ADVO INC
Form 10-Q
August 13, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended JUNE 30, 2001

or

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

For the transition period from ____________________ to ___________________

Commission file number 1-11720

ADVO, INC.
(Exact name of registrant as specified in its charter)

Delaware	06-0885252
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Univac Lane, P.O. Box 755, Windsor, CT	06095-0755
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number including area code: (860) 285-6100

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

Yes X No

As of July 28, 2001 there were 20,331,423 shares of common stock outstanding.

ADVO, INC.
INDEX TO QUARTERLY REPORT
ON FORM 10-Q

QUARTER ENDED JUNE 30, 2001

ADVO, INC.
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands, except share data)

	June 30, 2001	September 30, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,645	$ 6,003

Accounts receivable, net	111,848	114,093
Other current assets	9,093	7,515
Investment in deferred compensation plan	13,381	14,546
Deferred income taxes	9,700	10,457
Total current assets	160,667	152,614
Property, plant and equipment	244,526	233,682
Less accumulated depreciation and amortization	(126,207)	(120,449)
Net property, plant and equipment	118,319	113,233
Other assets	32,392	23,330
TOTAL ASSETS	$ 311,378	$ 289,177
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$ 7,500	$ 10,000
Notes payable - short term	2,390	--
Accounts payable	31,516	43,674
Accrued compensation and benefits	21,818	27,230
Deferred compensation plan	13,381	14,546
Other current liabilities	40,892	43,649
Total current liabilities	117,497	139,099
Long-term debt	183,500	180,000
Notes payable - long term	1,715	--
Deferred income taxes	6,858	5,800
Other liabilities	4,863	4,850
STOCKHOLDERS' DEFICIENCY		
Series A Convertible preferred stock, $.01 par value (Authorized 5,000,000 shares, none issued)	--	--
Common stock, $.01 par value (Authorized 40,000,000 shares, issued 30,285,748 and 29,908,609 shares, respectively)	303	299
Additional paid-in capital	195,877	185,949
Accumulated earnings (deficit)	4,894	(31,671)
	201,074	154,577
Less common stock held in treasury, at cost	(200,102)	(195,149)
Accumulated other comprehensive income (loss)	(4,027)	--
Total stockholders' deficiency	(3,055)	(40,572)
TOTAL LIABILITIES & STOCKHOLDERS' DEFICIENCY	$ 311,378	$ 289,177

See Accompanying Notes.

ADVO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except per share data)

	Nine months ended		Three months ended	
	June 30, 2001	June 24, 2000	June 30, 2001	June 24, 2000
REVENUES	$851,083	$832,392	$281,759	$295,816
Costs and expenses:				
Cost of sales	615,918	593,094	202,572	207,800
Selling, general and administrative	158,824	163,348	53,660	57,754
Provision for bad debts	4,471	6,591	1,454	2,107
OPERATING INCOME	71,870	69,359	24,073	28,155
Interest expense	13,426	13,515	4,249	4,719
Other expense, net	406	196	185	49
Income before income taxes	58,038	55,648	19,639	23,387
Provision for income taxes	21,474	20,590	7,266	8,653
NET INCOME	$ 36,564	$ 35,058	$ 12,373	$ 14,734
BASIC EARNINGS PER SHARE	$ 1.81	$ 1.72	$ .61	$ .73
DILUTED EARNINGS PER SHARE	$ 1.77	$ 1.69	$ .60	$ .71
Weighted average common shares	20,151	20,367	20,242	20,178
Weighted average diluted shares	20,629	20,714	20,585	20,694

See Accompanying Notes.

-3-

ADVO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Nine months ended	
	June 30, 2001	June 24, 2000
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 42,948	$ 42,762
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(22,958)	(24,661)

Proceeds from disposals of property, plant and equipment	71	226
Acquisitions/joint ventures, net of cash acquired	(14,303)	(1,250)
NET CASH USED BY INVESTING ACTIVITIES	(37,190)	(25,685)
Cash flows from financing activities:		
Revolving line of credit - net	1,000	(32,791)
Proceeds from long-term debt	--	30,725
Increase in note payable	4,105	--
Payment of debt issue costs	--	(2,290)
Proceeds from exercise of stock options	4,733	3,274
Purchase of common stock for treasury	(4,954)	(18,259)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	4,884	(19,341)
Increase (decrease) in cash and cash equivalents	10,642	(2,264)
Cash and cash equivalents at beginning of period	6,003	9,341
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 16,645	$ 7,077
Noncash activities:		
Increase in liabilities - fair value of interest rate swap agreements	$ 4,027	$ --
Increase in assets - note receivable in sale of business	415	--

See Accompanying Notes.

