

International, Digital Media & Services

NCH NCH is a provider of coupon clearing, 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 2010, approximately 28.0% of NCH revenues were from Europe. In 2010, consumers redeemed 3.3 billion coupons, accounting for a 3.1% increase over the prior year.

Valassis Canada, Inc. Valassis Canada provides promotional products and services in Canada, including FSIs, which reach approximately 6.9 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.

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 is positioned to extend a promotion s reach online and activate print media digitally. 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 2,000 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 $178.8 million for the year ended December 31, 2010, or 7.7% of our total revenues. The top 10 clients accounted for approximately 36.3% of International, Digital Media & Services revenues for the year ended December 31, 2010, and no one client accounted for over 10% of the Segment revenues during the same period.

Table of Contents

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. Although FSI industry units increased by 4.6% in 2010 and our costs have declined, profits have been impacted by substantial pricing pressure over the last several years. We believe our unique ability to blend our national shared mail network with newspaper-delivered distribution will differentiate us in the FSI industry as newspaper circulation continues to decline.

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 that 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 that 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.

Clients

No single client accounted for more than 10% of our consolidated revenues during the years ended December 31, 2010, 2009 or 2008.

Table of Contents

Employees

As of December 31, 2010, we had approximately 6,735 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 2010, we purchased approximately 71% of our paper from a single supplier pursuant to a contract which expires at the end of 2011. 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 2010, 2009 and 2008, 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.

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.

Table of Contents

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 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.

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.

Table of Contents

In addition, 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, 2010, we had $39.0 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;
- 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.

Some of our debt, including borrowings under our senior secured credit facility, is 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, 2010, $463.9 million of our $706.2 million aggregate indebtedness was subject to variable interest rates. In December 2009, we entered into an interest rate swap agreement with an effective date of December 31, 2010, which effectively fixes the interest rate for an initial amount of $300.0 million of this variable rate debt under our senior secured credit facility at an interest rate of 4.255% and expires on June 30, 2012. The initial notional amount of $300.0 million under the interest rate swap agreement amortizes by $40.0 million at the end of each quarter subsequent to the effective date to $100.0 million for the quarter ended June 30, 2012. Our remaining variable rate indebtedness, which was an aggregate principal amount of $163.9 million outstanding under the term loan B and delayed draw portions of our senior secured credit facility as of December 31, 2010 and will increase as a result of the amortization and expiration of the interest rate swap agreement described above, 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 3-month LIBOR, the interest rate currently applicable to this variable rate debt, and we do not alter the terms of our current interest rate swap agreement or enter into a new interest rate swap agreement, our debt service obligations on our variable rate indebtedness would increase by a total of $11.6 million between January 1, 2011 and March 2, 2014, the maturity date of the term loans under the senior secured credit facility, which would affect our cash flows and results of operations. If we borrow additional amounts under the revolving loan portion of our senior secured credit facility, our interest rate risk may increase.

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.

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 and are expected to continue to decline in 2011. 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. This competitor could take a greater market share and cause us to lose business from our clients.

In addition, 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 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 advertising also comes from magazines, radio, broadcast and cable television, shoppers, the Internet, other communications media and other 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. To the extent that our competitors in this business 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.

Our Shared Mail segment depends on the USPS and other third parties for delivery of its products. If such third parties do 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 any 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 2010, we purchased approximately 71% of our paper from a single supplier pursuant to a contract that expires at the end of 2011 and the remainder of our paper purchases was subject to variable market prices. We may attempt 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 mailings 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 mailing frequency or modify the amount, pages and weight, and kind of advertising pieces it purchases from us, especially in light of the prolonged economic downturn. 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 and, in turn, choose other alternative advertising methods. Specifically, significant revenue changes in our Shared Mail segment may have 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 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.

Table of Contents

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.

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 $10.1 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 economic downturn of the past three 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 three 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.

ITEM 2. PROPERTIES

Our corporate headquarters are located in a leased office complex in Livonia, Michigan. In addition, throughout the United States, we have 25 leased sales offices, one leased office building and 26 operations facilities, of which four are owned by us. Internationally, we have three sales offices and eight operations facilities, of which three are owned by us. 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 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

News

On February 4, 2010, we executed a settlement agreement and release (the Settlement Agreement) settling our outstanding lawsuits against 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 are working 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 precise timing and form of the relief rests with the Court.

The settlement resolves all outstanding claims between us and News as of February 4, 2010. As a result, the parties agreed to dismiss all outstanding litigation between them and release 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.

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

ITEM 4. (REMOVED AND RESERVED)

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 275 record holders of Valassis common stock at December 31, 2010.

High and low stock prices per share during the years ended December 31, 2010 and 2009 were:

	2010		2009	
Quarter Ended	**High**	**Low**	**High**	**Low**
March 31,	$ 29.45	$ 18.23	$ 2.04	$ 1.10
June 30,	$ 38.43	$ 27.19	$ 7.10	$ 1.53
September 30,	$ 35.82	$ 27.74	$ 18.46	$ 5.81
December 31,	$ 37.44	$ 30.02	$ 21.01	$ 14.32

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 other alternate uses of cash. Currently, the documents governing our indebtedness restrict the payment of cash dividends.

