ADVO INC
Form DEFM14A
August 10, 2006
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As Filed with the Securities and Exchange Commission on August 10, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Under Rule 14a-12

ADVO, Inc.

(Name of Registrant as Specified in Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if Other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common Stock, par value $0.01 per share

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(2) Aggregate number of securities to which transaction applies:

31,754,678 shares of Common Stock as of July 5, 2006

2,569,388 options to acquire shares of Common Stock as of July 5, 2006

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

$37.00 per share of Common Stock

$18,372,967 expected to be paid upon the cancellation of outstanding options having an exercise price of less than $37.00 per share of common stock (based upon 2,569,388 shares of common stock subject to outstanding options multiplied by approximately $7.15 per share, which is the excess of $37.00 over the weighted average exercise price per share of the outstanding options)

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(4) Proposed maximum aggregate value of transaction:
$1,193,296,053.18

(5) Total fee paid:
$ 127,682.68

x Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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One Targeting Centre

Windsor, CT 06095

Dear Fellow Stockholder:

We cordially invite you to attend a special meeting of stockholders of ADVO, Inc. to be held on September 13, 2006, at 10:00 AM, Eastern Time, at the Company s corporate headquarters, One Targeting Centre, Windsor, Connecticut. The board of directors has fixed the close of business on August 4, 2006, as the record date for the purpose of determining stockholders entitled to receive notice of and vote at the special meeting or any adjournment or postponement thereof.

On July 5, 2006, we entered into an Agreement and Plan of Merger, as it may be amended from time to time, which we refer to as the merger agreement, with Valassis Communications, Inc. and Michigan Acquisition Corporation, a wholly owned subsidiary of Valassis, which we refer to as Acquisition Sub. The merger agreement provides that Acquisition Sub will merge with and into ADVO, with ADVO surviving as a wholly owned subsidiary of Valassis. At the special meeting, you will be asked to consider and vote upon a proposal to adopt the merger agreement.

If our stockholders adopt the merger agreement and the merger is subsequently completed, you will be entitled to receive $37.00 in cash per share, without interest, of ADVO common stock you own, unless you have properly exercised your appraisal rights. On July 5, 2006, the last full trading day prior to the public announcement of the merger agreement, the closing price of our common stock was $24.26 per share.

Your vote is very important. We cannot complete the merger unless the holders of a majority of the issued and outstanding shares of our common stock entitled to vote at the special meeting adopt the merger agreement. Whether or not you plan to attend the special meeting in person, please submit your proxy without delay. You can vote your shares prior to the special meeting by telephone, on the internet, or by mail with a proxy card, in each case in accordance with the instructions on the proxy card. Voting by any of these methods will ensure that you are represented at the special meeting even if you are not there in person. Voting by proxy will not prevent you from voting your ADVO shares in person if you subsequently choose to attend the special meeting. If you receive more than one proxy card because you own shares that are registered separately, please vote the shares shown on each proxy card.

Our board of directors has unanimously determined that the merger agreement is advisable, fair to and in the best interests of ADVO and its stockholders and has therefore unanimously approved the merger agreement and the transactions contemplated thereby, including the merger. **Accordingly, the board of directors recommends that you vote FOR the adoption of the merger agreement at the special meeting.**

If your shares are held in street name by your bank, brokerage firm or other nominee, your bank, brokerage firm or nominee will be unable to vote your shares without instructions from you. You should instruct your bank, brokerage firm or nominee to vote your shares, following the procedures provided by your bank, brokerage firm or nominee. Failure to instruct your bank, brokerage firm or other nominee to vote your shares will have the same effect as voting against adoption of the merger agreement.

We encourage you to read the accompanying proxy statement carefully because it explains the proposed merger, the documents related to the merger and other related matters. After you have reviewed the enclosed materials, please vote as soon as possible.

Sincerely,

S. Scott Harding

Chief Executive Officer

This proxy statement is dated and will first be made available to ADVO stockholders on or about August 10, 2006.

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One Targeting Centre

Windsor, CT 06095

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held On September 13, 2006

NOTICE IS HEREBY GIVEN THAT a special meeting of stockholders of ADVO, Inc. will be held on September 13, 2006, at 10:00 AM Eastern Time, at the Company s corporate headquarters, One Targeting Centre, Windsor, Connecticut. The purpose of the meeting will be:

to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, as it may be amended from time to time, which we refer to as the merger agreement, by and between ADVO, Inc., which we refer to as ADVO, Valassis Communications, Inc., which we refer to as Valassis and Michigan Acquisition Corporation, a wholly owned subsidiary of Valassis, which we refer to as Acquisition Sub, pursuant to which ADVO will become a wholly owned subsidiary of Valassis;

to consider and vote upon a proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to adopt the merger agreement; and

to transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

Our board of directors has unanimously approved the merger agreement and has unanimously determined that the merger, the merger agreement and the transactions contemplated thereby are advisable, fair to and in the best interests of ADVO and its stockholders, and recommends that you vote **FOR** the adoption of the merger agreement at the special meeting. The terms of the merger agreement and the merger are more fully described in the attached proxy statement, which we urge you to read carefully and in its entirety. Our board of directors also recommends that you vote **FOR** the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies. No other business is presently scheduled to come before the special meeting.

Only stockholders who held shares of record as of the close of business on the record date, August 4, 2006, are entitled to receive notice of and to vote at the special meeting or any adjournment or postponement of the special meeting. Whether or not you plan to attend the special meeting in person, please submit your proxy or, in the event that you hold your shares through a bank, brokerage firm or other nominee, your separate voting instructions as soon as possible. You can vote your shares prior to the special meeting by telephone, on the internet, or by mail with a proxy card, in each case, in accordance with the instructions on the proxy card. Voting by any of these methods will ensure that you are represented at the special meeting even if you are not present in person. Submitting your proxy before the special meeting will not preclude you from voting in person at the special meeting should you decide to attend.

A list of stockholders entitled to vote at the special meeting will be available for examination, for any purpose relevant to the special meeting, at our main offices located at One Targeting Centre, Windsor, CT 06095, during ordinary business hours for at least ten days prior to the special meeting, as well as at the special meeting.

Your vote is very important, regardless of the number of shares of ADVO common stock you own. The adoption of the merger agreement requires the affirmative vote of the holders of a majority of the issued and outstanding shares of our common stock entitled to vote at the special meeting. The proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies requires the affirmative vote of the holders of a majority of the shares present in person at the special meeting or represented by proxy and entitled to vote thereon.

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If you sign, date and mail your proxy card without indicating how you wish to vote, your vote will be counted as a vote in favor of the adoption of the merger agreement, and in favor of the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies, and in accordance with the best judgment of the persons appointed as proxies on any other matters properly brought before the meeting for a vote. If you fail to return your proxy card, your shares of ADVO common stock will not be counted for the purposes of determining whether a quorum is present, and your shares will have the same effect as a vote against the adoption of the merger agreement. Not returning your proxy will have the same effect as an abstention on the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies.

