Good morning, ladies and gentlemen, and welcome to the Valassis Communications Second Quarter 2004 Earnings conference call. At this time all participants are in a listen-only mode. Following today's presentation instructions will be given for the question and answer session. If anyone needs assistance at any time during the conference, please press the star followed by the zero. As a reminder, this conference is being recorded on Thursday, July 22, 2004. Please refer to the Safe Harbor language on the earnings document released this morning. This call will be governed by the language stated thereon.

I would now like to turn the conference over to Mr. Alan Schultz, Chairman, President and Chief Executive Officer of Valassis Communications. Please go ahead, sir.

Good morning. I'm here with Bob Recchia, our Chief Financial Officer, and Sherry Lauderbach, our Director of Investor Relations.

Today's agenda will include the following: a review of our record quarterly revenue, a discussion of business segments or specific products. I'll elaborate on the opportunity to improve co-op FSI industry pricing mentioned in the press release. I'd like to share some highlights from our continuously improving balance sheet and then of course as always we'll answer any questions that you may have.

Our quarterly revenue of $257 million is the best in company history. We were pleased with 5.6% revenue growth, particularly when you consider it's on top of 20% revenue growth achieved in the second quarter of 2003, so we had a difficult comp.

As we have expanded our product portfolio it has created additional levers to drive both revenue and profitability. In addition, the broadening of our customer base has created a fertile platform to cultivate this expanded product and services portfolio.

We now do business with 79% of the top 100 advertisers in the United States. In short, I find our diversified product portfolio a tremendous luxury and we are fortunate to have the support of so many outstanding advertisers who participate in a wide variety of industries.

Our one-to-one business performed exceptionally well in the second quarter
with a 77% increase in revenue. Most importantly this segment crossed the bridge to profitability in the second quarter and the quarterly profit was significant enough to make the one-to-one segment profitable through the first six months of 2004.

I'm really proud of what this team has accomplished and there are a number of people and teams worthy of recognition. Sue Griffin, Ron Goulsby and Todd Wisely have done an outstanding job of getting our three previously autonomous one-to-one business units to work together to meet customer needs. The level of collaboration has been exemplary.

Drew Bennett and his team have played a critical role in using our best of breed frequent shopper management technology to drive other parts of our one-to-one business and to forge stronger relationships with our retail partners.

Lou Zanko and his retail sales team have done an outstanding job of presenting creative concepts to our retail partners in order to help them accomplish their goals and objectives.

Robin Marcot and the Direct Mail Operations Group have worked unbelievably hard to support the volume increases associated with our 77% revenue growth.

Gary Youst and the Targeting and Analytics Team have overcome numerous challenges.

Aaron Trager and his Anderson Printing Division have stepped up to not only handle the increased volume but to do so with substantial improvements in efficiency levels.

Last but not least, Rex Bostright and our Creative Teams in both Lavonia and Boston have produced high quality creative to assure substantial consumer response.

After achieving profitability on a stand-alone basis I'm extremely excited about the future prospects of our one-to-one segment.

Switching to our cluster targeted segment. As I previously indicated, the primary focus of our cluster targeted segment was to improve profitability. I told you we were going to trade out low margin business.

As we drove revenue growth in other product lines that was beyond our expectations we accelerated the divestiture of less profitable cluster targeted business. As a result gross profit dollars were up 3.3% in the second quarter even though revenues were down just over 12%.
Through the first half of 2004 gross profit dollars were up 27% on virtually flat revenue. Since this segment continues to focus primarily on profitability we are revising our revenue growth assumption from the low end of 10% to 15% to less than 10%.

Keep in mind that last year we focused primarily on revenue growth and achieved a 26.3% increase so the revenue comparisons this year are challenging. Also keep in mind that this business by nature does not track consistently on a quarterly basis year against year.

Now switching to the international and services segment, we executed an on-plan performance. Strong performances in Canada, Spain, Italy and the United Kingdom offset softness in France. We delivered promotional media tests in Germany and Italy and we are currently selling in a second test in Germany. In addition we are attempting to sell clients into new concepts in Spain and France which we hope to execute this fall.

I recently visited Italy and Spain and was encouraged by the level of customer interest in and receptiveness to new promotional concepts.

Moving onto the math segment. Let's start with our ROP business where we broker space on the pages of the newspapers in our database. We encourage you to focus on gross margin dollars in this business. In 2004 our goal is to increase margin dollars by 10% to 15%. We have exceeded that goal through the first half of 2004 and the reported revenue increases are consistent with our original assumption of over 80%.