During the year ended December 31, 2010, we repurchased 1,733,672 shares of our common stock at an aggregate cost of $58.2 million under share repurchase programs, which were suspended in February 2006 and reinstated on May 6, 2010. During the year ended December 31, 2010, share repurchases were limited by our senior secured credit facility to an aggregate amount of $58.4 million. We did not repurchase any shares during the years ended December 31, 2009 and 2008. As of December 31, 2010, we had authorization to repurchase an additional 4.4 million shares of our common stock under the share repurchase program approved by our Board of Directors on August 25, 2005.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31,				
	2010	**2009**	**2008**	**2007**(a)	**2006**
(in millions of U.S. dollars, except per share data and ratios)					
Revenues	$ 2,333.5	$ 2,244.2	$ 2,381.9	$ 2,242.2	$ 1,043.5
Net earnings (loss)	385.4(b)	66.8(c)	(209.7) (d)	52.2	45.5(e)
Total assets	1,845.7	1,744.0	1,853.2	2,190.5	801.4
Long-term debt, less current portion	699.2	1,004.9	1,111.7	1,279.6	259.9
Net earnings (loss) per share, basic	7.84	1.39	(4.37)	1.09	0.95
Net earnings (loss) per share, diluted	7.42	1.36	(4.37)	1.09	0.95
Ratio of earnings to fixed charges (f)	9.54x	2.15x	(g)	1.78x	4.28x

(a) Results reflect the acquisition of ADVO, Inc. (ADVO) on March 2, 2007.

(b) Includes a $301.4 million gain on litigation settlement, net of tax and related payments, associated with the News America litigation settlement proceeds and $14.7 million loss on extinguishment of debt, net of tax, 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 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.

(c) Includes a $6.2 million gain on extinguishment of debt, net of tax, 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, related to the carrying value of the goodwill and intangible assets associated with the Shared Mail and International, Digital Media & Services segments. For further information regarding the impairment charge, 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.

(e) Includes a $24.6 million charge, net of tax, incurred in relation to the ADVO acquisition, $8.8 million of which was related to termination of a swap contract and the premium on a swaption contract both entered into in contemplation of acquisition financing, and $15.8 million of which was related to legal and professional costs incurred in connection with the related litigation, as well as a $1.4 million charge, net of tax, related to the close-down of both the French agency business and the eSettlement business unit of NCH.

(f) 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.

(g) 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 appearing elsewhere in 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.

General

We reported revenues of $2.3 billion for the year ended December 31, 2010. Historically, the Free-standing Inserts (FSI) segment was the largest contributor to our revenue base; however, as a result of the acquisition of ADVO, Inc. (ADVO) in the first quarter of 2007 and our strategy to further diversify our products and services, it currently ranks third behind the Shared Mail and Neighborhood Targeted segments. We continue to blend shared mail distribution with newspaper delivery to further enhance our diversified distribution methods and offer clients delivery of our RedPlum branded product portfolio across an expanded multi-media platform.

Our efforts have been focused on the expansion of our U.S.-based business in the shared mail arena; opportunities to cross-sell our portfolio of products and services to both current and prospective clients; blending of our distribution methods; the shift of FSI delivery through shared mail in particular markets; and advancing targeting capabilities. To further differentiate ourselves in the marketplace, we utilize a proprietary targeting process that targets relevant geographies, identifies consumer media usage and blends the right media to offer our clients the best multi-media channel recommendations.

Results of Operations

Our results of operations for the years ended December 31, 2010, 2009 and 2008 were as follows:

	Year Ended December 31,					
	2010		2009		2008	
(in millions of U.S. dollars)	Actual	% of Revenues	Actual	% of Revenues	Actual	% of Revenues
Revenues:						
Shared Mail	$ 1,307.2	56.0%	$ 1,279.1	57.0%	$ 1,370.8	57.6%
Neighborhood Targeted	479.9	20.6	444.7	19.8	469.2	19.7
FSI	367.6	15.7	361.4	16.1	370.2	15.5
International, Digital Media & Services	178.8	7.7	159.0	7.1	171.7	7.2
Total revenues	**2,333.5**	**100.0**	**2,244.2**	**100.0**	**2,381.9**	**100.0**
Cost of sales	1,724.6	73.9	1,693.7	75.5	1,855.9	77.9
Gross profit	**608.9**	**26.1**	**550.5**	**24.5**	**526.0**	**22.1**
Selling, general and administrative	371.3	15.9	354.9	15.8	385.8	16.2
Amortization expense	12.6	0.5	12.6	0.6	9.2	0.4
Impairment charge					245.7	10.3
Gain from litigation settlement, net	490.1	21.0				
Earnings (loss) from operations	**715.1**	**30.6**	**183.0**	**8.1**	**(114.7)**	**(4.8)**
Other expenses and income:						
Interest expense, net	64.2	2.8	86.5	3.9	96.0	4.0
Loss (gain) on extinguishment of debt	23.9	1.0	(10.0)	(0.4)		
Other (income) expense, net	(5.7)	(0.2)	(4.4)	(0.2)	5.1	0.2
Total other expenses, net	82.4	3.5	72.1	3.2	101.1	4.2
Earnings (loss) before income taxes	**632.7**	**27.1**	**110.9**	**4.9**	**(215.8)**	**(9.0)**
Income tax expense (benefit)	247.3	10.6	44.1	1.9	(6.1)	(0.3)
Net earnings (loss)	**$ 385.4**	**16.5%**	**$ 66.8**	**3.0%**	**$ (209.7)**	**(8.8%)**
Net earnings (loss) per common share, diluted	**$ 7.42**		**$ 1.36**		**$ (4.37)**	

Revenues

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.