You may revoke a proxy at any time prior to its exercise at the special meeting. You may do so by executing and returning a proxy card dated later than the previous one, by properly submitting a later proxy by telephone or on the internet, by attending the special meeting and casting your vote by ballot at the special meeting or by delivering a written revocation dated after the date of the proxy that is being revoked to ADVO, Inc., One Targeting Centre, Windsor, CT 06095, Attention: Corporate Secretary, prior to the closing of the polls for the vote at the special meeting. If you hold your shares through a bank or brokerage firm, you should follow the instructions of your bank or brokerage firm regarding revocation of proxies. If your bank or brokerage firm allows you to vote by telephone or on the internet, you may be able to change your vote by voting again by telephone or the internet.

By Order of the Board of Directors

Stephen L. Palmer

Corporate Secretary

Windsor, Connecticut

August 10, 2006

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SUMMARY TERM SHEET

This summary highlights selected information from this proxy statement about the proposed merger and may not contain all of the information that is important to you as an ADVO stockholder. Accordingly, we encourage you to read carefully this entire proxy statement, including the annexes, and the other documents to which we refer you. We have included section references to direct you to a more complete description of the topics contained in this summary.

Unless we otherwise indicate or unless the context requires otherwise: all references in this document to the company, we, our, and us refer to ADVO, Inc. and its subsidiaries; all references to Valassis refer to Valassis Communications, Inc.; and all references to Acquisition Sub refer to Michigan Acquisition Corporation, a wholly owned subsidiary of Valassis.

The Merger (page 14)

If the merger is completed, Acquisition Sub will be merged with and into ADVO, and ADVO will survive the merger and continue to exist after the merger as a wholly owned subsidiary of Valassis. As a result of the merger, you will no longer have an ownership interest in ADVO, and your shares of ADVO common stock will be converted into the right to receive the merger consideration.

Merger Consideration (page 35)

In the merger, you will receive $37.00 in cash for each share of ADVO common stock you hold immediately prior to the merger, unless you do not vote in favor of the merger and you otherwise properly perfect your appraisal rights under Delaware law. No interest will be paid on the merger consideration.

Rights of Option Holders and Holders of Restricted Stock (page 36)

If the merger is completed, each outstanding option to purchase shares of ADVO common stock, including any options held by ADVO directors and executive officers, whether or not vested, will vest and be converted into the right to receive an amount in cash (less any applicable withholding of taxes) equal to the product of (a) the number of shares of ADVO common stock subject to the option times (b) the excess, if any, of $37.00 over the per share exercise price of the option. At the effective time of the merger, each outstanding and unvested share of ADVO restricted stock, including those held by our directors and executive officers, will vest and no longer be subject to any restrictions.

Conditions to the Completion of the Merger (page 44)

The completion of the merger depends on a number of conditions being satisfied or waived, including adoption of the merger agreement by the holders of a majority of the outstanding shares of our common stock entitled to vote at the special meeting, as well as receipt of regulatory approvals for the merger.

We currently expect to complete the merger shortly after adoption of the merger agreement at the special meeting, but we cannot be certain when or if the conditions will be satisfied or waived.

Termination of the Merger Agreement (page 45)

The merger agreement may be terminated in certain circumstances by ADVO or Valassis. If the merger agreement is terminated under certain circumstances, we will have to pay a termination fee of $38 million either upon termination or upon the completion by ADVO of a different business combination. If the merger agreement is terminated under certain circumstances, Valassis may also be entitled to reimbursement of certain expenses which it incurred up to a maximum of $10 million.

Board of Directors Recommendation (page 16)

Our board of directors has unanimously approved the merger agreement and has unanimously determined that the merger, the merger agreement and the transactions contemplated thereby are

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advisable, fair to and in the best interests of ADVO and its stockholders, and recommends that you vote **FOR** the adoption of the merger agreement at the special meeting. Our board of directors also recommends that you vote **FOR** the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies. No other business is presently scheduled to come before the special meeting.

Opinion of Our Financial Advisor (page 18)

In connection with the merger, Citigroup Global Markets Inc., which we refer to as Citigroup, our financial advisor, delivered to our board of directors a written opinion that, as of the date of the opinion and subject to the various assumptions, qualifications and limitations set forth therein, the merger consideration to be received by holders of ADVO common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders. The full text of the written opinion, dated July 5, 2006, of Citigroup, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as Annex B to this proxy statement and is incorporated by reference in its entirety into this proxy statement. Holders of ADVO common stock are encouraged to read the opinion carefully in its entirety. **Citigroup provided its opinion to our board of directors to assist the board of directors in its evaluation of the merger consideration from a financial point of view. The opinion does not address any other aspect of the merger and does not constitute a recommendation to any stockholder as to how to vote or act in connection with the merger.**

Interests of ADVO s Directors and Executive Officers in the Merger (page 28)

Some of the directors and executive officers of ADVO may have financial interests in the merger that are different from, or are in addition to, the interests of stockholders of ADVO. These interests may include rights of executive officers under employment or severance agreements with ADVO, rights under stock-based benefit programs and stock-based awards of ADVO common stock, and rights to continued indemnification and insurance coverage after the merger for acts or omissions occurring prior to the merger. The ADVO board of directors was aware of these interests and considered them, among other matters, in approving the merger agreement and the transactions contemplated thereby. Assuming that the effective time occurs on September 29, 2006, at the effective time, the directors and executive officers will vest in respect of 658,833 stock options and 180,966 restricted shares in the aggregate.

Material U.S. Federal Income Tax Consequences (page 26)

The receipt of cash for shares of our common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes (and may also be a taxable transaction under applicable state, local or foreign income or other tax laws). For U.S. federal income tax purposes, a holder of shares of our common stock generally will recognize gain or loss equal to the difference between (1) the amount of cash received in exchange for such shares and (2) the holder s adjusted tax basis in such shares. Stockholders are urged to consult their tax advisors to determine the particular tax consequences to them (including the application and effect of any state, local or foreign income and other tax laws) of the merger.

Appraisal Rights (page 29)

Under Section 262 of the Delaware General Corporation Law, which we refer to as the DGCL, in the event the merger is completed and you do not vote to adopt the merger agreement and you comply with the other statutory requirements of the DGCL (including making a written demand for appraisal in compliance with the DGCL **before** the vote on the proposal to adopt the merger agreement at the special meeting), you may elect to receive, in cash, the judicially determined fair value of your shares of our common stock, with interest, in lieu of the merger consideration. The fair value of your shares of ADVO common stock as determined in accordance with Delaware law may be more or less than or the

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same as the merger consideration to be paid to stockholders in the merger. Annex C to this proxy statement contains the full text of Section 262 of the DGCL, which relates to appraisal rights. We encourage you to read Annex C carefully and in its entirety. Failure to follow all of the steps required by Section 262 of the DGCL will result in the loss of your appraisal rights.