ADVO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the nine-month period ended June 30, 2001 are not necessarily indicative of the results that may be expected for the fiscal year ending September 29, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in ADVO's annual report on Form 10-K for the fiscal year ended September 30, 2000. Certain reclassifications have been made in the fiscal 2000 financial statements to conform with the fiscal 2001 presentation.

2. SUMMARY OF ACCOUNTING POLICIES

Derivatives and hedging activities

Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS Nos. 137 and 138, requires companies to recognize all derivatives on the balance sheet at fair value. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The Company's interest rate swap agreements are considered `effective' under SFAS No. 133 and, as a result, changes in the fair value of the agreements are recorded in current assets or liabilities with the offset amount recorded to accumulated other comprehensive income (loss) in stockholders' deficiency.

The Company's existing interest rate swap agreements (derivatives) convert a portion of its floating rate debt to a fixed rate basis through December 2002, thus limiting substantial risk should interest rates fluctuate. In accordance with its credit agreement, $100 million of the Company's outstanding variable rate debt was designated as hedged relating to the interest rate swap agreements. The Company adopted SFAS No 133, as amended, on October 1, 2000 and recorded an unrealized loss of $1.2 million in accumulated other comprehensive income (loss), offsetting the fair value of the swap agreements recorded in other current liabilities.

Goodwill Amortization

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No's 141 and 142, "Business Combinations" and "Goodwill and Other Intangibles". SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill is subject to at least an annual assessment for impairment applying a fair-value based test. Additionally, intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives.

The Company is required to adopt SFAS 142 by fiscal 2003, with early adoption permitted in fiscal 2002. The Company is in the process of determining the impact of these pronouncements on its financial position and results of operations. Currently goodwill amortization is approximately $0.4 million per quarter.

COMPREHENSIVE INCOME

Comprehensive income for a period encompasses net income and all other changes in a company's equity other than from transactions with the company's owners. Comprehensive income was $12.7 million for the quarter ended June 30, 2001 which consisted of net income of $12.4 million and the change in the unrealized gain on the fair value of derivative instruments of $0.3 million. For the year to date period ended June 30, 2001, comprehensive income was $33.8 million, which consisted of net income of $36.6 million and the change in the unrealized loss on the fair value of derivative instruments of $2.8 million

Accumulated other comprehensive income (loss) at June 30, 2001 consisted of the following:

Unrealized loss from derivative instruments at adoption of SFAS No. 133	$(1.2) million

Change in the fair value of derivative instruments for the year to date period ended June 30, 2001	(2.8) million
Total accumulated other comprehensive income (loss)	$(4.0) million

3. ACQUISITIONS

During the first quarter of fiscal 2001 the Company announced the acquisition of Mail Marketing Systems, Inc., ("MMSI") a privately held direct mail advertising company for $7.3 million, net of $1.7 million cash acquired. The purchase price was comprised of a $5.0 million cash payment and $4.0 million financed by the owner of MMSI. In addition, during the second quarter of fiscal 2001 the Company paid an additional $1.0 million to MMSI for contingent consideration in connection with the acquisition. During the third quarter the Company acquired the New Jersey Shoppers Guide for approximately $4.9 million. These acquisitions have been accounted for under the purchase method of accounting and, accordingly, the results of operations of the acquired companies have been included in the consolidated statements of operations from their acquisition date. The acquired assets were recorded at their estimated fair values. The acquisitions did not have a material pro forma effect on operations for periods prior to the acquisitions.

5. EARNINGS PER SHARE

Basic earnings per share excludes common stock equivalents, such as stock options, and is computed by dividing earnings by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if common stock equivalents, such as stock options, were exercised.

	Nine months ended		Three months ended	
	June 30, 2001	June 24, 2000	June 30, 2001	June 24, 2000
Net income	$36,564	$35,058	$12,373	$14,734
Weighted average common shares	20,151	20,367	20,242	20,178
Effect of dilutive securities:				
Stock options	443	310	310	459
Restricted stock	35	37	33	57
Dilutive potential common shares	478	347	343	516
Weighted average diluted shares	20,629	20,714	20,585	20,694
Basic earnings per share	$ 1.81	$ 1.72	$ .61	$ .73
Diluted earnings per share	$ 1.77	$ 1.69	$ .60	$ .71

ADVO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

6. NON-RECURRING CHARGES

On April 19, 2001, the Company announced that Beth Bronner had resigned as President and Chief Operating Officer to explore other opportunities. As a result of a pre-existing contractual agreement, the Company recorded a pre-tax charge of approximately $1.9 million during the third quarter of fiscal 2001 in selling, general and administrative costs.