Now I'd like to discuss the co-op FSI industry. When we developed our 2004 guidance we assumed the co-op FSI industry unit growth would be low single digits. Unit growth has continued to exceed our expectations and the industry drove its eighth consecutive quarter of year-over-year unit growth. As a result, our co-op FSI revenue was up 1% for the first six months of this year. In essence we have been able to achieve our page volume objectives with less than a 50% market share due to industry strength.

In addition some clients, who have long term agreements with us, recently indicated they plan to run more FSI pages with us in 2005. When you combine this knowledge with the fact that 80% of all co-op FSI pages for 2005 are now covered by corporate contracts which average 30 months in duration, we believe we can achieve our 2005 target for pages produced with no further shifts in co-op FSI market share.

Based on these conditions we believe that now is the time to create a low risk opportunity to change the long term pricing trends in the co-op FSI industry. Therefore effective Monday, July 26th we will quote all News America first
right of refusal customers at the floor price which was in effect in May of 2001; hence our net price after ancillary product discounts, rebates, etc., will not go below $6 for a full page and $3.90 for a half page.

The reason I said this is a low risk opportunity is that we will defend our customers and market share and use whatever pricing is necessary to protect our share. For Valassis/News America shared accounts, we will price our share at whatever price is necessary to retain our share of the business. If the client wants us to take more than our previous year's share, we will quote the new floor price on that portion of the business.

This strategy differs greatly from the price increase we attempted in June of 2001 where we were willing to walk away from business in order to demonstrate our resolve to improve industry pricing and our willingness to reduce our share down to historical levels. In the current situation we will not walk away from our existing customers or market share. We have proposals currently outstanding at four News America customers where we have previously quoted at prices lower than the $6 and $3.90 floor. We will notify these four clients that the price quotes in these previously delivered proposals will expire on August 1, 2004. Therefore, after August 1, 2004, all News America customers or market share will be quoted at our new floor price.

In the recent past News America has been quick to make their intentions known. We don't expect the need to read the tea leaves. We expect that concrete evidence of News America's intentions will be available in the marketplace in short order.

If News continues to pursue our customers and market share, then we will go back to our previous strategy. Our objective has always been to give customers a high quality product that provides them with an exceptional return on investment and while doing that, to foster an industry that maximizes our profitability and creates a platform for long term profit enhancement on an annual basis. We believe the pricing approach I just described has the potential to accomplish all those objectives.

As we have mentioned previously, we believe that an exceptionally strong balance sheet is an important attribute to maintain in this highly competitive co-op FSI environment. I want to review major changes in our cash balance during the quarter and a transaction to swap $50 million in fixed debt for floating debt.

As of March 31, 2004 we had $214 million in cash. We made two tax payments in the second quarter which totaled $28 million. On June 6th we repurchased $39 million of our convertible bond due in 2021 and spent an additional $8 million in the quarter against our authorized share repurchase program. That nets cash down to $139 million, but as of June 30, 2004 we
had $164 million in cash meaning we generated roughly $25 million in cash from operations during the quarter without going into all the ins and outs.

From a financial perspective we also swapped $50 million of the $100 million issue of our 6-5/8th percent fixed rate debt due in 2009 to a floating rate on June 29, 2004.

Now we'd like to entertain your questions. Thank you.

Operator

Thank you, sir. Ladies and gentlemen, at this time we will begin the question and answer session. If you have a question, please press the star followed by the one on your pushbutton phone. If you would like to decline from the polling process, please press the star followed by the two. You will hear a three-tone prompt acknowledging your selection. Your questions will be polled in the order they are received. If you are using speaker equipment you will need to lift the handset before pressing the numbers. One moment, please, for our first question.

Our first question comes from Lauren Fine with Merrill Lynch. Please go ahead with your question, ma'am.

L. Fine

Thank you. I have two questions. The first just to go back to the quarter for a second. On the FSI business I think you had one extra publishing date and I'm wondering if you could then help us because of that making it more difficult to assess, what was the industry unit growth in the quarter and/or what is your page increase year-over-year? Then related to that, where are we on a reported basis in terms of whether your pricing has troughed yet?

Then could you refresh our memory on what your market share goals were for this year and whether that's changed and what they are for next year? Then I'll come back with my next question.