Regulatory and Other Governmental Approvals (page 27)

The Hart-Scott-Rodino Antitrust Improvements Act of 1976 and related rules (the HSR Act) provide that transactions such as the merger may not be completed until certain information has been submitted to the Federal Trade Commission and the Antitrust Division of the U.S. Department of Justice (Antitrust Division) and certain waiting period requirements have been satisfied. We and Valassis filed our respective Notification and Report Forms with the Antitrust Division and the Federal Trade Commission on July 19, 2006, and accordingly, the waiting period will expire on August 18, 2006, unless a request is made for additional information or documentary material.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING

Q. Why am I receiving this proxy statement?

A. You are receiving this proxy statement because you are a stockholder of ADVO, Inc., which we also refer to as ADVO. On July 5, 2006, ADVO entered into a merger agreement with Valassis Communications, Inc., which we refer to as Valassis, and Michigan Acquisition Corporation, a wholly owned subsidiary of Valassis, which we refer to as Acquisition Sub. The merger agreement provides for the acquisition of ADVO by Valassis by means of the merger of Acquisition Sub with and into ADVO. If the merger is completed, ADVO will become a wholly owned subsidiary of Valassis. A copy of the merger agreement, as it may be amended from time to time, is attached to this proxy statement as Annex A.

In order to complete the merger, among other things, our stockholders must vote to adopt and approve the merger agreement. We are holding a special meeting of stockholders to obtain this approval.

Q. When and where is the special meeting of our stockholders?

A. The special meeting of stockholders will take place on September 13, 2006, at 10:00 AM Eastern Time, at the Company s corporate headquarters, One Targeting Centre, Windsor, Connecticut.

Q. What matters will I be asked to vote on at the special meeting?

A. At the special meeting, you will be asked:

to consider and vote upon a proposal to adopt the merger agreement;

to approve the adjournment or postponement of the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to adopt the merger agreement; and

to transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

Q. How does the board of directors of ADVO recommend that I vote on the proposals?

A. Our board of directors recommends that you vote:

FOR the proposal to adopt the merger agreement; and

FOR the adjournment or postponement of the meeting, if necessary, to solicit additional proxies.

Q. What will I receive in exchange for my shares of ADVO common stock?

A. If we complete the merger, you will have the right to receive $37.00 in cash for every share of our common stock that you own unless you do not vote in favor of the merger and you properly perfect your appraisal rights under Delaware law. No interest will be paid on the merger consideration.

Q. What is a quorum?

A. A quorum of the holders of the issued and outstanding shares of ADVO common stock must be present for the special meeting to be held. A quorum is present if the holders of one-third of our issued and outstanding shares of common stock entitled to vote are present at the meeting, either in person or represented by proxy. Abstentions are counted as present for the purpose of determining whether a quorum is present.

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Q. What vote is required to adopt the merger agreement?

A. In order to adopt the merger agreement, holders of a majority of the issued and outstanding shares of our common stock entitled to vote at the special meeting must vote FOR such proposal. Each share of our common stock is entitled to one vote.

Q. What vote is required to adjourn or postpone the special meeting, if necessary, to solicit additional proxies at the special meeting?

A. In order to approve the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies, holders of a majority of the shares of our common stock that are present at the special meeting and that are voted and do not abstain must vote **FOR** the proposal to adjourn or postpone the special meeting.

Q. How are votes counted?

A. For the proposal relating to the adoption of the merger agreement, you may vote **FOR**, **AGAINST** or **ABSTAIN**. Abstentions will have the same effect as votes cast **AGAINST** the proposal relating to adoption of the merger agreement, and will count for the purpose of determining whether a quorum is present. Stockholders as of the close of business on the record date holding at least a majority of the issued and outstanding shares of our common stock must vote **FOR** the adoption of the merger agreement for us to complete the merger. For the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies, you may vote **FOR**, **AGAINST** or **ABSTAIN**. Abstentions will not count as votes cast on the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies, but will count for the purpose of determining whether a quorum is present. The proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies requires the affirmative vote of holders representing a majority of the votes of our shares of common stock that are present at the special meeting and entitled to vote and that are voted and do not abstain. As a result, if you **ABSTAIN**, it will have no effect on the vote for the adjournment or postponement of the special meeting, if necessary, to solicit additional proxies.

If you sign your proxy card without indicating your vote, your shares will be voted **FOR** the adoption of the merger agreement, **FOR** adjournment or postponement of the special meeting, if necessary, to solicit additional proxies, and in accordance with the best judgment of the persons appointed as proxies on any other matters properly brought before the meeting for a vote. No other business is presently scheduled to come before the special meeting.

A broker non-vote generally occurs when a broker, bank or other nominee holding shares on your behalf does not vote on a proposal because the nominee has not received your voting instructions and lacks discretionary power to vote the shares. Broker non-votes count for the purpose of determining whether a quorum is present, but will **NOT** count as votes cast on a proposal. As a result, broker non-votes will have the effect of a vote **AGAINST** the adoption of the merger agreement. Broker non-votes will have no effect on the vote for the adjournment or postponement of the meeting, if necessary, to solicit additional proxies.

Q. Who may vote at the special meeting?

A. Owners of our common stock at the close of business on August 4, 2006, the record date for the special meeting, are entitled to vote. This includes shares you held on that date (1) directly in your name as the stockholder of record and (2) through a broker, bank or other holder of record where the shares were held for you as the beneficial owner. A list of stockholders of record entitled to vote at the special meeting will be available at our offices located at One Targeting Centre, Windsor, Connecticut, during ordinary business hours for ten days prior to the special meeting, as well as at the special meeting.

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Q. How many shares can vote?

A. On the record date for the special meeting, there were 31,784,280 shares of our common stock outstanding, with each share entitled to one vote for each matter to be voted on at the special meeting.

Q. How do I vote?

A. Since many stockholders are unable to attend the special meeting in person, we send proxy cards to all stockholders of record to enable them to direct the voting of their shares. Brokers, banks and nominees generally solicit voting instructions from the beneficial owners of shares held by them and typically offer telephonic or electronic means by which these instructions can be given, in addition to the traditional mailed voting instruction cards. If you beneficially own shares held through a broker, bank or other nominee, you may submit voting instructions by telephone or on the internet if the firm holding your shares offers these voting methods. Please refer to the voting instructions provided by your broker, bank or nominee for information.

Q. What does it mean if I get more than one proxy card?

A. If you have shares of our common stock that are registered separately and are in more than one account, you will receive more than one proxy card. Please follow the directions for voting on each of the proxy cards you receive to ensure that **ALL** of your shares are voted.

Q. How will my proxy vote my shares?

A. The designated proxy holders will vote according to the instructions you submit on your proxy card. If you sign and return your card but do not indicate your voting instructions on one or more of the matters listed, the proxy holders will vote all uninstructed shares **FOR** the adoption of the merger agreement, **FOR** the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies, and in accordance with the judgment of the designated proxy holders on any other matters properly brought before the special meeting for a vote. No other business is presently scheduled to come before the special meeting.