During the third quarter of fiscal 2000, the Company recorded a $4.2 million pretax severance charge as the result of the realignment of the sales and marketing functions and supporting areas to better match their resources against the Company's strategic growth opportunities. This charge was recorded in selling, general and administrative costs.

The Company recorded a special pre-tax charge in selling, general and administrative costs of $2.2 million during the first quarter of the previous year related to the expensing of a long-term consulting agreement with the Company's former Chairman and Chief Executive Officer who was no longer providing services to the Company.

ADVO, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section should be read in conjunction with the consolidated financial statements of the Company and the notes thereto.

RESULTS OF OPERATIONS

REVENUES For the third quarter of fiscal 2001, revenues of $281.8 million decreased 4.8% from the comparable period of the prior fiscal year. The decline in revenues was primarily volume related due to shortfalls against revenue opportunities in the Company's medium sized local and regional client segment. Additionally, the timing of a seasonally weak fiscal week at the end of June fell into this year's third quarter, in the previous year it was part of the fourth quarter. These declines were illustrated in the decease in average pieces per package to 8.00 pieces for the third quarter of fiscal 2001 from 8.75 pieces for the same quarter of the prior year. Pieces per package were impacted by June's unfavorable fiscal week timing as well as the dilutive effect of the Company's second in-home date mailings. Shared mail packages delivered increased 2.4% for the third quarter of fiscal 2001 over the comparable prior year period, a result of increases in mailings, as well as, the impact of the second in-home date deliveries.

Offsetting the revenue decrease was pricing gains resulting in a 1.9% growth in revenue per thousand pieces to $39.99 for the three months ended June 30, 2001. The increase in revenue per thousand pieces was, in part, the result of the postal rate increase effective in January 2001. Also offsetting the revenue decline in the third quarter of fiscal 2001 was the revenue associated with the

Company's acquisitions of Mail Marketing Systems, Inc. ("MMSI") during the first quarter of fiscal 2001 and the New Jersey Shoppers Guide ("New Jersey Shopper") at the beginning of the third quarter.

Year-to-date revenues through June 30, 2001 increased $18.7 million, or 2.2%, over the same prior year period. Pricing gains were partially offset by volume declines in shared mail products. Revenue per thousand pieces was $39.54 for the nine months ended June 30, 2001, representing a 2.5% increase over the same period in the prior year. Average pieces per package were 8.15 pieces, decreasing 5.2% from the prior year period due to the reasons detailed above. Conversely, the Company's second-in-home date deliveries, along with increased mailings, contributed to the 4.3% increase in shared mail packages delivered to 2,401.3 million packages for the first nine months of fiscal 2001 from 2,301.7 million packages in the prior year.

Also contributing substantially to the growth in year-to-date revenues were increased revenues from MailCoups, the Company's targeted coupon distributor and the growth in the Company's A.N.N.E. (ADVO National Network Extension) brokered distribution program. In addition, year-to-date revenues also included the effect of the revenues associated with the Company's acquisitions of MMSI and the New Jersey Shopper.

OPERATING EXPENSES   Cost of sales as a percentage of revenue increased 1.6 percentage points to 71.9% for the three months ended June 30, 2001 when compared to the same period in the prior year due to underweight postage as a result of the average pieces per package decline. In absolute terms, cost of sales decreased $5.2 million for the three months ended June 30, 2001 due to lower postage, distribution and print costs as a result of the decline in shared mail volume.

For the year-to-date period ended June 30, 2001, cost of sales as a percentage of revenue increased 1.1 percentage points to 72.4% when compared to the same period in the prior year. In absolute terms, cost of sales increased $22.8 million for the first nine months of fiscal 2001 over the same period in fiscal 2000. The increase was mainly attributable to higher postage costs as a result of the postal rate increase, higher printing and paper costs and increased delivery costs incurred as a result of increased revenues associated with A.N.N.E. and MailCoups. In addition, the increase was affected by the distribution costs related to the operations of MMSI and the New Jersey Shopper. The growth in the number of shared mail packages delivered also contributed to the increase in cost of sales. Partially offsetting these increases to a degree were continued improvements and efficiencies in the branch operations of the Company.

