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ADVO INC
Form 10-Q
August 09, 2004

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

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

For the quarterly period ended JUNE 26, 2004

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 Targeting Centre, 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 No

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

As of July 24, 2004 there were 30,547,446 shares of common stock outstanding.

ADVO, INC.

INDEX TO QUARTERLY REPORT
ON FORM 10-Q

QUARTER ENDED JUNE 26, 2004

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

	June 26, 2004	September 27, 2003
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,807	\$ 17,012
Accounts receivable, net	138,765	122,104
Inventories	1,947	2,491
Prepaid expenses and other current assets	7,103	10,875
Deferred income taxes	14,394	12,496
	-----	-----
Total current assets	182,016	164,978

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Property, plant and equipment	360,391	315,314
Less accumulated depreciation and amortization	(195,810)	(172,289)
	-----	-----
Net property, plant and equipment	164,581	143,025
Investment in deferred compensation plan	13,076	11,106
Goodwill	22,244	22,242
Other assets	9,956	12,130
	-----	-----
TOTAL ASSETS	\$ 391,873	\$ 353,481
	=====	=====
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ -	\$ 36,250
Accounts payable	42,056	36,581
Accrued compensation and benefits	30,303	25,286
Other current liabilities	31,112	35,948
	-----	-----
Total current liabilities	103,471	134,065
Long-term debt	123,721	94,000
Deferred income taxes	21,975	19,765
Deferred compensation plan	14,098	11,917
Other liabilities	5,915	4,666
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value		
(Authorized 5,000,000 shares, none issued)	-	-
Common stock, \$.01 par value (Authorized		
80,000,000 shares, issued 30,484,651		
and 20,042,005 shares, respectively)	305	200
Additional paid-in capital	147,534	137,252
Unamortized deferred compensation	(1,887)	(1,628)
Accumulated deficit	(18,435)	(44,384)
	-----	-----
	127,517	91,440
Less common stock held in treasury	(5,089)	(2,527)
Accumulated other comprehensive income	265	155
	-----	-----
Total stockholders' equity	122,693	89,068
	-----	-----
TOTAL LIABILITIES & STOCKHOLDERS'		
EQUITY	\$ 391,873	\$ 353,481
	=====	=====

See Accompanying Notes.

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

Nine months ended

Three months ended

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	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
	-----	-----	-----	-----
REVENUES	\$ 925,567	\$ 867,929	\$ 318,879	\$ 289,686
Costs and expenses:				
Cost of sales	676,179	640,432	231,362	213,810
Selling, general and administrative	184,321	163,940	64,360	53,739
Provision for bad debts	5,695	3,222	2,498	512
	-----	-----	-----	-----
OPERATING INCOME	59,372	60,335	20,659	21,625
Interest expense	(3,958)	(6,070)	(1,334)	(1,499)
Debt issue costs associated with debt retirement	(1,401)	-	-	-
Equity earnings in joint ventures	2,136	935	981	434
Other expense	(492)	(71)	(178)	(117)
	-----	-----	-----	-----
Income before income taxes	55,657	55,129	20,128	20,443
Provision for income taxes	19,653	19,671	6,862	6,837
	-----	-----	-----	-----
NET INCOME	\$ 36,004	\$ 35,458	\$ 13,266	\$ 13,606
	=====	=====	=====	=====
BASIC EARNINGS PER SHARE	\$ 1.20	\$ 1.19	\$ 0.44	\$ 0.46
	=====	=====	=====	=====
DILUTED EARNINGS PER SHARE	\$ 1.18	\$ 1.18	\$ 0.43	\$ 0.45
	=====	=====	=====	=====
DIVIDENDS DECLARED PER SHARE	\$ 0.33	\$ -	\$ 0.11	\$ -
	=====	=====	=====	=====
Weighted average basic shares	30,080	29,727	30,204	29,774
Weighted average diluted shares	30,609	30,040	30,719	30,189

See Accompanying Notes.

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

	Nine months ended	
	June 26, 2004	June 28, 2003
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 63,969	\$ 69,536
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(48,779)	(38,858)
Proceeds from disposals of property, plant and equipment	96	549

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Distributions from equity affiliates	1,730	815
Acquisitions/joint ventures, net of cash acquired	-	19
	-----	-----
NET CASH USED BY INVESTING ACTIVITIES	(46,953)	(37,475)
Cash flows from financing activities:		
Revolving line of credit - net	(29,000)	(7,500)
Payments on long-term debt	(101,250)	(16,250)
Proceeds on private placement notes	125,000	-
Decrease in note payable	-	(1,715)
Proceeds from exercise of stock options	5,864	1,102
Treasury stock transactions	(2,699)	(820)
Payment of debt issue costs	(2,213)	-
Cash dividends paid	(9,921)	-
	-----	-----
NET CASH USED BY FINANCING ACTIVITIES	(14,219)	(25,183)
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	(2)	125
	-----	-----
Increase in cash and cash equivalents	2,795	7,003
Cash and cash equivalents at beginning of period	17,012	12,281
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 19,807	\$ 19,284
	=====	=====
Noncash activities:		
(Increase) decrease in fair value of interest rate swap liabilities	(1,093)	1,090
Deferred compensation plan investment gains	1,863	1,370

See Accompanying Notes.

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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 26, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending September 25, 2004. 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 27, 2003.