Q. If my shares are held in street name by my bank, brokerage firm or other nominee, will my bank, broker or nominee automatically vote my shares for me?

A. No. Your bank, brokerage firm or nominee cannot vote your shares without instructions from you. You should instruct your bank, brokerage firm or nominee as to how to vote your shares, following the instructions contained in the voting instruction card that your bank, broker or nominee provides to you. Failing to instruct your bank, brokerage firm or nominee to vote your shares will have the same effect as a vote **AGAINST** the merger.

Q. Can I change my vote?

A. You may revoke your proxy at any time before it is voted at the special meeting. If you are the holder of record of your shares, you may revoke your proxy prior to the vote at the special meeting in any of three ways:

by delivering a written revocation dated after the date of the proxy that is being revoked to ADVO, Inc., One Targeting Centre, Windsor, Connecticut, Attention: Corporate Secretary;

by delivering a proxy dated later than your original proxy relating to the same shares to our Corporate Secretary by mail, telephone or on the internet; or

by attending the special meeting and voting in person by ballot.

However, if you hold your shares in street name, simply attending the special meeting may not constitute revocation of a proxy. If your shares are held in street name , you should follow the instructions of your

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broker, bank or other nominee regarding revocation or change of proxies. If your broker, bank or other nominee allows you to submit a proxy by telephone or through the internet, you may be able to change your vote by submitting a new proxy by telephone or through the internet.

Q. Can I vote in person at the special meeting?

A. If you submit a proxy or voting instructions you do not need to vote at the special meeting. However, we will pass out written ballots to any stockholder of record or authorized representative of a stockholder of record who wants to vote in person at the special meeting rather than by proxy. Voting in person will revoke any proxy previously given if you are a stockholder of record. If you hold your shares through a broker, bank or nominee, you must obtain a proxy from your broker, bank or nominee to vote in person.

Q. Who can attend the special meeting?

A. All stockholders of record on the record date for the special meeting can attend. In order to be admitted to the meeting, you will need to bring proof of identification. Please note that if you hold shares in street name (that is, through a broker, bank or other nominee) and would like to attend the special meeting and vote in person, you will need to bring an account statement or other acceptable evidence of ownership of our common stock as of the close of business on August 4, 2006. Alternatively, in order to vote, you may contact the person in whose name your shares are registered and obtain a proxy from that person and bring it to the special meeting.

Q. Should I send in my stock certificates now?

A. ***No. Please do not send any stock certificates with your proxy card.*** After we complete the merger, you will receive written instructions for returning your ADVO stock certificates. These instructions will tell you how and where to send your ADVO stock certificates in order to receive the merger consideration.

Q. When do you expect to complete the merger?

A. We currently expect to complete the merger shortly after adoption of the merger agreement at the special meeting, but we cannot be certain when or if the conditions will be satisfied or waived.

Q. Who can help answer my questions about the special meeting or the merger?

A. If you have questions about the special meeting or the merger after reading this proxy statement, you should contact our proxy solicitor, Mellon Investor Services LLC, at 1-866-768-4962.

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FORWARD-LOOKING STATEMENTS

This proxy statement contains statements that are not historical facts and that are considered forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Typically, we identify these forward-looking statements with words like expect, intend, may, might, should, believe, anticipate, expect, estimate, or similar expressions. We and our representatives may also make similar forward-looking statements from time to time orally or in writing.

These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. They are based on currently available information and current expectations and projections about future events. Actual events or results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to the following:

- we may be unable to obtain the required stockholder approval for the merger at the special meeting;
- we may be unable to obtain the necessary regulatory approvals for the merger in a timely matter or at all, or we may be able to obtain such approvals only by agreeing to conditions that would not be acceptable to Valassis;
- the conditions to the closing of the merger may not be satisfied, or the merger agreement may be terminated prior to closing;
- disruptions and uncertainty resulting from our proposed merger may make it more difficult for us to maintain relationships with other customers, employees or suppliers, and as a result our business may suffer;
- the restrictions on our conduct prior to closing contained in the merger agreement may have a negative effect on our flexibility and our business operations;
- governmental regulation or legislation affecting aspects of ADVO s business may be enacted;
- general changes in customer demand and pricing may occur;
- the retail sector may experience further consolidation;
- economic and political conditions may impact advertising spending and ADVO s distribution system, postal and paper prices;
- the efficiencies expected from technology upgrades may not be achieved;
- interest rates and other general economic factors may fluctuate;
- the merger may involve unexpected costs or unexpected liabilities; and

additional factors discussed in our Annual Report on Form 10-K for the fiscal year ended September 24, 2005, under the headings Management s Discussion and Analysis of Financial Conditions and Results of Operations and Quantitative and Qualitative Discussions About Market Risk.

These factors may not be all of the factors that could cause actual results to differ materially from those discussed in any forward-looking statements. Our company operates in a continually changing business environment and new factors emerge from time to time. We cannot predict all such factors nor can we assess the impact, if any, of such factors on our financial position or our results of operations. Accordingly, forward-looking statements should not be relied upon as a predictor of actual results.

The forward-looking statements in this proxy statement speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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THE COMPANIES

ADVO, Inc.

ADVO, Inc. is a direct mail media company primarily engaged in soliciting and processing printed advertising from retailers, manufacturers and service companies for targeted distribution by both shared and solo mail, as well as private carrier delivery, to consumer households in the United States and Canada on a national, regional and local basis. ADVO s network reaches over 114 million households with its ShopWise® shared mail advertising and the ADVO National Network Extension (A.N.N.E.) program.

ADVO satisfies clients of all types and sizes with customized targeting solutions for their marketing communication needs. Founded in 1929 as a hand delivery company, ADVO entered the direct mail industry as a solo mailer in 1946 and began its shared mail program in 1980. ADVO currently is the largest commercial user of standard mail (formerly third-class mail) in the United States.

ADVO competes primarily with newspapers, direct mail companies, periodicals and other local distribution entities for retail advertising expenditures. ADVO believes that its insert advertising programs, targeting technology and logistics capabilities enable advertisers seeking superior return on investment to target advertisements to specific customers or geographic areas and deliver their printed advertising directly to consumers most likely to respond.

ADVO distributes the Have you Seen Me®? missing child card with each ShopWise® package. This public service program has been responsible for safely recovering 142 children. The program was created in partnership with the National Center for Missing and Exploited Children and the U.S. Postal Service in 1985.

ADVO s principal executive offices are located at One Targeting Centre, Windsor, Connecticut 06095, and its telephone number is (860) 285-6100.

Valassis Communications, Inc.

Valassis Communications, Inc. offers a wide range of marketing services to consumer packaged goods manufacturers, retailers, technology companies and other customers with operations in the United States, Europe, Mexico and Canada. Valassis products and services portfolio includes: newspaper-delivered promotions and advertisements such as inserts, sampling, polybags and on-page advertisements; direct-to-door advertising and sampling; direct mail; Internet-delivered marketing; loyalty marketing software; coupon and promotion clearing; and promotion planning and analytic services. Valassis is committed to providing innovative marketing solutions to maximize the efficiency and effectiveness of promotions for its customers.