A. Schultz

Lauren, we'll check my memory here now.

L. Fine

Breaking down FSI into the components is what I'm really trying to get at in the second quarter.

A. Schultz

The number of dates, we did have one additional date in the second quarter versus what we had last year. So last year we had 10 dates, this year we have 11 dates. From a custom co-op standpoint, last year we had three and this year we also had three, so it's just really the one date difference.

From a unit growth standpoint we once again saw unit growth north of 6%. Obviously we had anticipated low single digits and we did significantly better than that.
From a page standpoint, particularly on a pages sold basis, full price business, we saw high single digit growth in pages sold and then we had a slight increase in the number of direct response pages. That's how that broke out.

From a pricing standpoint right now as we look through the balance of this year, we had built the model that accounted for some reductions in price as we got into the second half of this year. I don't really think anything has changed in that model. You may remember in the fourth quarter of last year we got into a situation where we had under-estimated the impact of declining prices and we didn't want to repeat that so we built our model this year more in line with what we had experienced last year.

I can't tell you that pricing has bottomed out yet at this point. It's going to be interesting to see obviously what happens with our new pricing approach in terms of the impact that has on the industry in terms of pricing.

From a market share goal standpoint, we're pretty comfortable with where our share stands today and what we have in the way of business locked up out in the future for the back half of this year and what we have secured for 2005.

Where we currently stand we don't really see any need to change market share from what it already looks like today for the balance of 2004 and 2005. The industry looks to be very strong and the supply/demand economics are clearly working in our favor and those supply/demand economics should create some pricing leverage in the industry.

L. Fine

Just to refine that, where is your share now? Then on the pricing improvement that you're trying to put in place, it sounds like that is a goal to stabilize pricing from where you've got some contract bids out right now. Would you care to share what you think Newscorp will do in response?

A. Schultz

I certainly can't speak for Newscorp so I certainly don't know what they're going to do in response. The approach we're taking I view as more than stabilization though. I think it is a strategy which is designed to return prices at least to the floor level that was in place back in May of 2001.

Now keep in mind at that particular point in time we were actually selling at prices that were well above that floor price so this is really designed to try to return pricing to the old floor level which would be a step in the right direction and create a longer term trend line of improved pricing and therefore improve the profit picture on a going forward basis.

L. Fine

And your current share?
A. Schultz  Our current share is pretty much on plan for what we had anticipated. The way we measure our shares, we look at all the co-op volume when we measure shares so we include our regular co-op and our custom co-ops in share. We're in the mid-40s right now and look like we're up on plan for increasing share as we had indicated in 2004 for 2004.

L. Fine  Great. Thank you very much.

Operator  Our next question comes from Steven Barlow with Prudential Equity Group. Please go ahead with your question, sir.

S. Barlow  Thank you. Could you break out what was going on in cluster targeted in terms of was it VIP that was up or sampling was down? Just trying to get a handle on the pieces there.

Bob, it looks like you have reclassified the $13.6 million of debt back to long term, so I guess there's no thought of that being paid out because not everyone went for the offer that you had. I just wanted to clarify what the thoughts are on that.

Then, Al, you made a comment that flat revenue on the international, etc., section was on plan. Is that your plan for the third and fourth quarter for that revenue in that group to be flat? Thanks.

A. Schultz  The cluster targeted business when you break it out in its components in the quarter, we actually saw a mid-single digit decline in preprints which is the biggest component. In the polybag sampling and advertising, we were down a larger percentage of that, a double-digit decline there.

Again, that is very consistent with what I instructed this group to do which was try to filter out some of the lower margin business, as I had mentioned. Last year we grew revenue in that segment by 26%. In doing that we picked up some customers that were at unacceptable margins. And based on what we see going on in the printing industry in general where it looks like volumes are picking up, margins are picking up, we feel as if conditions are right to focus more on profitability.

With all that said, I think it's important to note that this business tends to have some pretty wild swings on a quarterly basis year against year. In fact, if you look back at the last few years you'll see swings from one quarter to the next where revenues were down 12%, 14%, 15% and then come back and increase by over 40%. So this isn't unusual and they're really doing at this point in time what I'm asking them to do.

From a debt perspective on the $13 million, that debt does not have an opportunity to be put to us for another two years so therefore it would be into
long term classification and at this point in time we have no current desire or
no plans I should say to pursue that debt to bring it back in.