Certain reclassifications have been made in the fiscal 2003 financial statements

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to conform to the fiscal 2004 presentation.

2. NEW ACCOUNTING POLICIES

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities," which was revised in December 2003 ("FIN No. 46-R"). This new rule requires that companies consolidate a variable interest entity if the company is subject to a majority of the risk of loss from the variable interest entity's activities and/or is entitled to receive a majority of the entity's residual returns. The provisions of FIN No. 46-R were required to be applied as of the end of the first reporting period after March 15, 2004 for the variable interest entities in which the company holds a variable interest that it acquired on or before January 31, 2003. The adoption of FIN No. 46-R did not have any impact to the financial position or results of operations of the Company.

On March 31, 2004, the FASB issued an exposure draft entitled "Share-Based Payment, an Amendment of FASB Statements No.'s 123 and 95". Among other items, the proposed standard would require the fair value of stock options to be recognized in the financial statements as compensation expense. The proposed requirements in the exposure draft would be effective for the Company's 2006 fiscal year-end. The pro-forma impact of stock option expensing is calculated as required under FASB Statement No. 123, "Accounting for Stock-Based Compensation" and disclosed in Note 8 of these financial statements. However, the actual impact to our financial statements upon adoption of the proposed standard could differ from the pro-forma information included in Note 8 due to differences in option-pricing models used, estimates and assumptions, and options to be included in the calculation upon adoption. The Company will monitor the status of the proposed standard and will evaluate the impact to our financial position and results of operations when the final standard is issued.

3. 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. The Company's comprehensive income was as follows:

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

	Nine months ended		Three months ended	
	June 26, 2004	June 28, 2003	June 26, 2004	June 2003
(In thousands)				
Net income	\$ 36,004	\$ 35,458	\$ 13,266	\$ 13,266
Other comprehensive income:				
Unrealized gain on derivative instruments	113	-	515	-
Reclassification adjustment on derivative instruments	-	1,090	-	-
Foreign currency translation adjustments	(3)	219	(38)	-
Total comprehensive income	\$ 36,114	\$ 36,767	\$ 13,743	\$ 13,266

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4. FINANCING ARRANGEMENTS

On December 4, 2003, the Company replaced its existing credit facilities. The new credit facilities totaling \$275 million include \$125 million private placement senior secured notes with several institutional investors and a \$150 million revolving line of credit ("Revolver") with a syndicate of banks.

The senior secured notes consist of \$65 million notes at a fixed interest rate of 5.71% (Series A Notes) and \$60 million notes at a variable interest rate of LIBOR rate plus 0.92% (Series B Notes). The senior secured notes have a ten-year life and mature in December 2013. Interest is payable semi-annually on the Series A Notes and quarterly on the Series B Notes.

The Revolver has a four-year life and remains available until maturity in December 2007. The Revolver bears interest, at the Company's option, equal to the LIBOR rate or to the bank's "base rate" plus an "applicable margin" (based on certain financial ratios). The applicable margin ranges from 0.875% to 1.50% on the LIBOR rate and 0% to 0.50% on the base rate. Interest is payable quarterly or upon the maturity of the LIBOR contracts, whichever is shorter.

A summary of debt is set forth in the following table:

	June 26, 2004 -----	September 27, 2003 -----
(In thousands)		
Private Placement Notes		
Series A Notes	\$ 65,000	\$ -
Fair value hedge (a)	(1,279)	-
Series B Notes	60,000	-
Revolver - base rate of 4.125% at June 26, 2004	-	-
Term Loan		
Base rate of 4.125% at September 27, 2003	-	250
LIBOR rate of 2.235% at September 27, 2003	-	101,000
Revolving Line of Credit		
Base rate of 4.125% at September 27, 2003	-	8,000
LIBOR rate of 2.245% at September 27, 2003	-	21,000
	-----	-----
	\$ 123,721	\$ 130,250
Less current portion of long-term debt	-	36,250
	-----	-----
Total long-term debt	\$ 123,721	\$ 94,000
	=====	=====

(a) Represents unrealized losses for fair value hedging arrangement (see Note 5 below).

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

The Company pays fees on the unused commitments at a rate ranging from 0.20% to 0.40% depending on the Company's debt ratio, as defined. At June 26, 2004, there was \$138.4 million available for future borrowings which reflects \$11.6 million utilized by letters of credit under separate agreements related to the Company's workers' compensation program.

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In the first quarter of fiscal 2004, the Company capitalized \$2.2 million of debt issue costs directly associated with the issuance of the new credit facilities. These costs are included in other assets and are being amortized either over the ten-year life of the senior secured notes or over the four-year life of the Revolver, whichever is applicable.

As a result of the debt refinancing the Company wrote off \$1.4 million of unamortized debt issue costs associated with the previous credit facilities during the first quarter of fiscal 2004. The Company concluded that the replacement of the term loan with private placement notes met the criteria of an extinguishment of debt per EITF 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments." Consequently, all unamortized debt issue costs associated with the term loan were written off. In addition, the Company followed the guidance per EITF 98-14, "Debtor's Accounting for Changes in the Line-of-Credit or Revolving-Debt Arrangements," to calculate the amount of unamortized debt issue costs associated with the replacement of the revolving line of credit and wrote off a portion of those costs. In accordance with EITF 98-14, the remaining unamortized debt issue costs of \$0.6 million will be amortized over the life of the new Revolver. At June 26, 2004 and September 27, 2003, unamortized costs totaled \$2.5 million and \$2.1 million, respectively.