Valassis principal executive offices are located at 19975 Victor Parkway, Livonia, Michigan 48152, and its telephone number is (734) 591-3000.

Michigan Acquisition Corporation

Michigan Acquisition Corporation, which we refer to as Acquisition Sub, is a wholly owned subsidiary of Valassis organized under the laws of Delaware. It was formed solely for the purposes of effecting the merger, has no assets, and has conducted no business operations.

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THE SPECIAL MEETING

This proxy statement is being furnished to ADVO stockholders as part of the solicitation of proxies by our board of directors for use at the special meeting to be held at 10:00 AM, Eastern Time, on September 13, 2006, at the Company s corporate headquarters, One Targeting Centre, Windsor, Connecticut.

Matters To Be Considered

The purpose of the special meeting will be:

- to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, as it may be amended from time to time, which we refer to as the merger agreement, by and between ADVO, Inc., which we refer to as ADVO, Valassis Communications, Inc., which we refer to as Valassis and Michigan Acquisition Corporation, a wholly owned subsidiary of Valassis, which we refer to as Acquisition Sub, pursuant to which ADVO will become a wholly owned subsidiary of Valassis;

- to consider and vote upon a proposal to approve the adjournment or postponement of the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to adopt the merger agreement; and

- to transact any other business that may properly come before the special meeting of stockholders or any adjournment or postponement thereof. No other business is presently scheduled to come before the special meeting.

A copy of the merger agreement is attached as Annex A to this proxy statement.

Record Date; Stock Entitled to Vote; Quorum

The holders of record of our common stock as of the close of business on the record date for the special meeting, which was August 4, 2006, are entitled to receive notice of, and to vote at, the special meeting. On the record date, there were 31,784,280 shares of our common stock outstanding. Each share of common stock outstanding on the record date is entitled to one vote for each matter to be voted on at the special meeting.

The holders of one-third of the shares of our common stock that were outstanding on the record date, present in person or represented by proxy, will constitute a quorum for purposes of the special meeting. A quorum is necessary to hold the special meeting. Any shares of our common stock held in treasury by us or by any of our subsidiaries are not considered to be outstanding for purposes of determining a quorum, and may not vote at the special meeting. In accordance with Delaware law, abstentions and properly executed broker non-votes will be counted as shares present and entitled to vote for the purposes of determining a quorum.

Required Vote

Each share of our common stock that was outstanding on the record date for the special meeting entitles the holder to one vote at the special meeting. Completion of the merger requires the adoption of the merger agreement by the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote at the special meeting. **Because the vote is based on the number of shares of our outstanding common stock rather than on the number of votes cast, failure to vote your shares, and votes to abstain, will have the same effect as votes against adoption of the merger agreement. Accordingly, the ADVO board of directors urges you to complete, date, sign and return the enclosed proxy card, or to submit your proxy by telephone or the internet, as outlined on the enclosed proxy card, or, in the event that you hold your shares through a bank, broker or other nominee, to vote by following the separate voting instructions received from your bank, broker or nominee.**

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Voting By Proxy; Revocability of Proxy

Each copy of this document mailed to our stockholders is accompanied by a proxy card and a self-addressed envelope.

If you are a registered stockholder, that is, if you are a holder of record, you may submit your proxy in any of the following three ways:

- by completing, dating, signing and returning the enclosed proxy card by mail;
- by appointing a proxy to vote your shares by telephone or on the internet, as outlined on the enclosed proxy card; or
- by appearing and voting in person by ballot at the special meeting.

Regardless of whether you plan to attend the special meeting, you should submit your proxy as described above as promptly as possible. Submitting your proxy before the special meeting will not preclude you from voting in person at the special meeting should you decide to attend.

If you hold your shares of ADVO common stock in a stock brokerage account or through a bank, brokerage firm or nominee, or in other words in street name, you must vote in accordance with the instructions on the voting instruction card that your bank, brokerage firm or nominee provides to you. You should instruct your bank, brokerage firm or nominee as to how to vote your shares, following the directions contained in the voting instruction card. If you hold shares in street name, you may submit voting instructions by telephone or on the internet if the firm holding your shares offers these voting methods. Please refer to the voting instructions provided by your bank, brokerage firm or nominee for information.

If you vote your shares of our common stock by signing a proxy, your shares will be voted at the special meeting as you indicate on your proxy card. If no instructions are indicated on your signed proxy card, your shares of our common stock will be voted **FOR** the adoption of the merger agreement and **FOR** the adjournment or postponement of the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to adopt the merger agreement, and in accordance with the best judgment of the persons appointed as proxies on any other matters properly brought before the meeting for a vote. If you submit your proxy by internet or telephone, your shares will be voted at the special meeting as instructed.

You may revoke your proxy at any time before the proxy is voted at the special meeting. If you are a holder of record, you may revoke your proxy prior to the vote at the special meeting in any of three ways:

- by delivering a written revocation dated after the date of the proxy that is being revoked to ADVO, Inc., One Targeting Centre, Windsor, CT 06095, Attention: Corporate Secretary;
- by delivering a proxy dated later than your original proxy relating to the same shares to our Corporate Secretary by mail, telephone or on the internet; or
- by attending the special meeting and voting in person by ballot.

However, if you hold your shares in street name, simply attending the special meeting may not constitute revocation of a proxy. If your shares are held in street name by your bank, brokerage firm, or other nominee, you should follow the instructions of your bank, brokerage firm or other nominee regarding revocation or change of voting instructions. If your bank, brokerage firm or other nominee allows you to submit voting instructions by telephone or through the internet, you may be able to change your vote by telephone or through the internet.

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Abstaining from Voting

If you abstain from voting, it will have the following effects:

Your shares will be counted as present for determining whether or not there is a quorum at the special meeting.

Because the merger agreement must be approved by the holders of a majority of the shares of our outstanding common stock rather than of the number of votes cast, abstentions will have the same effect as votes **AGAINST** adoption of the merger agreement.

Abstentions will not be counted in determining whether or not any proposal to adjourn or postpone the special meeting is approved. A broker non-vote generally occurs when a broker, bank or other nominee holding shares on your behalf does not vote on a proposal because the nominee has not received your voting instructions and lacks discretionary power to vote the shares. Broker non-votes count for the purpose of determining whether a quorum is present, but will not count as votes cast on a proposal. As a result, broker non-votes will have the effect of a vote **AGAINST** the adoption of the merger agreement. Broker non-votes will have no effect on the vote for the adjournment or postponement of the meeting, if necessary, to solicit additional proxies.