We reported revenues of $2.2 billion for the year ended December 31, 2009, compared to revenues of $2.4 billion for the year ended December 31, 2008, a decrease of 5.8%. This decrease was primarily the result of negative general economic conditions and reduced advertising spending, as well as a reduction of $23.7 million in revenues (1.0% of revenues for the year ended December 31, 2008) related to businesses divested at the end of 2008.

Cost of Sales

Cost of sales was $1.7 billion for the year ended December 31, 2010 compared to $1.7 billion for the year ended December 31, 2009 and $1.9 billion for the year ended December 31, 2008. Gross profit as a percentage of revenues for the year ended December 31, 2010 was 26.1%, compared to 24.5% for the year ended December 31, 2009 and 22.1% for the year ended December 31, 2008. The increase in gross profit percentage in 2010 compared to 2009 and 2008 was primarily the result of improvements made in the cost structure of our business.

Table of Contents

Selling, General and Administrative (SG&A) Expenses

SG&A expenses increased for the year ended December 31, 2010 to $371.3 million from $354.9 million for the year ended December 31, 2009. This increase was due primarily to an increase in stock-based compensation expense of $25.0 million for the year ended December 31, 2010 compared to the year ended December 31, 2009, which resulted from the following:

- The accelerated recognition of previously unrecognized stock-based compensation expense related to the appreciation of our stock price, which triggered the accelerated vesting of certain executives stock options and the immediate recognition of related stock-based compensation expense;

- 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 expense in future periods related to grantees who have 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. With respect to future stock option and restricted stock awards, stock-based compensation expense will be recognized over the lesser of the vesting period and the requisite service period. For those grantees who satisfy the specified service and age requirements on the grant date, the related stock-based compensation expense will be recognized on the grant date, and, for those grantees who will satisfy the specified service and age requirements prior to the vesting date, the related stock-based compensation expense will be recognized on a straight-line basis over the period between the grant date and the date the grantee will satisfy the specified service and age requirements; and

- In recent years, 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. It is currently our intention to continue this practice of granting annual awards in December of the preceding year.

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 settled in February 2010.

SG&A expenses decreased for the year ended December 31, 2009 to $354.9 million from $385.8 million for the year ended December 31, 2008, as the result of cost containment efforts and reduction in headcount at the end of 2008.

Impairment Charge

As a result of the decline in the trading value of our common stock during the three months ended December 31, 2008 and negative industry and economic trends that directly affected our business at that time, we performed impairment tests as of December 31, 2008 of our goodwill and intangible assets. We used certain estimates and assumptions in our impairment evaluations, including, but not limited to, projected future cash flows, revenue growth and customer attrition levels. As a result of this testing, we recorded a $245.7 million pre-tax, non-cash impairment charge related to goodwill and other intangible assets in the last quarter of 2008. This impairment charge represented an adjustment of $226.9 million to the carrying value of the goodwill and intangible assets associated with our purchase of ADVO in 2007 and a write-off of $18.8 million of goodwill associated with our purchase and subsequent sale of Prevision, our one-to-one loyalty marketing business purchased in 2000. The impairment charge is included within costs and expenses on the consolidated statement of income for the year ended December 31, 2008. No such charge occurred in the years ended December 31, 2010 or 2009. See Critical Accounting Policies and Estimates Goodwill, Intangible Assets and Other Long-Lived Assets for additional information.

Gain from Litigation Settlement

On February 4, 2010, we executed a settlement agreement and release (the Settlement Agreement) settling our outstanding lawsuits against 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.

During the first quarter of 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 executive officers identified as the named executive officers in our proxy statement filed with the SEC on March 30, 2010) 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 in our consolidated statement of income for the year ended December 31, 2010.

Loss (Gain) on Extinguishment of Debt

On May 12, 2010, we commenced a cash tender offer to purchase up to $270.0 million aggregate principal amount of our 8 1/4% Senior Notes due 2015 (the 2015 Notes) at a purchase price equal to 107% of the principal amount of the 2015 Notes purchased, plus accrued and unpaid interest. On June 11, 2010, we purchased $269.9 million aggregate principal amount of the 2015 Notes validly tendered pursuant to the terms of the tender offer. In addition, during the year ended December 31, 2010, we purchased in the open market an additional $27.9 million aggregate principal amount of the 2015 Notes at a weighted-average purchase price of 105.6% of the principal amount of the 2015 Notes purchased, plus accrued and unpaid interest. 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.

During the year ended December 31, 2009, pursuant to the terms of the First Amendment (as defined below), we repurchased, at a discount to par, an aggregate principal amount of $133.5 million of outstanding term loans under our 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. The period during which such repurchases were permitted pursuant to the First Amendment expired on December 31, 2009.

Interest Expense, Net

Interest expense was $64.2 million for the year ended December 31, 2010, compared to $86.5 million for the year ended December 31, 2009 and $96.0 million for the year ended December 31, 2008. The decrease in interest expense in 2010 as compared to 2009 and 2008 was due to lower debt balances as a result of our purchases of the 2015 Notes during the year ended December 31, 2010 pursuant to the terms of the tender offer described above and open market repurchases and our voluntary repurchases of term loans under our senior secured credit facility during the year ended December 31, 2009 pursuant to the First Amendment.

Income Tax Expense (Benefit)

Income tax expense represented 39.1% and 39.8% of earnings before income taxes for the years ended December 31, 2010 and 2009, respectively. For the year ended December 31, 2008, we recorded a tax benefit of 2.9% of our pre-tax loss, as a result of the effect of the $245.7 million impairment charge taken in the fourth quarter of 2008, which was not deductible for tax purposes.