Under the terms of the senior secured notes and Revolver, the Company is required to maintain certain financial ratios. In addition, the credit facilities also place restrictions on disposals of assets, mergers and acquisitions, dividend payments, investments and additional debt.

5. DERIVATIVES AND HEDGING ACTIVITIES

During the first quarter of fiscal year 2004, the Company entered into various interest rate swap agreements to allow the Company to take advantage of low, near-term interest rates and to mitigate risk from exposure to forward upward movements in interest rates. The Company does not enter into derivative financial instruments for trading or speculative purposes. The Company documented all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions in accordance with Statement of Financial Accounting Standards ("Statement") No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company has determined that the current interest rate swap agreements qualify for treatment under the short-cut method of assessing effectiveness and are considered highly effective, as defined by Statement No. 133 since all of the terms of the derivative instruments match those of the hedged item.

The following table presents the notional amount of interest rate swaps by class:

(In thousands)

FINANCIAL INSTRUMENT -----	HEDGE TYPE -----	NOTIONAL AMOUNT -----	START DATE -----	MATURITY DATE -----
Fixed to floating	Fair Value	\$ 25,000	12/23/03	12/04/13
Floating to fixed	Cash Flow	8,000	12/04/04	12/04/08
Floating to fixed	Cash Flow	8,000	12/04/05	12/04/09
Floating to fixed	Cash Flow	9,000	12/04/06	12/04/10

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ADVO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Statement No. 133 requires companies to recognize all derivatives on the balance sheet at fair value. Changes in the fair value of the interest rate swap agreements that are designated as fair value hedges are recognized in earnings as an offset to the changes in the fair value of the exposures being hedged. As a result, the fair value of the interest rate swap (fixed to floating), a payable of \$1.3 million at June 26, 2004, decreased the carrying amount of debt and increased the interest rate swap liability.

The changes in the fair value of the interest rate swap agreements that are designated as cash flow hedges are deferred in accumulated other comprehensive income and are recognized in earnings as the hedged transactions occur. The fair value of the cash flow hedges was a receivable of \$0.2 million and was recorded net of taxes, a gain of \$0.1 million, in accumulated other comprehensive income at June 26, 2004.

6. STOCKHOLDERS' EQUITY

On October 16, 2003, the Company announced a three-for-two stock split of its common stock effected in the form of a stock dividend. As a result of the split, stockholders received one additional share of common stock for every two shares held. The stock dividend was paid on November 7, 2003 to common shareholders of record as of October 24, 2003. The stock split was recorded by increasing common stock by \$0.1 million and decreasing accumulated earnings by \$0.1 million on the Consolidated Balance Sheets (issuance of 10 million shares at \$0.01 par value). There was no effect to the Company's overall equity position as a result of the stock split. All share and per share data have been restated to give retroactive effect to the split.

Also on October 16, 2003, the Company established a regular quarterly cash dividend. The initial quarterly dividend was aligned with the stock split and was paid at a rate of \$0.11 per share, on a post-split basis. The Company paid quarterly cash dividends of \$3.3 million and \$9.9 million, respectively, for the three and nine months ended June 26, 2004. The Company expects to continue to pay cash dividends on a quarterly basis.

At the Company's Annual Meeting held on January 23, 2004, the Company's stockholders approved the amendment of the Company's Certificate of Incorporation to increase the number of authorized shares of common stock, \$0.01 par value per share, from 40 million to 80 million shares.

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ADVO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

7. EARNINGS PER SHARE

Basic earnings per share excludes the effect of common stock equivalents, such as stock options, and is computed by dividing net income 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
-----	-----

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	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
	-----	-----	-----	-----
(In thousands, except per share data)				
Net income	\$ 36,004	\$ 35,458	\$ 13,266	\$ 13,606
Weighted average basic shares	30,080	29,727	30,204	29,774
Effect of dilutive securities:				
Stock options	480	279	467	375
Restricted stock	49	34	48	40
	-----	-----	-----	-----
Dilutive potential basic shares	529	313	515	415
Weighted average diluted shares	30,609	30,040	30,719	30,189
	=====	=====	=====	=====
Basic earnings per share	\$ 1.20	\$ 1.19	\$ 0.44	\$ 0.46
	=====	=====	=====	=====
Diluted earnings per share	\$ 1.18	\$ 1.18	\$ 0.43	\$ 0.45
	=====	=====	=====	=====

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ADVO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

8. STOCK - BASED COMPENSATION

The Company maintains several stock-based compensation plans relating to stock options. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25 ("APB Opinion No. 25") "Accounting for Stock Issued to Employees," and related Interpretations. Aside from the amortization of restricted stock awards, no stock-based employee compensation cost is reflected in net income, as all options granted under those plans have an exercise price equal to the market value of the underlying common stock on the date of grant.