Voting in Person

If you submit a proxy or voting instructions you do not need to vote in person at the special meeting. However, we will pass out written ballots to any stockholder of record or authorized representative of a stockholder of record who wants to vote in person at the special meeting rather than by proxy. Voting in person will revoke any proxy previously given if you are a stockholder of record. If you hold your shares through a broker, bank or other nominee, you must obtain a legal proxy from your broker, bank or nominee authorizing you to vote your shares in person, which you must bring with you to the special meeting.

In order to be admitted to the meeting, you will need to bring proof of identification. Please note that if you hold shares in street name (that is, through a broker, bank or other nominee) and would like to attend the special meeting and vote in person, you will need to bring an account statement or other acceptable evidence of ownership of our common stock as of the close of business on August 4, 2006.

Shares Owned by ADVO Directors and Executive Officers

As of the record date, our executive officers and directors owned of record an aggregate of approximately 497,275 shares of our common stock (excluding options), representing approximately 1.6% of the outstanding shares of our common stock.

Solicitation of Proxies

Our board of directors is soliciting proxies for use at the special meeting from our stockholders. We will pay the costs of soliciting proxies for the special meeting. In addition to this mailing, our officers, directors and employees may solicit proxies by telephone, by mail, on the internet or in person. However, they will not be paid any additional amounts for soliciting proxies. We have also engaged Mellon Investor Services LLC to assist in the solicitation of proxies and to verify records relating to the solicitation. Mellon Investor Services LLC will receive a fee of approximately $9,000 and will be reimbursed for certain expenses, and we will indemnify Mellon Investor Services LLC against certain losses arising out of its proxy solicitation services on our behalf. We and our proxy solicitors will also request that individuals and entities holding ADVO shares in their names, or in the names of their nominees, that are beneficially owned by others, send proxy materials to and obtain proxies from those beneficial owners, and we will reimburse those holders for their reasonable expenses in performing those services.

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Other Business; Adjournments

We are not aware of any other business to be acted upon at the special meeting. If, however, other matters are properly brought before the special meeting, your proxies will have discretion to vote or act on those matters according to their best judgment, and intend to vote the shares as our board of directors may recommend.

The special meeting may be adjourned from time to time, whether or not a quorum exists, without further notice other than by an announcement made at the special meeting. In addition, if the adjournment or postponement of the special meeting is for more than 30 days or if after the adjournment or postponement a new record date is fixed for an adjourned or postponed meeting, notice of the adjourned meeting must be given to each stockholder of record entitled to vote at such special meeting. If a quorum is not present at the special meeting, stockholders may be asked to vote on a proposal to adjourn or postpone the special meeting to solicit additional proxies. If a quorum is present at the special meeting but there are not sufficient votes at the time of the special meeting to approve the other proposal(s), holders of common stock may also be asked to vote on a proposal to approve the adjournment or postponement of the special meeting to permit further solicitation of proxies.

Assistance

If you need assistance in completing your proxy card or have questions regarding the special meeting, please contact Mellon Investor Services LLC, at 1-866-768-4962.

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THE MERGER

Background of the Merger

ADVO s board of directors has from time to time engaged with senior management and outside advisors in strategic reviews, and has considered ways to enhance ADVO s performance and prospects in light of competitive and other relevant developments. These reviews have also included periodic discussions with respect to potential transactions that would further ADVO s strategic objectives, and the potential benefits and risks of those transactions.

In September 2005, Mr. Alan F. Schultz, Chairman and Chief Executive Officer of Valassis, called Mr. S. Scott Harding, Chief Executive Officer of ADVO, to introduce himself. During this conversation, Mr. Harding suggested that members of senior management of each company meet to discuss their respective capabilities to determine whether there were potential strategic alliances that would be in the interests of both companies. On November 14, 2005, members of Valassis senior management met with members of ADVO s senior management at Valassis headquarters in Livonia, Michigan. Following this meeting, Mr. Robert L. Recchia, Executive Vice President, Chief Financial Officer and Treasurer of Valassis, called Mr. Jeffrey E. Epstein, Executive Vice President Chief Financial Officer of ADVO, to express Valassis interest in discussing a potential business combination of the two companies. Mr. Harding notified ADVO s board of directors regarding Valassis interest.

On November 22, 2005, ADVO and Valassis executed a mutual non-disclosure agreement, which included a two-year standstill precluding either party, without the written approval of the other party s board of directors, from, among other things, making any proposal to acquire the other company, subject to certain exceptions. In December 2005, ADVO retained Citigroup Global Markets Inc. (Citigroup) as its financial advisor. On December 8, 2005, ADVO s board of directors reviewed with Citigroup and management ADVO s strategic opportunities and the status of the discussions with Valassis. On December 12, 2005, members of ADVO s senior management met with members of senior management of Valassis at ADVO s headquarters in Windsor, Connecticut. Immediately following that meeting, Mr. Schultz requested that ADVO consider a possible merger of equals transaction. On January 6, 2006, Messrs. Harding, Epstein, Schultz and Recchia met to discuss further the possibility of a merger of equals transaction, and the potential synergies that would be available in such a business combination.

At a meeting of the ADVO board of directors on January 26, 2006, the board of directors reviewed ADVO s strategic alternatives with the assistance of Citigroup, including a possible merger of equals transaction with Valassis. On February 6, 2006, members of the senior management teams of ADVO and Valassis, as well as their financial advisors, met to review each company s long-range plans, business strategies, operations, prospects and other related topics. ADVO also engaged a consulting firm to study Valassis business. On March 6, 2006, ADVO s board of directors reviewed the benefits and risks of a potential stock-for-stock merger of equals business combination and determined not to pursue it. Following the board of directors meeting, Mr. Harding called Mr. Schultz to advise him of the board of directors decision to end further discussions.

On March 29, 2006, Mr. Schultz met Mr. Harding and delivered a letter that he was also sending to each of the directors of ADVO, requesting permission under the mutual non-disclosure agreement for Valassis to make a proposal to acquire ADVO in a fully-financed, all cash transaction. The letter stated that Valassis anticipated that the proposal would include a cash price in the range of $38-$40 per share, representing a 19.3% 25.6% premium to ADVO s closing price of $31.85 on March 28, 2006.

ADVO s board of directors reviewed Valassis letter at a meeting on April 7, 2006. At such meeting, the board of directors formed a special committee, consisting of Mr. John Mahoney, Non-Executive Chairman of the Board, Mr. David Dyer, Ms. Bobbie Gaunt and Mr. Howard Newman, to oversee the response to Valassis proposal. The board of directors determined that all directors should be given notice of special committee

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meetings to enable them to participate if they were available. On April 14, 2006, the special committee met to discuss the retention of financial and legal advisers to the board of directors. Thereafter, Wachtell, Lipton, Rosen & Katz was retained as special counsel to the board of directors, and Citigroup was confirmed as financial advisor.