Flat revenue for our international and services as far as subsequent quarters
go, the answer to that is no. We expect that we're going to have revenue
growth in our international and services sector in the second half of this year.
In fact, some of the test programs that we're delivering that will generate
some test revenue will fall into the third and fourth quarters which should
improve the revenue picture there.

If you remember, overall if you discount the extra month and a half of
revenue from NCH, we expected low to mid-single digit revenue growth. We
think we're still on plan to deliver that. There's really no change in our
assumption there.

S. Barlow

Just to clarify on the one-to-one, is that a gross profit that they were in the
positive territory?

A. Schultz

No, that is a net pretax profit and that is on a stand-alone basis. As you know
in the past we had felt as if our one-to-one unit was in fact profitable because
when we looked at other business from other product lines that we were able
to secure from customers that we were able to attract because of our one-to-
one capability, we thought when we looked at it from that standpoint the
business had crossed the line into profitability last year. But now we're
looking at it totally on a stand-alone basis, not looking at any of the other
ancillary benefits associated with those customers and we are talking about a
net profit after all SG&A.

I think it's a very, very important milestone for the business that was
achieved in the second quarter. Again, just to reiterate, it was a significant
enough profit that it offset the loss from the first quarter so that we're now
looking at a net pretax profit through the first six months of the year that's
north of a half million dollars.

S. Barlow

Thanks very much,

Operator

Thank you. Our next question comes from Fred Searby with JP Morgan.
Please go ahead with your question.

F. Searby

Good morning, everybody. One or two questions, Alan. It sounds historically
you've said to me and you're strategizing and I think you've said that it really
is up to the market share leader to make price moves and you expected News
America to raise prices and then we had this circ increase which you all were
somewhat skeptical of.

What's the reversal here in that thought? You're trying to actually raise prices
now. Obviously News America's not budging. Then on your existing accounts, have there been any major account losses? The market share ... you say you're in line with guidance, and my assumption was in the past that you thought you'd get back to 50% and it sounds like you're going to be still in the 40s next year.

A. Schultz

From an existing account standpoint there really haven't been a lot of changes from a market share standpoint. From a historical standpoint the answer to your question is yes; historically the market share leader has always been the price leader. With that said I think as a management team and as a company it's important that you're always alert to new possibilities. It's always important that you're creative to consider new ideas, new concepts and that you're agile enough and flexible enough to take advantage of opportunities that may present themselves in the marketplace.

We clearly believe that based on what's going on from an overall industry growth standpoint, it has created somewhat of a unique opportunity for us. We feel as if the pricing approach that I laid out is a very creative and unusual strategy that has never been attempted or implemented in the past.

Again, that's our job to take on that responsibility that and we have a duty to look for ways to improve the long term pricing trend in the FSI industry.

As far as our 50% market share goal, I think when you really get to the underlying goal, our goal, has always been to create a long term, more profitable FSI industry to create a long term, more profitable Valassis. We feel that's in the best interest of all the stakeholders involved in the FSI industry, certainly including our customers. We feel the current market conditions have created a better alternative to achieve that goal.

We are merely being alert in recognizing the opportunities that exist and flexible in adjusting our strategy to best accomplish our goal. We believe our goal can best be accomplished with no further changes in market share from where we're at today.

F. Searby

Speaking of creative, on the circ issue when they raised their circ and you said it was somewhat dubious and would fall flat on its face, how has that done for them because it was a de facto price increase, right?

A. Schultz

From the measurements we've done so far, what we tend to look at is what is the average full run circulation for Valassis and what is the average full run circulation for our competitor. What we've seen is that there are really no differences between us and them in terms of what clients are buying in terms of their full run circulation.

F. Searby

Again, congratulations on some results in light of the challenging conditions.
A. Schultz: Thanks, Fred, appreciate that.
Operator: Our next question comes from Alexia Quadrani with Bear Stearns. Please go ahead with your question, ma'am.
J. Choy: This is Julian Choy. I have some questions on behalf of Alexia. A couple of questions here. Just wondering how your pricing is on contracts today compared on average to pricing on contracts signed last year. And I also wanted to know how paper prices are trending for the full year.
A. Schultz: Julia, we haven't really given any guidance in terms of what's going on on a day-to-day standpoint in terms of contract pricing so I can't really comment on that.

As far as paper prices, we had anticipated that paper would increase in terms of pricing during the year and based on what we currently see today paper prices are increasing as we had anticipated that they would increase.