As required under Statement No. 123, "Accounting for Stock-Based Compensation," and Statement No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," the pro forma effects of stock-based compensation on net income and net earnings per share have been estimated at the date of grant using the Black-Scholes option-pricing model, as follows:

	Nine months ended		Three months ended	
	June 26, 2004	June 28, 2003	June 26, 2004	June 28, 2003
	-----	-----	-----	-----
(In thousands, except per share data)				
Net income, as reported	\$ 36,004	\$ 35,458	\$ 13,266	\$ 13,606
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related				

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tax effects	(2,777)	(3,026)	(901)	(1,176)
	-----	-----	-----	-----
Pro forma net income	\$ 33,227	\$ 32,432	\$ 12,365	\$ 12,430
	=====	=====	=====	=====
Earnings per share:				
Basic - as reported	\$ 1.20	\$ 1.19	\$ 0.44	\$ 0.46
Basic - pro forma	\$ 1.10	\$ 1.09	\$ 0.41	\$ 0.42
Diluted - as reported	\$ 1.18	\$ 1.18	\$ 0.43	\$ 0.45
Diluted - pro forma	\$ 1.10	\$ 1.08	\$ 0.41	\$ 0.39

For the purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the stock options' vesting period, ranging from one to four years. The pro forma effect on net income and related earnings per share may not be representative of the future years' impact since the terms and conditions of new grants may vary from the current terms.

During the first quarter of fiscal 2004, the Company granted 26,000 performance-based restricted stock units to its now former Chief Executive Officer ("CEO"). The units vest in installments of one-third each year from the date of grant subject to the Company achieving certain performance criteria. As disclosed in the CEO's separation agreement, these units will continue to vest over the two-year separation period. The former CEO is not entitled to receive the units associated with the third year vesting since his separation agreement ends in June 2006. The performance criteria is based on pre-established thresholds. The units vest cumulatively, in that, if the threshold is not met in a given year, but is achieved in the subsequent fiscal year, the cumulative units will be awarded in that subsequent year in which the threshold is met.

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

Since on the grant date neither the fair market value on the day the units vest nor the number of units that could ultimately be earned are known, the restricted stock units have been deemed to be a variable award. In accordance with variable stock compensation accounting, the estimated compensation expense, as measured quarterly, may fluctuate based on the fair market value of the stock price and the probability of achieving the performance criteria. No compensation expense was recorded for the three and nine months ended June 26, 2004 since achievement of the performance criteria is not considered probable. For each subsequent quarter, the Company will re-evaluate the probability of achieving the performance criteria and record compensation expense accordingly.

9. NEW PRODUCTION FACILITY

During fiscal 2003, the Company entered into a lease agreement for a new Hartford, Connecticut area production facility with lease payments to begin after the construction of the facility, expected to be completed during the fourth quarter of fiscal 2004. The lease agreement included the right to purchase the property, which the Company exercised in 2003. The Company subsequently decided to terminate the lease agreement in its entirety and is constructing the new facility and recording the construction costs to construction in progress ("CIP") included in property, plant and equipment. As of June 26, 2004, CIP related to the construction of the facility was \$19.2 million. In addition, the Company capitalized \$1.6 million of land acquisition costs. Total construction costs are estimated to be approximately \$27.0 million.

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10. COMMITMENTS AND CONTINGENCIES

State Audit

The Company has received a state sales and use tax assessment for \$4.7 million covering the period of January 1995 through October 1998. The Company appealed the assessment and the decision of the administrative law judge is pending. The Company believes that the assessment and the state's underlying position are neither supportable by the law nor consistent with previously provided interpretative guidance from the State Comptroller's office. The Company believes the assessment will be overturned based on the applicable laws and regulations. The Company is also concurrently pursuing a refund of the tax assessment that would effectively eliminate the liability. In the event the assessment stands and the refund is denied, the Company will pursue its rights in court. The Company has no provision for this tax exposure because the Company has concluded it is not probable or reasonably estimable at this time. Although the final results of the audits for the subsequent periods and the outcome of resulting legal action cannot be reasonably estimated, this tax dispute applies to all open years up to and including the current period. If the decision of the administrative law judge is upheld, the potential exposure for open years may be significantly higher than the aforementioned assessment.

Kmart Corporation

In January 2002, Kmart Corporation filed for Chapter 11 bankruptcy protection and requested the Bankruptcy Court (the "Court") designate the Company and several other companies to be classified under critical vendor status. The Court approved this designation and the Company received \$1.1 million due from Kmart.

In February 2004, the U.S. Court of Appeals for the 7th Circuit affirmed a U.S. District Court ruling that Kmart incorrectly paid critical vendors, including the Company. As a result of the ruling, Kmart has filed lawsuits against each critical vendor seeking reimbursement of these payments. The Company believes that it has meritorious defenses to the lawsuit. The range of the potential liability is \$0 to \$1.1 million with no amount within this range representing a better estimate than any other amount at this time. The Company has not

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provided any amount for the exposure because the Company does not believe it is probable and reasonably estimable at this time.

11. NON-RECURRING CHARGES

In the third quarter of fiscal 2004, the Company recorded a pre-tax charge of approximately \$3.9 million, or \$0.08 per share, in selling, general and administrative costs for the departure of the Company's CEO. This charge primarily includes wages, benefits and incentive compensation that will be paid over the two-year term of the separation agreement.

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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

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REVENUES Revenues increased \$29.2 million or 10.1% during the third quarter and \$57.6 million or 6.6% for the nine months ended June 26, 2004 when compared to the same periods of fiscal 2003. The growth in revenues was primarily volume related and the result of a 12.1% and 10.1% increase in shared mail pieces distributed for the third quarter and nine months ended June 26, 2004. The volume gains were achieved through increased business in existing markets and increased frequency of mailings in response to client demand. Total shared mail packages delivered increased 4.5% and 3.7%, respectively, for the third quarter and nine months ended June 26, 2004 when compared to the same prior year periods. Another key performance indicator, average pieces per package, supported the revenue improvement by growing 7.3% to 8.43 pieces for the third quarter and 6.1% to 8.33 pieces for the nine months ended June 26, 2004 over the same three and nine-month periods of fiscal 2003.