Net Earnings (Loss)
Net earnings were $385.4 million and $66.8 million for the years ended December 31, 2010 and 2009, respectively, and a net loss of $209.7 million for the year ended December 31, 2008. Diluted earnings per common share were $7.42 and $1.36 for the years ended December 31, 2010 and 2009, respectively, and was a diluted loss per common share of $4.37 for the year ended December 31, 2008.

Non-GAAP Financial Measures
Net earnings (loss) and earnings (loss) per diluted common share for the years ended December 31, 2010, 2009 and 2008 were impacted by certain items, including an impairment charge, gain from litigation settlement and extinguishment of debt. Adjusted net earnings, excluding these items, were $98.7 million, $60.6 million and $13.7 million for the years ended December 31, 2010, 2009 and 2008, respectively, or $1.90, $1.23 and $0.29, respectively, per diluted common share. These year-over-year increases were due to volume growth and our improved cost structure as the result of our business optimization and cost containment efforts. The following table reconciles net earnings (loss) and earnings (loss) per diluted common share for the years ended December 31, 2010, 2009 and 2008 to adjusted net earnings and adjusted net earnings per diluted common share, which exclude the items described above:

	Year Ended December 31,					
	2010		2009		2008	
	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 (loss)	$ 385.4	$ 7.42	$ 66.8	$ 1.36	$ (209.7)	$ (4.37)
Excluding:						
Impairment charge, net of tax					223.4	4.66
Gain from litigation settlement, net of tax	(301.4)	(5.80)				
Loss (gain) on extinguishment of debt, net of tax	14.7	0.28	(6.2)	(0.13)		
Adjusted net earnings	$ 98.7	$ 1.90	$ 60.6	$ 1.23	$ 13.7	$ 0.29

We define adjusted net earnings and adjusted net earnings per diluted common share as net earnings (loss) excluding the items indicated in the table above. We present adjusted net earnings and adjusted net earnings per diluted common share because we believe that 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 diluted common share 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 diluted common share differently and as the number of differences in the way two different companies calculate these measures increases, the degree of their

usefulness as comparative measures correspondingly decreases.

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, 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.

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 (loss) from operations, see 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.

Shared Mail

Shared Mail revenues for the year ended December 31, 2010 were $1,307.2 million increasing $28.1 million or 2.2% over prior year revenues of $1,279.1 million. The increase was due to volume gains in inserts and was offset by lower priced and lighter weight inserts.

Strong volume gains in inserts were demonstrated in the Shared Mail piece growth which increased 9.4% to 36.1 billion pieces for 2010 from 2009. We assembled 3.6 billion Shared Mail packages in 2010, decreasing 4.8% from 2009 Shared Mail packages of 3.8 billion as a result of the reduction of underperforming packages in certain markets. The reduction in Shared Mail packages along with the increase in Shared Mail pieces drove the 15.8% increase in average pieces per package for 2010. Average pieces per package were 9.7 pieces in 2010 versus 8.4 pieces in 2009.

During the year ended December 31, 2010, Shared Mail s gross margin as a percentage of revenues improved sequentially each quarter and we completed the fiscal year with a gross margin percentage increase of 2.7 percentage points to 28.5% compared to 25.8% for the year ended December 31, 2009. Our business optimization efforts from distribution savings from newspaper alliances and fewer packages contributed to the gross margin improvement. The flow-through from the volume increases as evidenced by the increase in average pieces per package also contributed to the gross margin improvements by reducing unused postage. Unused postage as a percentage of base postage decreased 3.3 percentage points to 16.6% for 2010 compared to 19.9% in 2009.

For the year ended December 31, 2010, Shared Mail segment profit was $156.8 million, increasing $46.6 million as compared to the year ended December 31, 2009. This 42.3% increase resulted from revenue growth from insert volume, newspaper alliances and package optimization efforts. Shared Mail segment profit as a percentage of revenue increased 3.4 percentage points to 12.0% for the year ended December 31, 2010 from 8.6% for the year ended December 31, 2009.

The Shared Mail segment reported revenues of $1,279.1 million for the year ended December 31, 2009 compared to $1,370.8 million for the year ended December 31, 2008, representing a 6.7% decrease year over year. The revenue decrease resulted from fewer packages due to the reduction of underperforming packages and client shifts to lower priced and lighter weight inserts. The latter reflected the challenging economic environment during 2009 which negatively affected our clients advertising budgets. The reduced client advertising spending was apparent as five out of our top 10 advertising categories experienced year-over-year revenue declines, most notably, in the mass

merchandising category.

Shared Mail pieces were 33.0 billion in 2009 decreasing 0.9% from 2008 and Shared Mail packages delivered were 3.8 billion in 2009 decreasing 7.3% from 2008. Average pieces per package were 8.4 pieces in 2009 increasing 7.1% from 2008. Our business optimization efforts and the reduction of underperforming packages in certain markets drove the decrease in Shared Mail packages and the increase in average pieces per package.

Shared Mail s gross margin as a percentage of revenues was 25.8% for the year ended December 31, 2009 increasing 1.4 percentage points from for the year ended December 31, 2008. This increase in gross margin as a percentage of revenues was due to the distribution savings from fewer packages and from recently formed newspaper alliances which became operational during 2009, as well as lower print and paper costs. Also contributing to the improvement in gross margin as a percentage of revenues was the increase in average pieces per package and resultant efficiencies in unused postage. Unused postage as a percentage of base postage was 19.9% for 2009 decreasing 1.4 percentage points from the prior year.