For the three and nine months ended June 30, 2001, selling, general and administrative costs, including the provisions for bad debts, decreased $4.7 million and $6.6 million, respectively, when compared to the same periods in the prior year. As a percentage of revenue, selling, general and administrative costs also decreased 0.6 and 1.2 percentage points, respectively, for the three and nine months ended June 30, 2001 when compared to the same periods in the prior year. The change in selling, general and administrative costs were due to several items. For the third quarter and year-to-date periods of fiscal 2001, selling general and administrative costs included a $1.9 million charge as a result of a pre-existing contractual agreement with the Company's former President and Chief Operating Officer due to her resignation. For the third quarter of fiscal 2000, selling general and administrative costs included a $4.2 million charge related to the realignment of the sales and marketing areas. In addition, the year-to-date period in the prior year included a $2.2 million charge related to the expensing of a long-term consulting agreement with the Company's former Chairman and Chief Executive Officer. Also contributing to the favorable variance in selling, general and administrative costs for both the quarter and nine month periods were reductions in spending due to increased fixed cost controls and lower incentive wages in the current year when compared to the prior year.

OPERATING INCOME For the third quarter of fiscal 2001, the Company reported operating income of $24.1 million versus $28.2 million in the third quarter of fiscal 2000. For the first nine months of fiscal 2001, operating income was $71.9 million, representing a $2.5 million or 3.6% increase over the first nine months of fiscal 2000. As a percent of revenue, operating income was 8.5% for the third quarter and 8.4% for the first nine months of fiscal 2001, when compared to 9.5% and 8.3%, respectively, for the same periods of the prior fiscal year.

INTEREST EXPENSE Interest expense decreased $0.5 million and $0.1 million for the three month period and the nine month period ended June 30, 2001, respectively.

INCOME TAXES The effective income tax rate was 37% for both the three and nine months ended June 30, 2001 and June 24, 2000.

EARNINGS PER SHARE Diluted earnings per share was $.60 for the third quarter of fiscal 2001 versus $.71 for the same period of the prior year. On a year-to-date basis, diluted earnings per share was $1.77 for the current year, representing a 4.7% increase from $1.69 diluted earnings per share reported in the prior year.

FINANCIAL CONDITION

The working capital ratio was 1.37 at June 30, 2001 versus 1.10 at September 30, 2000. Overall, working capital increased $29.7 million from September 30, 2000. The increase in working capital from the end of the prior fiscal year was primarily related to the $21.6 million decrease in current liabilities which was mostly comprised of the following: a decrease in accounts payable due to the seasonal timing of vendor payments; a decrease in accrued compensation and benefits due to the fiscal 2000 incentive compensation payout which occurred in fiscal 2001; and a decrease in the current portion of long-term debt due to scheduled principal payments within the next year. In addition, the $8.1 million increase in current assets also contributed to the increase in working capital. The current assets increase was due to an increase in cash and cash equivalents offset by a decrease in accounts receivable.

Stockholders' deficiency decreased $37.5 million to a net deficiency of $3.1 million at June 30, 2001. The decrease in net deficiency was primarily the result of the Company's net income of $36.6 million and $9.9 million of stock/option related transactions by associates, offset by treasury stock purchases of $5.0 million. The treasury stock purchases consisted of $2.5 million made on the open market associated with the Company's buyback program and $2.5 million pursuant to elections by employees to satisfy withholding requirements under the Company's restricted stock and stock option plans. In addition, the Company recorded an unrealized loss of $4.0 million to accumulated other comprehensive income (loss) related to the adoption of SFAS No. 133 and the change in fair value of the derivative instruments during fiscal 2001.

ADVO, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS Nos. 137 and 138, requires companies to recognize all derivatives on the balance sheet at fair value. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The Company's interest rate swap agreements are considered `effective' under SFAS No. 133 and, as a result changes in the fair value of the agreements are recorded in current assets or liabilities with the offset amount recorded to accumulated other comprehensive income (loss) in stockholders' deficiency.

The Company's existing interest rate swap agreements (derivatives) convert a portion of its floating rate debt to a fixed rate basis through December 2002, thus limiting substantial risk should interest rates fluctuate. In accordance with its credit agreement, $100 million of the Company's outstanding variable rate debt was designated as hedged relating to the interest rate swap agreement. The Company adopted SFAS No 133, as amended, on October 1, 2000 and recorded an unrealized loss of $1.2 million in accumulated other comprehensive income (loss), offsetting the fair value of the swap agreements recorded in other current liabilities.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment investments were $23.0 million for the nine-month period ended June 30, 2001. These capital expenditures consisted mainly of software development for the client management, order fulfillment and order management systems, the purchase of computerized mail sorters (Alphaliners) for the Company's production facilities, renovations at certain of the Company's facilities and deployment of computer hardware. The Company expects its capital expenditures for the entire year to be approximately between $35.0 million and $38.0 million.