The Company's shared mail revenue per thousand pieces statistic decreased 0.7% for the three months ended June 26, 2004 when compared to the same prior year period due to lower priced products. For the first nine months of fiscal 2004, shared mail revenue per thousand pieces decreased 2.5% due to shifts in product mix and lower priced and lighter weight products. The grocery strike in Southern California, which ended during the second quarter, negatively impacted the year-to-date fiscal 2004 revenue by approximately \$7.9 million.

OPERATING EXPENSES Cost of sales as a percentage of revenue decreased 1.3 percentage points to 72.6% for the third quarter and decreased 0.7 percentage points to 73.1% for the nine-month period when compared to the same periods in the prior year. These decreases were reflective of the growth in average pieces per package and the resultant efficiencies in postage utilization.

Cost of sales increased \$17.6 million for the three months ended June 26, 2004 and \$35.7 million for the first nine months of fiscal 2004 to \$231.4 million and \$676.2 million, respectively. The increase for the three and nine-month periods ended June 26, 2004 were mainly related to higher distribution costs. Distribution costs, primarily consisting of postage costs, increased 7.6% for the three-month period and 5.0% for the nine-month period ended June 26, 2004. These increases are attributable to the volume growth in shared mail pieces and packages distributed over the same periods of a year earlier. The growth of certain shared mail products also contributed to the 18.6% and 14.8% increase in print costs for the three and nine months ended June 26, 2004.

Selling, general and administrative costs ("SG&A costs"), including the provision for bad debt, increased \$12.6 million for the third quarter and \$22.9 million for the nine-month period ended June 26, 2004 when compared to the same periods in the prior year. As a percentage of revenues, SG&A costs increased 2.2 percentage points for the third quarter and increased 1.3 percentage points for the nine months ended June 26, 2004 versus the comparable periods in fiscal 2003.

For the three and nine months ended June 26, 2004, SG&A costs included a non-recurring \$3.9 million severance charge for the departure of the Company's former Chief Executive Officer ("CEO"). It also included a \$3.5 million and \$7.8 million increase, respectively, for the three and nine-month periods in selling capabilities, commission expenses and related benefits arising from the revenue growth. SG&A costs for the three and nine month periods also included increases in bad debt expense of \$2.0 million and \$2.5 million, respectively, primarily due to specific receivables. Both the three and nine-month periods included a \$2.0 million and \$4.3 million increase, respectively, in employee benefit costs due to rising medical and insurance costs. Specific to the third quarter increase in SG&A costs, was higher incentive compensation wages compared to the same prior year period. For the nine months ended June 26, 2004, SG&A costs included a \$2.0 million increase

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

in depreciation expense primarily as a result of certain phases of the service delivery redesign project being placed into service and \$1.1 million of severance related to the departure of two senior executives during the second quarter of fiscal 2004.

OPERATING INCOME For the third quarter of fiscal 2004, the Company reported operating income of \$20.7 million versus \$21.6 million for the third quarter of fiscal 2003. For the nine months ended June 26, 2004, operating income was \$59.4 million versus \$60.3 million for the nine months ended June 28, 2003. The Company's revenue growth for the three and nine months ended June 26, 2004 were offset by increases in both cost of sales and SG&A costs which are detailed above.

INTEREST EXPENSE Interest expense decreased \$0.2 million and \$2.1 million, respectively, for the three and nine months ended June 26, 2004. The decrease was the result of lower market rates of interest and a decrease in the average outstanding debt balance. The interest expense decrease for the nine-month period was also impacted by the expiration during the first quarter of fiscal 2003 of the Company's interest rate swap agreements that were associated with the previous credit facility.

On December 4, 2003, the Company replaced its existing credit facilities, term loan and revolving line of credit, with private placement notes and a new bank revolver. The Company concluded that the replacement of the term loan with private placement notes met the criteria of an extinguishment of debt per EITF 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments." Consequently, all unamortized debt issue costs associated with the term loan were written off. In addition, the Company followed the guidance per EITF 98-14, "Debtor's Accounting for Changes in the Line-of-Credit or Revolving-Debt Arrangements," to calculate the amount of unamortized debt issue costs associated with the replacement of the revolving line of credit. In total, the Company wrote off \$1.4 million of unamortized debt issue costs associated with the previous credit facilities.

EQUITY EARNINGS IN JOINT VENTURES Performance of the Company's joint ventures for the third quarter and first nine months of fiscal 2004 doubled over the same prior year periods increasing equity earnings by \$0.5 million and \$1.2 million, respectively.

INCOME TAXES The effective income tax rate for the third quarter of fiscal 2004 was 34.1% versus 33.4% in prior years' quarter. For the year-to-date period, the effective income tax rate was 35.3% versus 35.7% for the same prior year period. The decrease in the income tax rate for the first and second quarters of 36.0% to 34.1% for the third quarter was due to the results of tax audits completed in the current quarter. The reduction in the effective income tax rate in the prior year periods resulted from federal and state tax credits due to R&D credits.