For the year ended December 31, 2009, Shared Mail segment profit was $110.2 million increasing $20.4 million, or 22.7%, from $89.8 million reported of for the year ended December 31, 2008. Shared Mail segment profit as a percentage of revenues was 8.6% for the year ended December 31, 2009, increasing 2.0 percentage points from the year ended December 31, 2008. This positive growth was largely due to year-over-year gross margin improvements and reductions in SG&A spending due to cost controls.

Neighborhood Targeted

Neighborhood Targeted segment revenues increased 7.9% for the year ended December 31, 2010 to $479.9 million from $444.7 million for the year ended December 31, 2009 as we continued our strategy of building market share in newspaper insert distribution with the intention of shifting a portion of the distribution to shared mail. Segment profit declined to $20.6 million for the year ended December 31, 2010 from $36.3 million for the year ended December 31, 2009, due primarily to pricing declines, changes in product mix, an increase in SG&A allocation and a significant client bankruptcy.

Neighborhood Targeted segment revenues decreased 5.2% for the year ended December 31, 2009 to $444.7 million from $469.2 million for the year ended December 31, 2008. Newspaper inserts revenues were up significantly as a result of our cross-selling efforts. However, this increase was more than offset by lower Run-of-Press (ROP) revenues due to reduced client advertising spending within the wireless and financial verticals. Despite the $24.5 million year-over-year decrease in revenues, as the result of our business optimization and cost containment efforts, segment profit for the year ended December 31, 2009 only declined by $2.5 million to $36.3 million from $38.8 million for the year ended December 31, 2008.

FSI

FSI segment revenues increased 1.7% to $367.6 million for the year ended December 31, 2010 from $361.4 million for the year ended December 31, 2009. Industry pages were up 4.6% for the year; however, our pricing declined slightly. FSI segment profit increased to $24.9 million for the year ended December 31, 2010 compared to $11.5 million for the year ended December 31, 2009, primarily as a result of lower costs and efficiencies gained through increased volume resulting from industry growth, partially offset by lower pricing.

FSI segment revenues decreased 2.4% to $361.4 million for the year ended December 31, 2009 from $370.2 million for the year ended December 31, 2008. The decrease in revenues was primarily the result of a decline in FSI pricing, and a small decline in market share. Cooperative FSI industry pages increased 4% for the year ended December 31, 2009 compared to the year ended December 31, 2008. FSI unit costs were lower for the year ended December 31, 2009 than for the year ended December 31, 2008 due primarily to a decrease in the cost of paper in 2009. FSI segment profit increased to $11.5 million for the year ended December 31, 2009 compared to $1.8 million for the year ended December 31, 2008, primarily as a result of lower costs and efficiencies gained through increased volume resulting from industry growth, partially offset by lower pricing.

International, Digital Media & Services

International, Digital Media & Services segment revenues increased 12.5% to $178.8 million for the year ended December 31, 2010 from $159.0 million for the year ended December 31, 2009. International, Digital Media & Services segment profit decreased to $22.7 million for

the year ended December 31, 2010 from $25.0 million for the year ended December 31, 2009. 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.

International, Digital Media & Services segment revenues decreased 7.4% to $159.0 million for the year ended December 31, 2009 from $171.7 million for the year ended December 31, 2008. This decline is due primarily to our sale of the French and one-to-one direct mail services businesses and the discontinuance of our media business in other European countries during 2008 which accounted for $23.7 million of revenues in 2008. Segment profit for the year ended December 31, 2009 increased to $25.0 million from $0.6 million for the year ended December 31, 2008, due primarily to increases in U.S. coupon-clearing volume, as well as the sale or discontinuance of less profitable businesses in 2008.

Financial Condition, Liquidity and Sources of Capital

We consider such factors as current assets, current liabilities, revenues, operating income and cash flows from operating activities, investing activities and financing activities when assessing liquidity. Our liquidity requirements arise mainly from our working capital needs, primarily accounts payable, inventory and debt service requirements. Our senior secured credit facility and operating cash flows are our primary source of liquidity and are expected to be used for, among other things, interest and principal payments on debt obligations and capital expenditures necessary to support growth and productivity improvement.

Sources and Uses of Cash

Cash and cash equivalents totaled $245.9 million at December 31, 2010, increasing $116.1 million from December 31, 2009. This net increase resulted from net cash provided by operating activities of $463.3 million, offset by net cash used in investing activities of $33.7 million and by net cash used in financing activities of $313.6 million. Cash flows from operating activities 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 liquidity needs, including interest and required payments of indebtedness.

In addition, in 2011, we currently intend to use a portion of our cash and cash equivalents to fund repurchases of common stock under our stock repurchase program approved by our Board of Directors on August 25, 2005, suspended in February 2006 and reinstated in May 2010. Our common stock repurchases in 2011 are limited by the covenants in our senior secured credit facility to an aggregate amount of $192.7 million; we currently intend to repurchase a majority of this amount in 2011. However, the stock repurchase program does not obligate us to acquire any particular amount of shares of common stock, and may be modified or suspended at any time at our discretion.