LIQUIDITY

The Company's main source of liquidity continues to be funds generated from operating activities. In addition, the Company has available unused credit commitments of $102.4 million that may be used to fund operating activities.

The net cash provided by operating activities for the nine months ended June 30, 2001 and June 24, 2000 remained relatively constant at $42.9 million and $42.8 million, respectively. Cash and cash equivalents increased $10.6 million to $16.6 million at June 30, 2001. Contributing to the increase was $43.0 million of cash provided by operating activities and $4.9 million of financing activities offset by investing activities of $37.2 million.

Investing activities primarily consisted of $23.0 million for the capital expenditures detailed above and $14.3 million, net of cash acquired, for acquisitions and joint ventures made during the first nine months of fiscal 2001. During the first quarter of fiscal 2001, the Company announced the acquisition of MMSI, a privately held direct mail advertising company for $7.3 million, net of cash acquired. In addition, during the second quarter of fiscal 2001 the Company paid an additional $1.0 million to MMSI for contingent consideration in connection with the acquisition. During the third quarter the Company acquired the New Jersey Shoppers Guide for approximately $4.9 million.

ADVO, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net cash provided by financing activities included net borrowings of $1.0 million under the Company's renegotiated credit agreement, $4.1 million of a note payable incurred with the acquisition of MMSI and $4.7 million of proceeds from option exercises under the Company's stock option plan offset by treasury stock purchases of $5.0 million. In the previous year, treasury stock purchases were $18.3 million for the nine months ended June 24, 2000.

FINANCING ARRANGEMENTS

The Company maintains a credit agreement which provides for total credit facilities of $300 million, consisting of a $135 million term loan and a $165 million revolving line of credit. At June 30, 2001 there was $191.0 million of debt outstanding, with $7.5 million classified as current which represents the Company's scheduled principal payments due in March and June of 2002. The Company anticipates it will be able to meet its long-term debt obligations through funds generated from operations. During July 2001 the Company borrowed an additional $10.0 million under the revolving line of credit.

Under the terms of the credit agreement, the Company is required to maintain certain financial ratios. In addition, the credit agreement also places restrictions on disposals of assets, mergers and acquisitions, dividend payments, investments and additional debt.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No's 141 and 142, "Business Combinations" and "Goodwill and Other Intangibles". SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under FASB 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill is subject to at least an annual assessment for impairment applying a fair-value based test. Additionally, intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives.

The Company is required to adopt SFAS 142 by fiscal 2003, with early adoption permitted in fiscal 2002. The Company is in the process of determining the impact of these pronouncements on its financial position and results of operations. Currently goodwill amortization is approximately $0.4 million per quarter.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's interest expense is sensitive to changes in interest rates. In this regard, changes in interest rates affect the interest paid on its debt. To mitigate the impact of interest rate fluctuations, the Company has historically maintained interest rate swap agreements on notional amounts totaling $100 million which is currently over 50% of its outstanding debt balance.

The Company believes that the interest rate swap agreements limit substantial risk if interest rates should fluctuate. If interest rates should change by 2 percentage points for the remainder of the 2001 fiscal year from those rates in effect at June 30, 2001, assuming no change in the outstanding debt balance and considering the effects of the Company's interest rate swap agreements, interest expense would increase/decrease by approximately $0.5 million.

FORWARD LOOKING STATEMENTS

Except for the historical information stated herein, the matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such forward looking statements are based on current information and expectations and are subject to risks and uncertainties which could cause the Company's actual results to differ materially from those in the forward looking statements. Such risks and uncertainties include but are not limited to: changes in customer demand and pricing; the possibility of consolidation throughout the retail sector; the impact of economic conditions on retail advertising spending; postal and paper prices; possible governmental regulation or legislation affecting aspects of the Company's business; the efficiencies achieved with technology upgrades; the amount of shares the Company will purchase in the future under its buyback program; fluctuations in interest rates related to the outstanding debt and other general economic factors.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit Index

Exhibit No.	Exhibits

(b) Reports on Form 8-K

No report on Form 8-K was filed by the Company with respect to the quarter ended June 30, 2001.

Omitted from this Part II are items which are inapplicable or to which the answer is negative for the period covered.

SIGNATURES

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

ADVO, Inc.

Date: August 13, 2001

By: /s/ JULIE ABRAHAM

Julie Abraham
Senior Vice President
of Finance and Controller
(Principal Accounting Officer)