EARNINGS PER SHARE Diluted earnings per share was \$0.43 for the third quarter of fiscal 2004 decreasing 4.4% from prior year's third quarter. Diluted earnings per share remained constant at \$1.18 for the first nine months of fiscal 2004 and 2003.

FINANCIAL CONDITION

Working capital increased \$47.6 million to \$78.5 million at June 26, 2004 from

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\$30.9 million at September 27, 2003. Factoring into the working capital change was an increase of \$17.0 million in current assets and a \$30.6 million decrease in current liabilities. Highlighting the change in current assets was an increase in the accounts receivable balance, indicative of the 13% revenue growth in the month of June, offset by a decrease in other current assets due to the timing of insurance payments. The decrease in current liabilities primarily relates to the

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

Company's debt refinancing that resulted in a \$36.3 million decrease in the current portion of long-term debt as a consequence of the type of debt instruments under the new agreement. Other contributing factors to the change in current liabilities were a decrease in other current liabilities due to tax benefits resulting from employee option exercises and the timing of tax payments offset by an increase in accrued compensation and benefits due to the severance charge for the departure of the former CEO and higher incentive compensation due to improved earnings.

At June 26, 2004, total stockholders' equity was \$122.7 million representing a \$33.6 million increase from the September 27, 2003 balance of \$89.1 million. Driving the increase was net income of \$36.0 million, employee stock plan activity and the related tax benefits of \$9.0 million, and restricted stock amortization of \$1.4 million. The increases to stockholders' equity were offset by the Company's quarterly cash dividend payments which totaled \$9.9 million and treasury stock transactions of \$2.7 million pursuant to elections by employees to satisfy tax withholding requirements under the Company's stock option plans.

On October 16, 2003, the Company announced a three-for-two stock split of its common stock effected in the form of a stock dividend. As a result of the split, stockholders received one additional share of common stock for every two shares held. The stock dividend was paid on November 7, 2003 to common shareholders of record as of October 24, 2003. The stock split was recorded by increasing common stock by \$0.1 million and decreasing accumulated earnings by \$0.1 million on the Consolidated Balance Sheets (issuance of 10 million shares at \$0.01 par value). There was no effect to the Company's overall equity position as a result of the stock split. All share and per share data have been restated to give retroactive effect to the split.

LIQUIDITY

The Company's main source of liquidity continues to be funds generated from operating activities. At June 26, 2004, the Company had available unused credit commitments of \$138.4 million that may be used to fund working capital requirements.

Cash and cash equivalents increased \$2.8 million for the nine-month period ended June 26, 2004. Net cash provided by operating activities of \$64.0 million was offset by net cash used by investing and financing activities of \$47.0 million and \$14.2 million, respectively.

Net cash provided by operations for the nine-month period ended June 26, 2004 was \$64.0 million versus \$69.5 million for the same period of the prior year. The year-over-year decrease is attributable to the change in accounts receivable, other current assets, other current liabilities and accrued compensation and benefits, all of which were previously discussed in the "Financial Condition" section, along with the change in accounts payable due to

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the timing of vendor payments and the change in customer advances.

The Company's investing activities are primarily directed toward expenditures for property, plant and equipment. Capital expenditures were \$48.8 million and \$38.9 million for the nine-month period ended June 26, 2004 and June 28, 2003, respectively. The development of software for the Company's order fulfillment and service delivery redesign project, scheduled to be implemented in phases during fiscal 2004 and through the beginning of fiscal 2005, continues to be a major component of the increase in capital expenditures year-over-year. Other components include land and construction costs associated with the relocation of the Company's existing Hartford, Connecticut production facility to a new location. Additional capital dollars were directed toward the deployment of Alphaliner computerized mail sorters and computer software and hardware. The Company expects its capital expenditures for the entire year to be \$74.0 million, which includes \$27.0 million for the new production facility.

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

For the nine-month period ended June 26, 2004, net cash used by financing activities centered on transactions associated with the Company's debt. The debt activity included the reclassification between the term loan and private placement notes resulting from the Company's refinancing during the first quarter, net repayments on the revolving line of credit taking into account the refinancing activity, and the payment of \$2.2 million of debt issue costs associated with the debt refinancing. Other financing activity included the payment of quarterly cash dividends totaling \$9.9 million, proceeds of \$5.9 million related to stock option exercise activities and \$2.7 million of treasury stock transactions pursuant to elections by employees to satisfy tax withholding requirements.

As detailed in Note 10 to the Consolidated Financial Statements, the Company has received a state sales and use tax assessment for \$4.7 million. The Company believes the assessment will be overturned based on applicable laws and regulations. The Company is also concurrently pursuing a refund of the tax assessment that would effectively eliminate the liability. In the event the assessment stands and the refund is denied, the Company will pursue its rights in court. In order to pursue these remedies, the Company may be required to pay the tax assessment. The Company will fund the payment with cash generated from operating activities or from its available unused credit commitments and does not expect this funding to have an adverse impact to the Company's liquidity.

CONTRACTUAL AND COMMERCIAL COMMITMENTS

As a result of the debt refinancing, the Company's contractual obligations as of June 26, 2004 were \$125.0 million of senior secured notes which mature in ten years.