Operating Activities

Net cash provided by operating activities for the year ended December 31, 2010 was $463.3 million due primarily to the $500.0 million cash received (approximately $301.4 million, net of taxes and related payments) as a result of the litigation settlement with News America. In addition to the litigation settlement and other cash received related to net income, the following changes in assets and liabilities affected cash from operating activities for the year ended December 31, 2010:

- an increase in accounts receivable of $41.3 million, which was offset in part by a $12.5 million increase in progress billings; and

- a decrease of $18.3 million in accrued expenses.

Investing Activities

Net cash used in investing activities of $33.7 million for the year ended December 31, 2010 was primarily due to capital expenditures of $26.7 million and additions of intangible assets of $7.6 million, in both cases, largely representing technology enhancements.

Financing Activities

Net cash used in financing activities during the year ended December 31, 2010 was $313.6 million. The following items impacted net cash used in financing activities for the year ended December 31, 2010:

- principal payments of long-term debt of $304.8 million, which includes $297.8 million related to the tender offer completed in June and open market repurchases of the 2015 Notes discussed above;

- repurchases of 1,733,672 shares of our common stock at an aggregate cost of $58.2 million under the stock repurchase programs reinstated in May 2010; and

- $49.5 million of net proceeds received from stock option exercises.

Current and Long-term Debt

As of December 31, 2010, we had outstanding $706.2 million in aggregate indebtedness, which consisted of $0.1 million of the 2033 Secured Notes, $242.2 million of the unsecured 2015 Notes and $347.7 million and $116.2 million under the term loan B and delayed draw term loan portions, respectively, of our senior secured credit facility, all as defined below. As of December 31, 2010, we had total outstanding letters of credit of approximately $11.0 million.

Our Senior Secured Credit Facility

General On March 2, 2007, in connection with our acquisition of ADVO, we entered into a senior secured credit facility with 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.

Our senior secured credit facility originally consisted of the following:

- a five-year revolving line of credit in an aggregate principal amount of $120.0 million, including $35.0 million available in euros, British Pounds Sterling, Mexican Pesos or Canadian Dollars, $40.0 million available for letters of credit and a $20.0 million swingline loan subfacility (the revolving line of credit);

- a seven-year term loan B in an aggregate principal amount equal to $590.0 million, with principal repayable in quarterly installments at a rate of 1.0% per year during the first six years of the term loan B, with the remaining balance thereafter to be paid on the seventh anniversary of the closing date of the term loan B (the term loan B);

- a seven-year amortizing delayed draw term loan in an aggregate principal amount equal to $160.0 million, with quarterly principal repayment amounts equal to 0.25% of the remaining principal balance outstanding at the end of each quarter during the first six years of the delayed draw term loan, with the remaining balance thereafter to be repaid in full on the maturity date of the term loan B (the delayed draw term loan); and

- an incremental facility pursuant to which, prior to the maturity of the senior secured credit facility, we may incur additional indebtedness under our senior secured credit facility in an additional amount up to $150.0 million under either the revolving line of credit or the term loan B or a combination thereof (the incremental facility). The obligations under the incremental facility will constitute secured obligations under our senior secured credit facility.

On January 22, 2009, we entered into the first amendment to our senior secured credit facility (the First Amendment). As a result of the First Amendment, we were permitted to use up to $125.0 million to repurchase from tendering lenders term loans outstanding under the 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. In connection with the First Amendment, we agreed to voluntarily permanently reduce the aggregate revolving credit commitments under the senior secured credit facility from $120.0 million to $100.0 million in exchange for the ability to keep $20.0 million of revolving credit loans outstanding during any modified Dutch auction. The First Amendment also made certain technical and conforming changes to the terms of our senior secured credit facility. 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 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. The period during which such repurchases were permitted pursuant to the First Amendment expired on December 31, 2009.

On April 15, 2010, we entered into the second amendment to our senior secured credit facility (the Second Amendment). The Second Amendment, among other things:

- permits us to use up to $325 million to repurchase our outstanding 2015 Notes, as defined below, through April 15, 2011 (for information regarding the repurchase of our 2015 Notes, refer to the section below entitled 8 1/4% Senior Notes due 2015);
- provides us flexibility to extend the maturity of the revolving line of credit portion of the senior secured credit facility beyond the current expiration date of March 2, 2012;
- allows us additional features with respect to any future convertible or exchangeable debt securities;
- reduced the aggregate revolving credit commitments under the senior secured credit facility from $100 million to $50 million; and
- increased by 50 basis points the interest rate margins applicable to borrowings under 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, 2010, we had $39.0 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 the First and Second Amendments and outstanding letters of credit).

Interest and Fees Borrowings under our senior secured credit facility bear interest, at our option, at either the base rate (defined as the higher of the prime rate announced by the commercial bank selected by the administrative agent to the facility or the federal funds effective rate, plus 0.5%), or at a Eurodollar rate (as defined in the credit agreement), in each case, plus an applicable interest rate margin. For each of the four quarters in the year ended December 31, 2010 and the quarters ended March 31, 2009 and December 31, 2009, we elected three-month LIBOR as the applicable rate on borrowings under our senior secured credit facility. For the quarters ended June 30, 2009 and September 30, 2009, we elected one-month LIBOR as the applicable rate on borrowings under our senior secured credit facility. Pursuant to the Second Amendment, the interest rate margins applicable to the borrowings under our senior secured credit facility increased by 50 basis points. See Note 11, *Derivative Financial Instruments* 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 substantially all of our existing and future domestic restricted subsidiaries pursuant to a Guarantee, Security and Collateral Agency Agreement, as amended. 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 subsidiary guarantors and 65% of the capital stock of our existing and future restricted foreign subsidiaries.