J. Choy: Is that the 8% to 9% increase?
A. Schultz: There's really nothing here that is surprising us. When you look at paper in terms of what we had built into our models for the year we had assumed that we'd have a mid to high single digit price increase as a result of the contracts that we have in place through 2005 particularly in the FSI business that have caps and powers in them, cap quarterly increases and then cap annual increases.

Right now it's pretty much on plan and then because of some of the increased volumes that we've talked about, some of which we had anticipated and some of which we had not anticipated, that increased volume has helped us from a media cost standpoint and helped us from a production cost standpoint.

I also want to make note that from a production cost standpoint or a printing standpoint, clearly our manufacturing teams have done a very nice job, had a very good quarter in the second quarter. Then some of the capital additions we've made on the Man Rolland presses have also been highly efficient presses. As a result of that, the combination of media and printing costs have really offset that price increase in paper to basically give us a flat cost of goods sold in the co-op FSI.

J. Choy: Given your better than expected share repurchase activity this quarter, I think it's about twice the amount that you purchased last quarter, are you comfortable with current levels?
A. Schultz: Comfortable with what levels, Julia?
J. Choy: With the current amount of shares that you're repurchasing?

A. Schultz: We've taken the approach that says that we want to be opportunistic from a share repurchase standpoint, we want to try to buy as many shares as we possibly can for the money. We do have the ability per our Board to spend 75% of our free cash flow on share repurchase if we elect to do that. We haven't elected to do that but I would describe our strategy as it relates to share repurchase as being very flexible, kind of dependent on market conditions.

J. Choy: Thank you.


T. Mastin: Good morning. Being this far into the 2004 contracting season and with what I think are now longer contracts at 30 months, correct me if I'm wrong there, when might this attempted price increase begin to have a meaningful impact on prices? When could we start to see your effective prices on the FSI going up in aggregate if this price increase works?

A. Schultz: The way to look at it, Troy, is that there's about 15% of the business that really never gets covered by a corporate contract. That's what we describe as the bid business. In theory that 15% of the business could start to be priced at higher levels in a relatively short period of time. It has the potential, those prices, to gravitate up near the floor.

Then when you assume the length of contracts which you are correct, that is longer than what we've had previously in terms of length of contracts, I think you have to assume that somewhere between 30% to 40% of the business in any given year, the contract is likely to expire and then the prices on those contracts would step up over time as contracts expire. So I think that's the way you have to look at it.

Then probably the one other factor to be considered is that this is a category, exclusive medium, which means that there are times where business cannot be placed with the company that has the contract because of category blockage problems and then that business ultimately goes to the non-contracted company. Typically at higher prices. So in this case from our perspective that would be our floor price.

Today that's a relatively small percentage of the business based on current industry practice but if the supply/demand equation continues to work in our favor and we continue to see strong increases in demand with really insignificant increases of supply or days and a change in business practice, a
larger percentage of the business could go to the non-contracted company and I would assume that if this were to all come to fruition that it would be at those floor prices.

If you took all of those factors into consideration, Troy, that would be the way to look at it.

T. Mastin

Can you give an idea in a reasonable or maybe even a best case scenario when you might finally start to enjoy average FSI prices increasing?

A. Schultz

At this point in time we're going to continue to look for some type of concrete evidence in the marketplace. As I had mentioned earlier, we've seen our competitor make their intentions known relatively quickly and we're going to monitor that situation on a daily basis.

T. Mastin

Onto the one-to-one business, is there any temporary benefit at this business as a result of competitors that have de-emphasized or shut down their operations that might not be recurring or would you characterize the growth in one-to-one as purely fundamental or maybe industry organic?

A. Schultz

Troy, you've got a little bit of everything going on here. There is no doubt that there is organic growth taking place in the one-to-one business. That's being driven by a number of factors, one of which is the macro trends that we have talked about.

You've got the do not call registry where you've got a huge amount of dollars that are shifting from telemarketing into other promotional media vehicles. You've got the consumer evasiveness issue, the satellite radio, the TV fragmentation, the TiVO, the desire on clients, to link their marketing spend to revenue generation and ROI. All those things create a very positive picture for our entire product portfolio and certainly the direct mail business.