During fiscal 2003, the Company entered into a lease agreement for a new Hartford, Connecticut production facility with lease payments to begin after the construction of the facility, expected to be completed in the fourth quarter of fiscal 2004. The lease agreement included the right to purchase the property, which the Company exercised in 2003. The Company subsequently decided to terminate the lease agreement in its entirety and is constructing the new facility and recording the construction costs to construction in progress ("CIP") included in property, plant and equipment. As of June 26, 2004, CIP related to the construction of the facility was \$19.2 million. In addition, the Company capitalized \$1.6 million of land acquisition costs. Total construction

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costs are estimated to be approximately \$27.0 million.

FINANCING ARRANGEMENTS

On December 4, 2003, the Company replaced its existing credit facilities. The new credit agreements totaling \$275 million include \$125 million private placement senior secured notes with several institutional investors and a \$150 million revolving line of credit ("Revolver") with a syndicate of banks.

The senior secured notes consist of \$65 million notes at a fixed interest rate of 5.71% (Series A Notes) and \$60 million notes at a variable interest rate of LIBOR rate plus 0.92% (Series B Notes). The senior secured notes have a ten-year life and mature in December 2013. Interest is payable semi-annually on the Series A and quarterly on the Series B Notes.

The Revolver has a four-year life and remains available until maturity in December 2007. The Revolver bears interest, at the Company's option, equal to the LIBOR rate or to the bank's "base rate" plus an "applicable margin" (based on certain financial ratios). The applicable margin ranges from 0.875% to 1.50% on the LIBOR rate and 0% to 0.50% on the base rate. Interest is payable quarterly or upon the maturity of the LIBOR contracts,

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

whichever is shorter.

At June 26, 2004, the senior secured notes accounted for the entire outstanding debt balance of \$125.0 million. There was no outstanding balance on the revolving line of credit. The Company anticipates it will be able to meet its debt obligations through funds generated from operations. During July 2004, the Company had net borrowings of \$10.0 million under the revolving line of credit.

The Company pays fees on the unused commitments at a rate ranging from 0.20% to 0.40% depending on the Company's debt ratio, as defined. At June 26, 2004, there was \$138.4 million available for future borrowings which reflects \$11.6 million utilized by letters of credit under separate agreements related to the Company's workers' compensation program.

In the first quarter of fiscal 2004, the Company capitalized \$2.2 million of debt issue costs directly associated with the issuance of the new debt. These costs are included in other assets and are being amortized either over the ten-year life of the senior secured notes or over the four-year life of the Revolver, whichever is applicable.

Under the terms of the senior secured notes and Revolver, the Company is required to maintain certain financial ratios. In addition, the credit facilities also place restrictions on disposals of assets, mergers and acquisitions, dividend payments, investments and additional debt.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are defined as those that are most important to the portrayal of a company's financial condition and results of operations and which require complex or subjective judgments or estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those

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estimates under different assumptions and conditions. The Company has determined its critical accounting policies to include the allowance for doubtful accounts and the valuation of goodwill and intangible assets.

Allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company reviews the collectibility of its receivables on an ongoing basis taking into account a combination of factors. On a monthly basis, the Company conducts meetings to identify and review potential problems, such as a bankruptcy filing or deterioration in the customer's financial condition, to ensure the Company is adequately accrued for potential loss. The Company also calculates a trended write-off of bad debts over a rolling twelve-month period and takes into account aging categories, historical trends and specific accounts. If a customer's situation changes, such as bankruptcy or creditworthiness, or there is a change in the current economic climate, the Company may modify its estimate of the allowance for doubtful accounts.

Valuation of goodwill and intangible assets

Goodwill represents the excess purchase price paid over the fair value of net assets acquired in connection with the purchase of a business. The Company is required to test goodwill annually for impairment. Impairment exists when the carrying amount of goodwill exceeds its fair market value. The Company's goodwill impairment test was performed by comparing the net present value of projected cash flows to the carrying value of goodwill. The Company utilized discount rates determined by management to be similar with the level of risk in the current business model. The Company performed the annual impairment testing during the first quarter of fiscal 2004 and determined that no impairment of goodwill exists. If the assumptions the Company made regarding estimated cash flows, such as future operating performance and other factors used to determine the fair value, are less favorable than expected, the Company may be required to record an impairment charge.

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

NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities," which was revised in December 2003 ("FIN No. 46-R"). This new rule requires that companies consolidate a variable interest entity if the company is subject to a majority of the risk of loss from the variable interest entity's activities and/or is entitled to receive a majority of the entity's residual returns. The provisions of FIN No. 46-R were required to be applied as of the end of the first reporting period after March 15, 2004 for the variable interest entities in which the company holds a variable interest that it acquired on or before January 31, 2003. The adoption of FIN No. 46-R did not have any impact on the financial position or results of operations of the Company.

On March 31, 2004, the FASB issued an exposure draft entitled "Share-Based Payment, an Amendment of FASB Statements No.'s 123 and 95". Among other items, the proposed standard would require the fair value of stock options to be recognized in the financial statements as compensation expense. The proposed requirements in the exposure draft would be effective for the Company's 2006 fiscal year-end. The pro-forma impact of stock option expensing is calculated as

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required under FASB Statement No. 123, "Accounting for Stock-Based Compensation" and disclosed in Note 8 of these financial statements. However, the actual impact to our financial statements upon adoption of the proposed standard could differ from the pro-forma information included in Note 8 due to differences in option-pricing models used, estimates and assumptions, and options to be included in the calculation upon adoption. The Company will monitor the status of the proposed standard and will evaluate the impact to our financial position and results of operations when the final standard is issued.