Prepayments Subject to customary notice and minimum amount conditions, we are permitted to make voluntary prepayments without payment of premium or penalty. With certain exceptions, we are required to make mandatory prepayments on the term loans in certain circumstances, including, without limitation, with 100% of the aggregate net cash proceeds from any debt offering, asset sale or insurance and/or condemnation recovery (to the extent not otherwise used for reinvestment in our business or a related business) and up to 50% (with the exact percentage to be determined based upon our consolidated secured leverage ratio as defined in our credit agreement) of our excess cash flow (as defined in the credit agreement). Such mandatory prepayments will first be applied ratably to the principal installments of the term loans and second, to the prepayment of any outstanding revolving or swing-line loans, without an automatic reduction of the amount of the revolving line of credit.

Table of Contents

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;
- 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 material agreements;
- 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 senior secured leverage ratio, as defined in our senior secured credit facility (generally, the ratio of our consolidated senior secured indebtedness 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 for such period to consolidated interest expense for such period), of 2.00:1.00. For purposes of calculating the minimum consolidated interest coverage ratio, the First Amendment permits us to exclude from the definition of consolidated interest expense in our senior secured credit facility swap termination and cancellation costs incurred in connection with any purchase, repurchase, payments or repayment of any loans under our senior secured credit facility, including pursuant to a modified Dutch auction. The table below shows the required and actual financial ratios under our senior secured credit facility as of December 31, 2010.

	Required Ratio	Actual Ratio
Maximum senior secured leverage ratio	No greater than 3.50:1.00	0.59:1.00
Minimum consolidated interest coverage ratio	No less than 2.00:1.00	12.44:1.00

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 new wholly-owned restricted 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.

Events of Default Our senior secured credit facility contains customary events of default, including upon a change of 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.

8 1/4% Senior Notes due 2015

On March 2, 2007, we issued in a private placement $540.0 million aggregate principal amount of the 2015 Notes. On May 12, 2010, we commenced a cash tender offer to purchase up to $270 million aggregate principal amount of the 2015 Notes at a purchase price equal to 107% of the principal amount of the 2015 Notes purchased, plus accrued and unpaid interest. On June 11, 2010, we purchased $269.9 million aggregate principal amount of the 2015 Notes validly tendered pursuant to the terms of such tender offer. In addition, during the year ended December 31, 2010, we purchased in the open market an additional $27.9 million aggregate principal amount of the 2015 Notes at a weighted-average purchase price of 105.6% of the principal amount of the 2015 Notes purchased, plus accrued and unpaid interest. 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.

Table of Contents

On January 13, 2011, we commenced a cash tender offer and consent solicitation to purchase any and all of the remaining outstanding 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 a portion of the net proceeds from the 2021 Notes (described below) to fund the purchase of the 2015 Notes and the related consent payments pursuant to the tender offer and consent solicitation. We purchased approximately $206.3 million aggregate principal amount of the 2015 Notes validly tendered pursuant to the terms of the tender offer and consent solicitation at a weighted average price of $1,044.10 per $1,000.00 principal amount plus accrued and unpaid interest. We also received consents from holders of the required majority of the principal amount of the 2015 Notes then outstanding to the proposed amendments to the 2015 indenture and, together with our subsidiary guarantors and the trustee under the 2015 indenture, entered into a supplemental indenture to the 2015 indenture effecting the proposed amendments. Additionally, on January 28, 2011, we issued a notice to redeem the remaining outstanding $35.9 million aggregate principal amount of our 2015 Notes on March 1, 2011 at the price of $1,041.25 per $1,000.00 principal amount plus accrued and unpaid interest. We will recognize a pre-tax loss on extinguishment of debt of approximately $13.4 million during the first quarter of 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.

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). A portion of 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 balance of the net proceeds will be used to fund the redemption of the remaining outstanding 2015 Notes. Debt issuance costs of approximately $4.8 million will be capitalized in the first quarter of 2011 and 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, commencing August 1, 2011. 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.

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 Notes 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 prices 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.

In connection with the offering of the 2021 Notes, we and our subsidiary guarantors entered into a registration rights agreement, dated as of January 28, 2011, which we refer to as the Registration Rights Agreement. Pursuant to the Registration Rights Agreement, we and our subsidiary guarantors must: (a) file an exchange offer registration statement within 180 days after the issue date of the 2021 Notes, enabling holders of the 2021 Notes to exchange the privately placed notes and related subsidiary guarantees for publicly registered exchange notes and related subsidiary guarantees with substantially identical terms; (b) use commercially reasonable efforts to cause the exchange offer registration statement to become effective under the Securities Act of 1933, as amended, within 240 days after the issue date of the 2021 Notes; and (c) use commercially reasonable efforts to consummate the exchange offer within 30 business days after the effective date of the exchange offer registration statement. We and our subsidiary guarantors have also agreed to file under certain circumstances a shelf registration statement to cover resales of the 2021 Notes. If we do not comply with our obligations under the Registration Rights Agreement, under certain circumstances, we and our subsidiary guarantors will be required to pay liquidated damages in the form of additional interest to holders of the 2021 Notes.