There's no doubt that we are seeing organic growth taking place there. Clearly we're benefiting as a result of our competitors in the marketplace changing strategies and their future being somewhat in question from a share standpoint. But there's no doubt that we're seeing growth there and from a consumer package goods industry standpoint, consumer package goods companies seem to be very committed to direct mail being part of their overall marketing mix.

Of course our overall strategy as a company is to be the only company that offers mass delivered promotional products, cluster targeted or neighborhood targeted products and one-to-one targeted products and the only company that has the ability to integrate all those into a single solution.

T. Mastin

Then finally one more question. Have you seen any negative impact as a
result of the circulation issues that have come up in a few newspapers? I know they might not be too relevant to your circulation but more specifically do you sense that advertisers are less interested in using the freestanding insert? Have you had any conversations along those lines despite the strong volume trends you’ve been seeing?

A. Schultz

The answer to that is no. We have not heard a lot of clients, in fact we have heard very little if any client discussion on the subject of what’s going on at these three newspapers, The Sun Times, Long Island Newsday and Hoy [inaudible] in New York.

I want to assure you also that as I’ve discussed before we’ve always believed in a high quality market list. We only provide newspapers with the number of inserts that we’re comfortable they can distribute and that will ultimately get into the hands of the consumer.

We also give the newspapers an order of distribution. An example would be we say first we want you to cover the paid home delivered circulation within the MSA, then we want you to cover paid home delivered circulation outside the MSA, then go into the paid box within the MSA, then out of the MSA and then our last choice would be to go into TMC programs. Based on everything we know today, we believe that all of our inserts ultimately have reached consumers in the order that we have specified.

I would also point out that we have a division called Promotion Watch which does promotion security consulting. That group does random audits of our newspapers and they have done over 20 random audits this year and based on what we learn as a result of this situation with the newspapers, they will revise their audit procedures to make sure we’re looking for some of the problems that materialize at these three newspapers. These three newspapers will not be audited in the future on a random basis but on a specific basis. So we’re pretty comfortable with this issue.

T. Mastin

Thanks a lot.

Operator

Our next question comes from Mark Bacurin with Robert W. Baird. Please go ahead with your question, sir.

M. Bacurin

Good morning, Alan, I’m hoping I can dig in on this new pricing strategy a little bit. First I wanted to follow up on a comment you made in response to Troy’s question. You said you have seen your competitor make their indications known on this new pricing strategy and you’re going to continue to monitor it. Am I to read into that you’ve already tried this and you’ve actually seen News America make some sort of response?

A. Schultz

No. When I said that we expect News America to react relatively quickly
what I mean is from what we've seen over the last two years we've seen News America make their intentions known relatively quickly. We would assume, we don't know for sure but we would assume at this point that their track record of the last two years would continue.

M. Bacurin

I understand. Then as I understand the strategy you will not be pushing forward the new pricing floor on renewals with existing clients but only on business that you currently do not have. Is that correct?

A. Schultz

That is correct, yes.

M. Bacurin

What about renewals for more volume? Would you implement the new floor on incremental volume from those same clients?

A. Schultz

If it was a first right of refusal customer with Valassis the answer to that is no, not at this point in time. But if it was a client that was shared between Valassis and News America then the answer to that question is yes. If they wanted us to take on incremental market share, incremental volume beyond our share percentage then the answer to that is yes, we would implement the floor.

M. Bacurin

As I understand this strategy then this will not necessarily move pricing up for you; the only place you would see a price increase is if you took a competitive win against News America and then vice versa, if they respond with a similar increase to the price floor they theoretically shouldn't be taking any clients from you at a higher price point unless it's at a higher price point?

A. Schultz

Yes, that is correct. I think there's another side of this that you probably need to consider which is if it's a News America renewal and we're quoting the floor price and they currently have a contract which is less than the floor price, then they would certainly have an opportunity to move their pricing up also. It's hard to say what the impact of that will be.

M. Bacurin

I understand. Assuming that strategy works to your benefit and pricing moves up on these renewals, as you said, I guess most of the contracts are locked in for '05 except for some spot type business that you might achieve. So we would actually expect those benefits to start accruing more in the '06 timeframe?

A. Schultz

Yes. You'd see benefit in the spot business and then as I have mentioned in the conversation, I believe it was with Troy, where there is some business that moves back and forth between the companies if one of the companies is blocked from a category standpoint, that business would also go up. That's currently a relatively small percentage based on practice but the answer to the question is you're correct. The bulk of the opportunity would materialize in '06.
M. Bacurin  
Assuming there has been some elasticity of demand with the lower pricing, are you concerned that if prices do move back up that the volumes you're assuming that you might be able to achieve at this lower market share level might actually decline with the higher price point such that you're back in a position where you're not necessarily getting the same kind of profitability out of each book that you would hope?