At its regular board of directors meeting on May 3-4, 2006, ADVO s board of directors discussed the proposal from Valassis, ADVO s strategic alternatives and the board of directors duties and responsibilities with ADVO s management and its legal and financial advisors. At the conclusion of these meetings, ADVO s board of directors determined to approve a limited waiver to the mutual non-disclosure agreement to enable Valassis to make a non-public, fully financed proposal for a cash acquisition, and authorized ADVO to permit Valassis to engage in further due diligence. On May 4, 2006, Mr. Harding delivered a letter and called Mr. Schultz advising him of the board of directors determinations, and stated that ADVO would be establishing an electronic data room for due diligence. The letter also expressed the board of directors expectation that Valassis confirmatory due diligence and further discussions regarding synergy opportunities would result in even higher values for ADVO s stockholders than the range specified in Valassis March 29th letter. Mr. Harding also stated that ADVO expected that Valassis proposal, including detailed terms and conditions and evidence of financing, would be delivered to ADVO by no later than June 2, 2006. Mr. Schultz advised Mr. Harding by telephone that he expected Valassis would be able to meet this timetable for delivering its proposal. Valassis and its advisors began their due diligence the week of May 15, 2006 following the opening of the electronic data room.

On May 16, 2006, the special committee of the ADVO board of directors met to consider contacting additional parties to solicit their interest in a potential acquisition of ADVO. Following discussion with its legal and financial advisors, the special committee authorized Citigroup to contact a targeted list of four potential strategic acquirors and two potential financial acquirors considered most likely to have an interest in an acquisition of ADVO. Over the next three weeks, Citigroup contacted these six parties, and ADVO made management presentations to two of these parties which had executed confidentiality agreements.

On May 18, 2006, members of the senior management teams of ADVO and Valassis, as well as their respective financial and legal advisors and representatives of a potential equity financing source for Valassis, met in New York. ADVO s management gave presentations and provided information relating to ADVO s operations, finances and other related topics. Following the management presentation, Messrs. Schultz and Harding met to discuss Mr. Harding s potential role in a combined company. On May 22 and 30, 2006, the special committee met to receive updates on the status of discussions with Valassis and the two other parties which were interested in exploring discussions regarding a potential acquisition of ADVO.

On June 2, 2006, Valassis submitted a non-binding written proposal to acquire ADVO for $35.25 in cash per share. Valassis also provided a written financing commitment from Bear Stearns & Co., Inc., Valassis financial advisor, and a form of merger agreement.

ADVO s board of directors met to discuss the proposal on June 5, 2006. A representative of Citigroup discussed the financial aspects of the proposal, noting that the proposal represented a discount from the range initially indicated by Valassis in its March 29th letter, although it represented a premium of approximately 33% to the most recent closing price of ADVO common stock. After discussion, the board of directors, by a unanimous vote of the directors present, rejected the proposal and instructed Citigroup to so inform Valassis. Following the board of directors meeting, ADVO ended Valassis access to the electronic data room. The board of directors also concluded that the process with the two other interested parties should continue at least until they submitted an indicative range of value. Later that month, one of the two parties withdrew from the process without submitting an indication of value, and the other party gave a non-binding indication of value in the range of $35 per share in late June, subject to substantial further due diligence and obtaining private equity financing.

On June 10, 2006, Mr. Schultz met with Mr. Harding to discuss Valassis continued interest in an acquisition of ADVO. On June 12, 2006, Bear Stearns advised Citigroup that Valassis was prepared to increase

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its proposed offer to $36.25 in cash per share. On June 13, 2006, Mr. Schultz sent a letter to ADVO s board of directors proposing to acquire ADVO for $36.25 in cash per share, which represented a 50% premium to ADVO s closing stock price on the previous day. The offer was conditioned upon ADVO reopening its electronic data room, fulfilling outstanding due diligence requests and providing comments on the form of merger agreement that Valassis had submitted with its proposal on June 2nd.

ADVO s board of directors met on June 15, 2006 to discuss the revised proposal with its financial and legal advisors. The board of directors determined to defer responding to the revised proposal until after its regularly scheduled board of directors meeting the following week, during which the board of directors would be considering ADVO s long-term strategic plan. At its meeting on June 21-22, 2006, the ADVO board of directors reviewed ADVO s long-term strategic plan and potential growth initiatives. The board of directors discussed the revised Valassis proposal with its financial and legal advisors, and instructed Citigroup to advise Bear Stearns that the board of directors had rejected the revised proposal.

On June 27, 2006, Bear Stearns advised Citigroup that Mr. Schultz requested a meeting with one or more members of the special committee. Accordingly, on June 30, 2006, Messrs. Mahoney and Harding met with members of senior management of Valassis and their respective advisors. During this meeting, Mr. Schultz stated that the best price that Valassis would be willing to pay would be $37.00 in cash per share of ADVO common stock. Mr. Mahoney stated that he would recommend to the ADVO board of directors that it accept this proposal, subject to satisfactory resolution of the terms and conditions of the merger agreement that would provide substantial certainty for closing a transaction. At a special committee meeting on June 30, 2006, the special committee discussed Valassis revised proposal with its legal and financial advisors and indicated it would support the $37.00 per share acquisition price assuming satisfactory completion of a definitive merger agreement as promptly as possible. Over the next several days, representatives of Wachtell, Lipton, Rosen & Katz and Kirkpatrick & Lockhart Nicholson Graham LLP, counsel for the board of directors and ADVO, respectively, negotiated the merger agreement with representatives of McDermott Will & Emery LLP, counsel for Valassis. During this same time, Mr. Schultz and Mr. Harding discussed various matters relating to Mr. Harding s position with the company going forward and other employee matters. A draft merger agreement and other materials, including Citigroup s financial presentation, were delivered to ADVO s directors on July 3, 2006.

On July 5, 2006, ADVO s board of directors met in New York with senior management and ADVO s financial and legal advisors to review the proposed merger. A representative of Wachtell, Lipton, Rosen & Katz advised the board of directors regarding its duties and responsibilities and the material terms of the proposed merger agreement. Representatives of Citigroup gave a financial presentation and delivered Citigroup s opinion as to the fairness, as of the date of the opinion, of the merger consideration, from a financial point of view, to ADVO s stockholders subject to the assumptions, qualifications and limitations set forth therein. After discussion and consideration of the factors described under The Merger Recommendations of Our Board of Directors; Reasons for the Merger, the ADVO board of directors unanimously approved the merger agreement and the transactions contemplated thereby.

Following the ADVO board of directors meeting, ADVO and Valassis executed the merger agreement and, prior to the opening of trading on the next day, publicly announced that they had entered into a definitive merger agreement.

Recommendation of Our Board of Directors; Reasons for the Merger

At its meeting on July 5, 2006, the board of directors of ADVO unanimously determined that the merger agreement is advisable and fair to, and in the best interests of, ADVO and its stockholders and approved the merger agreement and the transactions contemplated thereby, including the merger. Accordingly, the ADVO board of directors unanimously recommends that ADVO stockholders vote **FOR** adoption of the merger agreement at the special meeting and **FOR** the adjournment or postponement of the meeting, if necessary, to solicit additional proxies.