Senior Secured Convertible Notes due 2033 (2033 Secured Notes   )

In May 2003, we issued $239,794,000 aggregate principal amount of the 2033 Secured Notes in a private placement transaction at an issue price of $667.24 per note, resulting in gross proceeds to us of $160.0 million. During the second quarter of 2008, we conducted a cash tender offer for the 2033 Secured Notes that was intended to satisfy the put rights of the holders of such notes that were exercisable on May 22, 2008 under the indenture governing such notes. Pursuant to the tender offer, we repurchased an aggregate principal amount of $239.7 million (or $159.9 million net of discount) for an aggregate of $159.9 million. We used the delayed draw term loan portion of our senior secured credit facility to finance the tender offer. As of December 31, 2010, an aggregate principal amount of $85,000 (or approximately $58,000 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 indenture governing the 2021 Notes 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) and such default continues beyond the grace period provided in the instrument or other agreement under which such indebtedness was created or, (b) otherwise default under any such indebtedness, the effect of which default is to cause such indebtedness to be accelerated or to become subject to a mandatory offer to purchase and, in either instance, such default(s) are continuing with respect to indebtedness in an aggregate outstanding principal amount in excess of $25.0 million.

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, exchanges for debt or equity securities, by exercising rights to call, satisfying put obligations, or in privately negotiated transactions or otherwise.

Other Indebtedness

We have entered into an interest rate swap agreement. For further detail regarding this agreement, see Note 11, *Derivative Financial Instruments*, to our Consolidated Financial Statements included in **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**.

Covenant Compliance

As of December 31, 2010, we are 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, 2010[(1)] were as follows:

		Payments due by Period			
(in millions of U.S. dollars)	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Debt	$ 706.2	$ 7.1	$ 14.0	$ 685.0	$ 0.1
Interest on debt	132.4	36.1	86.3	10.0	
Operating leases	124.1	23.2	39.8	25.9	35.2
Unrecognized tax benefits[(2)]	2.4	0.5	1.9		
	$ 965.1	$ 66.9	$ 142.0	$ 720.9	$ 35.3

(1) The table above does not give effect to the refinancing of our 2015 Notes and the issuance of 2021 Notes, which we completed during the first quarter of 2011.

(2) Valassis has an additional $12.3 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, 2010, 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 $26.7 million for the year ended December 31, 2010, 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

Recently Adopted

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, Improving Disclosures about Fair Value Measurements. ASU No. 2010-06 require companies to: (1) disclose separately the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy, (2) disclose activity in Level 3 fair value measurements including transfers into and out of Level 3 and the reasons for such transfers, and (3) present separately in its reconciliation of recurring Level 3 measurements information about purchases, sales, issuances and settlements on a gross basis. The adoption of these new disclosure requirements is reflected in Note 13, *Fair Value of Financial Instruments*, to our consolidated financial statements included in **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA** of this Annual Report on Form 10-K.

In February 2010, the FASB issued ASU No. 2010-09, Amendments to Certain Recognition and Disclosure Requirements to eliminate the requirement for public companies to disclose the date through which subsequent events have been evaluated. We will continue to evaluate subsequent events through the date of the issuance of the financial statements; however, consistent with this guidance, the date will no longer be disclosed.

28

Yet-to-be Adopted

In October 2009, the FASB issued ASU No. 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. ASU No. 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We are currently evaluating the impact, if any, of the adoption of ASU No. 2009-13 on our financial statements and will adopt ASU No. 2009-13 in the first quarter of 2011.

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 newspaper. 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 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. Revenues from software products are recognized per installation, and revenues from services are recognized on a percent-complete method.

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 2010 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 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, 2010:

	(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
Total 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 substantially exceeded the carrying values for all reporting units and no impairment charge was warranted as of December 31, 2010. 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, 2010, 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 (loss) until the underlying hedged item is recognized in earnings.

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 revenues during the years ended December 31, 2010, 2009 and 2008. 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.

Table of Contents

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.

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

Our borrowings under our senior secured credit facility are subject to a variable rate of interest calculated on either a prime rate or a Eurodollar rate. In December 2009, we entered into an interest rate swap agreement with an effective date of December 31, 2010, which effectively fixes the interest rate for an initial amount of $300.0 million of this variable rate debt under our senior secured credit facility at an interest rate of 4.255% and expires on June 30, 2012. As of December 31, 2010, the fair value of this derivative was a liability of $4.6 million. The initial notional amount of $300.0 million under the interest rate swap agreement amortizes by $40.0 million at the end of each quarter subsequent to the effective date to $100.0 million for the quarter ended June 30, 2012. Our remaining variable rate indebtedness, which was an aggregate principal amount of $163.9 million outstanding under the term loan B and delayed draw portions of our senior secured credit facility as of December 31, 2010 and will increase as a result of the amortization and expiration of the interest rate swap agreement described above, 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 3-month LIBOR, the interest rate currently applicable to this variable rate debt, and we do not alter the terms of our current interest rate swap agreement or enter into a new interest rate swap agreement, our debt service obligations on our variable rate indebtedness would increase by a total of $11.6 million between January 1, 2011 and March 2, 2014, the maturity date of the term loans under the senior secured credit facility.

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. Certain of our Mexican peso forward exchange contracts were originally designated as cash flow hedges upon inception and, accordingly, the effective portion of any fair value change was recorded as a component of other comprehensive loss and any ineffective portion was reflected in the statement of income. Actual exchange losses or gains are recorded against production expense when the contracts are executed. As of December 31, 2010, we had commitments to purchase $10.8 million in Mexican pesos and $0.6 million in Polish zlotys over the next twelve months.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

	December 31,	
	2010	**2009**
Assets		
Current assets:		
Cash and cash equivalents	$ 245,935	$ 129,846
Accounts receivable, net	459,952	