A. Schultz  
As I had mentioned, again I think it was in the conversation with Troy, I think there're some macro trends that are really moving dollars in our favor and that is the desire by clients to link marketing spend to revenue generation.

The FSI has by far the best return on investment bar none. It's an outstanding vehicle for a return on investment standpoint. Even at the floor pricing it's an outstanding return on investment versus where we're pricing at today. Then there's of course these issues with television that we are all well aware of with TVO and the personal recording devices and the popularity of satellite internet radio which is commercial free.

Consumers these days want to be in charge of when they receive messages and what messages they receive. The bottom line is that consumers invest time these days, they want value for that time and our products typically provide some type of value.

Then we've got a number of clients that have had tremendous success in the industry and in their business by using our products and I think that has a positive impact on other products.

We need to also keep in mind that we experienced strong unit growth in this industry for the last eight quarters and when you go back in time, that's when prices were relatively stable. When prices were higher than what they are today, when you look at the possibility of returning this industry to the floor pricing that existed back in May of 2001, please keep in mind that we were selling at that time at prices that were significantly higher than the floor. That was still providing clients with a great return on investment and at that time we really didn't have clients that were complaining about the price level.

I think that there is some price elasticity in our industry and some of the growth we have seen as a result of price but I clearly don't think that returning to our floor price with all these other macro trends taking place will dampen demand in a significant way.

M. Bacurin  
Then, Al, in terms of how you see the response from *News America*, is it a function of whatever contracts are up right now you go out with a new floor price. If it's a *News America* client and then you learn back from that client
what the pricing actually was done with News America assuming they keep it, but at a higher price point? Is that how it works or what is the feedback you get?

A. Schultz  
We try to monitor the market in a number of different ways. We will use every means at our disposal to try to monitor the situation. What you just described is certainly one way to determine what's taking place in the marketplace but there are a number of different ways that we would monitor the market.

M. Bacurin  
Great. Thanks a lot.

Operator  
Our next question comes from Edward Atorino with Fulcrum. Please go ahead with your question.

E. Atorino  
My question's been basically answered about seven times so I won't try to go over it again. One other question, on the refinancing, what does that do to your interest expense going forward? I presume it takes it down a notch or two?

A. Schultz  
Ed, the first thing I want to do is correct the name. It's Ed Atorino.

E. Atorino  
Close enough.

A. Schultz  
I just want to make sure everybody's clear about that. With that said I'm going to let Bob give you the answer in terms of interest expense and the impact that the swap will have on an anticipated basis for the back half of this year.

B. Recchia  
Ed, it will take down our overall interest expense obviously depending upon what rates do going forward. But immediately it reduces our interest expense from the 6-5/8ths down by a couple of percentage points plus.

E. Atorino  
It should be under 3 then for the balance of the year?

B. Recchia  
Percent?

E. Atorino  
Dollars, millions. You were $3 million in the second, $3.1 was it? $3 million for the second quarter.

B. Recchia  
It should come under $3 million for the next two quarters, that's correct.

E. Atorino  
Thanks. I'll talk to Sherry offline and go through some more stuff. Thanks.

A. Schultz  
Thanks, Ed.
Operator: Our next question comes from Richard Diamond with Inwood Capital. Please go ahead with your question, sir.

R. Diamond: Hi, Al. What happens if News corp decides to continue to be irrational in the co-op advertising business? The reason I mention this is that the price war has been irrational from the start. What's the downside case and how does that play out?

A. Schultz: When you consider the increased client demand for co-op FSI pages and you couple that with really no significant increase in date supply, we think we're at a point where we believe both FSI companies can achieve significant volume with their current market share positions.

Generally this type of supply/demand equation typically leads to increased pricing power and logic would suggest that this condition provides an opportunity to create a positive long term pricing trend. So clearly that pricing trend could lead to increased profitability.

Clearly as we assess the situation we think it makes sense. If it doesn't work, we will continue to look for creative ideas and opportunities to improve our profitability. We'll try to do so sooner as opposed to later.