ITEM 3. 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 maintains interest rate swap agreements on notional amounts totaling \$50 million.

If interest rates should change by 2 percentage points for the remainder of the 2004 fiscal year from those rates in effect at June 26, 2004, interest expense would increase/decrease by approximately \$0.8 million. These amounts are determined by considering the hypothetical interest rates on the Company's borrowing cost. The sensitivity analysis also assumes no changes in the Company's financial structure.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company evaluated under the supervision and with the participation of management, the principal executive officer and the principal financial officer, the design and operation of its disclosure controls and procedures to determine if they are effective in ensuring that the disclosure of required information is made timely and in accordance with the Securities Exchange Act and the rules and regulations of the Securities and Exchange Commission.

The principal executive officer and principal financial officer have concluded, based on their review, that the Company's disclosure controls and procedures, as defined in Securities Exchange Act Rules 13a-14(c) and 15d-14(c), were, as of the end of the period covered by this Quarterly Report on Form 10-Q, effective to ensure that information required to be disclosed by the Company in reports it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. No change to the Company's internal control over financial reporting occurred

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during the period covered by this Quarterly Report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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 27A of the Securities Exchange Act of 1933 and 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. The Company's business is promotional in nature, and ADVO serves its clients on a "just in time" basis. As a result, fluctuations in the amount, timing, pages and weight, and kinds of advertising

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pieces can vary significantly from week to week, depending on its customers' promotional needs, inventories and other factors. In any particular quarter these transactional fluctuations are difficult to predict, and can materially affect the Company's revenue and profit results. The Company's business contains additional risks and uncertainties which include but are not limited to: general changes in customer demand and pricing, the possibility of consolidation throughout the retail sector, the impact of economic and political conditions on retail advertising spending and our distribution system, postal and paper prices, possible governmental regulation or legislation affecting aspects of the Company's business, the efficiencies achieved with technology upgrades, the number 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.

WEBSITE ACCESS TO COMPANY REPORTS AND OTHER INFORMATION

We make available free of charge through our website, www.advo.com, our Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission. Our Internet website and the information contained therein or incorporated therein are not intended to be incorporated into this Quarterly Report on Form 10-Q.

We have adopted a Code of Business Ethics and Conduct that applies to all employees as well as our Board of Directors. The Code of Business Ethics and Conduct, as well as the Charters for the committees of our Board of Directors, the Audit Committee, Qualified Legal Compliance Committee, Corporate Governance Committee, Compensation and Nomination Committee and the Company's Corporate Governance Guidelines, are posted on our website, www.advo.com. Copies of these documents will be provided free of charge upon written request directed to Corporate Secretary, ADVO, Inc., One Targeting Centre, Windsor, CT, 06095.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 10 to the Consolidated Financial Statements within Part I, Item 1.

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ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

Below is a summary of stock purchases made by the Company or on behalf of the Company for the quarter ended June 26, 2004.

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	Issuer Purchases of Equity Securities		
Total Number Of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)	
April 2004 Employee transactions (2)	14,617	\$ 32.39	N/A

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Deferred compensation plan (3)	180	\$ 31.60	N/A
May 2004			
Employee transactions (2)	5,184	\$ 31.61	N/A
Deferred compensation plan (3)	220	\$ 31.08	N/A
June 2004			
Employee transactions (2)	-	-	N/A
Deferred compensation plan (3)	170	\$ 31.83	N/A

Total shares purchased	20,191		
	=====		

- (1) In September 2003, the Company announced a stock buyback program allowing the repurchase of 1,500,000 post-split shares. Under the authorization, the Company can purchase shares on the open market. The stock buyback program does not have an expiration date. The Company purchased no shares under the program for the three months ended June 26, 2004. The maximum number of shares that may yet be purchased under the program is 1,500,000 shares.
- (2) Includes shares attested to in satisfaction of the exercise price and/or tax withholding obligations by holders of employee stock options who exercised options and shares withheld to satisfy tax withholding obligations upon release of restricted shares.
- (3) The Company has a non-qualified deferred compensation plan ("plan") that provides participants the option to invest in several investment opportunities one of which is the ADVO Stock Fund. These shares of ADVO stock are purchased by the plan's trustee on the open market.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibit Index

Exhibit No.	Exhibits Included Within
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10	Employment Agreement dated June 15, 2004 between ADVO, Inc. and Bobbie Gaunt.
31(a)	Certification of the Interim Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
31(b)	Certification of the Acting Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
32	Certifications of the Interim Chief Executive Officer and Acting Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- (b) Reports on Form 8-K

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The Company filed a current report on Form 8-K dated June 16, 2004, to report under Item 5, that Gary M. Mulloy, Chairman and Chief Executive Officer, left the Company and that the Board of Directors appointed director, Bobbie Gaunt, as Interim Chief Executive Officer. The Company also reported under Item 6, Gary M. Mulloy's resignation from the Board of Directors. Gary M. Mulloy's separation agreement is included as an exhibit on this Form 8-K.

The Company furnished a current report on Form 8-K dated July 15, 2004 which reported the Company's earnings press release for the third quarter ended June 26, 2004.

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

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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 9, 2004

By: /s/ JOHN D. SPERIDAKOS

John D. Speridakos
Vice President and Controller
(Principal Accounting Officer)

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