We believe today's market is very fluid and dynamic and this type of market presents opportunities but you've got to be constantly alert and you've got to quickly identify the opportunities and then of course you need to be agile enough to develop and execute a strategy in the marketplace. I think our objective's clear - how do we create an FSI industry that will improve our profitability. That's our ongoing responsibility not only in the FSI industry but it's our ongoing responsibility in every business we participate in.

R. Diamond: Thank you very much, Al.

Operator: Our next question comes from Jim Kostell with Cuyahoga Capital. Please go ahead with your question.

J. Kostell: Hi. It's Jim Kostell. A couple of questions. First of all I may have this statistically incorrect because it's been a long day and my typing isn't so good but it appears that the accounts receivable relative to days sales have gone up here a bit. Is that correct and could you address why that is?

A. Schultz: I'm going to let Bob handle the accounts receivable question.

B. Recchia: It's up at about $258 million at the end of the quarter and once again it's mostly timing. We had a couple of major programs where monies came in the first week of July and that threw us up higher. When you look at actual days sales and receivables it hasn't moved all that much.
The other part of it is some increased volume at NCH that we're seeing drive up the receivables number as well.

Once again it's mainly a timing issue. There's no real major trends or problems with collectability. It has a lot to do with the volume of business we're taking through in the ROP business and the volume we're taking through at NCH as well.

J. Kostell

Is my addition here of 90 days versus 66 correct?

B. Recchia

Well, if you take a simple point in time and measure it you can get that but we measure it on a rolling basis and unfortunately when you just grab the end of the month it can look really good and really bad. What I would tell you that the numbers are up slightly because of the type of businesses that we've ventured into and the receivable dynamics in getting paid but nowhere near 90 days.

J. Kostell

Secondly, it's been so long since May of '01 I can't even remember where I worked then. Could you tell me, the $6 and the $3.90, that's up about 20% from where prices are now?

B. Recchia

I can't get into that with you, Jim.

J. Kostell

Can you make any comment as to the general level of the pricing over that period of time?

A. Schultz

What we can say is that we've been in a declining price environment since basically June of 2001. I guess it was relatively stable at that period and then we went through a period of decline and clearly this is an attempt to change that trend line and create a positive trend line in terms of pricing and reverse that negative trend line.

J. Kostell

I was sitting here trying to think about how a customer would feel about this in a sense that if I've got a contract with you and I come to you and say I'd like to do some more volume with you and you say okay but it's up an awful lot in terms of price ... have you gone and talked to any of your customers about this and felt them out ahead of just implementing this?

A. Schultz

We have talked to customers on an ongoing basis and have told them that we feel like the current pricing environment is not a realistic pricing environment and that prices will need to ultimately at some point return to more historical levels. I don't think there's any clients that I've come across that would disagree with that. Certainly clients appreciate the lower prices, certainly clients want to take advantage of the lower prices as anyone would but we've been trying to do a good job on an ongoing basis to educate our clients that
this is a snapshot in time, an opportunity in time for them to take advantage of lower prices and at some point in the future that window's going to close and that opportunity is no longer going to exist. Certainly every client I've talked to understands that.

J. Kostell

In terms of your comment about you'll see the response pretty quick, is pretty quick generally speaking defined in days, weeks, a month? What does the word pretty quick mean?

A. Schultz

I would think in this situation we're talking about weeks.

J. Kostell

Thank you very much.

Operator

Management, at this time we have no questions. Please continue with any further remarks or closing comments that you would like to make.

A. Schultz

Thank you. Just in closing I'd like to point out the fact that our first half performance was strong and as a result of that strong performance in the first half, it's allowed us to tighten up our annual earnings guidance and we have updated our 2004 earnings per share range which was $1.65 to $1.85 to $1.73 to $1.85.

It is our sense that the strengthening economy has resulted in growing marketing budgets and increased demand for our products. We clearly believe these conditions create an opportunity to improve margins across our entire product portfolio while at the same time encouraging customers to consider our integrated solutions for which we have already sold 25 this year.

We're encouraged by what we've seen through the first six months of this year. We're at the halfway point, we clearly have a lot of work to do but we are optimistic about the future.

I'd like to thank you for your time, your questions and your interest and have a great day.

Operator

Ladies and gentlemen, this concludes the Valassis Communications Second Quarter 2004 Earnings conference call. If you would like to listen to a replay of today's conference please dial in to 1-800-405-2236 or 303-590-3000 and use the access code of 566835.

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