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In reaching its decision to approve the merger agreement and to recommend that ADVO stockholders vote to adopt the merger agreement, the ADVO board of directors considered a number of factors, including the following material factors:

- our board of directors understanding of and familiarity with, and discussions with our management regarding, the business, operations, management, financial condition, earnings and prospects of ADVO (as well as the risks involved in achieving those prospects and the risks and benefits of remaining independent);

- our board of directors knowledge of the nature of the direct mail, media and retail industries, and of the current and prospective competitive, economic, regulatory and operational environment in those industries, including consolidation among retail customers;

- the results of the process undertaken by our board of directors and its advisors to contact selected parties in the industry and financial parties to solicit their interest in an acquisition of ADVO, as described under The Merger Background of the Merger ;

- the potential stockholder value that could be expected to be generated from the various strategic alternatives available to ADVO, including the alternatives of remaining independent and recapitalization or restructuring strategies;

- the historical trading prices of our common stock, including the fact that the per share cash merger consideration of $37.00 represents a premium of 52.5% over $24.26 per share, which was the closing price of our common stock on July 5, 2006 (the last full trading day before the announcement of the execution of the merger agreement);

- the financial presentation of Citigroup, including its opinion, dated July 5, 2006, to our board of directors that, as of the date of the opinion and subject to the various assumptions, qualifications and limitations set forth therein, the merger consideration to be received by holders of ADVO common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders, as more fully described below in The Merger Opinion of Our Financial Advisor ;

- the fact that the merger consideration consists solely of cash and is not subject to any financing condition, providing ADVO stockholders with immediate liquidity and certainty of value;

- the fact that Valassis has received a financing commitment from a large reputable financing source for the full amount of financing required to complete the merger;

- the review by our board of directors with our management and legal and financial advisors of the structure of the merger and the financial and other terms of the merger agreement, including that the conditions to closing the merger are limited to ADVO stockholder approval, regulatory approvals and other customary conditions;

- the obligation of Valassis to use its reasonable best efforts to obtain antitrust clearance, including agreeing, if necessary, to divest assets or businesses generating up to $60 million of revenue during its 2005 fiscal year;

- the likelihood that the regulatory and stockholder approvals necessary to complete the merger will be obtained;

the ability of our board of directors under certain circumstances, pursuant to the terms of the merger agreement described below in The Merger Agreement Covenants , to evaluate bona fide, unsolicited alternative acquisition proposals that may arise between the date of the merger agreement and the date of the special meeting, to furnish information and conduct negotiations with such third parties and, in certain circumstances, to terminate the merger agreement, subject to the payment to Valassis of the termination fee, and accept a superior acquisition proposal, consistent with our board of directors fiduciary obligations;

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- the belief that the $38 million termination fee that would be payable in connection with the termination of the merger agreement to enter into a superior proposal (which termination fee Valassis required as a condition of entering into the merger agreement, and which represents approximately 3% of the aggregate equity value of the transaction) was reasonable in the context of termination fees payable in other transactions and in light of the overall terms of the merger agreement, and that the termination fee would not preclude another party from making a competing proposal;

- the reputation of Valassis for treating employees well, including its recognition by Fortune magazine for nine consecutive years as one of the 100 Best Companies to Work For; and

- the availability of appraisal rights under Delaware law.

The ADVO board of directors also considered potential drawbacks or risks relating to the merger, including the following material risks and factors, but found that these potential risks were outweighed by the expected benefits of the merger:

- the fact that the all-cash merger consideration would not allow our stockholders to participate in any future growth of ADVO s business, and generally would be taxable to our stockholders;

- the regulatory approvals required to complete the merger, and the uncertainties associated with obtaining those approvals;

- the risks and costs to ADVO if the merger does not close, including the diversion of management and employee attention, and the effect on relationships with customers, suppliers and employees;

- the risk that Valassis may terminate the merger agreement in certain circumstances, including if there is a material adverse effect on our business, financial condition or results of operations or if we do not perform our obligations under the merger agreement in all material respects; and

- the possibility that the termination fee of $38 million payable if the merger agreement is terminated under certain circumstances may discourage a competing bid for ADVO.

Our board of directors also considered the interests that certain executive officers and directors of ADVO may have with respect to the merger in addition to their interests as stockholders of ADVO generally, as described in the section below entitled The Merger Interests of ADVO s Directors and Executive Officers in the Merger.

The foregoing discussion addresses the material information and factors considered by the ADVO board of directors in its consideration of the merger. In view of the variety of factors, the amount of information considered and the complexity of these matters, the board of directors did not find it practicable to, and did not attempt to, rank, quantify, make specific assessments of, or otherwise assign relative weights to the specific factors considered in reaching its determination. In addition, individual members of the board of directors may have given different weights to different factors. Our board of directors considered these factors as a whole, and overall considered them to be favorable to, and to support, its determination.

Opinion of Our Financial Advisor

Citigroup was retained by ADVO to act as financial advisor to the ADVO board of directors in connection with its review of a potential sale of ADVO. In connection with this engagement, at a meeting of the ADVO board of directors held on July 5, 2006 to evaluate the merger, Citigroup rendered its oral opinion, which was confirmed by delivery of a written opinion dated the same date, to ADVO s board of directors, to the effect that, as of the date of the opinion and based upon and subject to the various assumptions, qualifications and limitations set forth in the opinion, the merger consideration to be received by holders of ADVO common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders.

The full text of Citigroup s opinion, which sets forth the assumptions made, general procedures followed, matters considered and limitations on the review undertaken, is included as Annex B to this

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proxy statement. The summary of Citigroup s opinion set forth below is qualified in its entirety by reference to the full text of the opinion. Holders of ADVO common stock are urged to read the Citigroup opinion carefully and in its entirety.

Citigroup s opinion was limited solely to the fairness of the merger consideration from a financial point of view as of the date of the opinion. Neither Citigroup s opinion nor the related analyses constituted a recommendation of the proposed merger to the ADVO board of directors. Citigroup makes no recommendation to any stockholder regarding how such stockholder should vote with respect to the merger.

In arriving at its opinion, Citigroup:

- reviewed the merger agreement;
- held discussions with certain senior officers and other representatives and advisors of ADVO and certain senior officers and other representatives and advisors of Valassis concerning the business, operations and prospects of ADVO;
- examined certain publicly available business and financial information relating to ADVO;
- examined certain financial forecasts and other information and data relating to ADVO, which were provided to or discussed with Citigroup by ADVO s management;
- reviewed the financial terms of the merger as set forth in the merger agreement in relation to, among other things, current and historical market prices and trading volumes of ADVO common stock, and ADVO s historical and projected earnings and other operating data, capitalization and financial condition;
- considered, to the extent publicly available, the financial terms of certain other transactions which Citigroup considered relevant in evaluating the merger;
- analyzed certain financial, stock market and other publicly available information relating to the businesses of other companies whose operations Citigroup considered relevant in evaluating those of ADVO; and
- conducted such other analyses and examinations and considered such other information and financial, economic and market criteria as Citigroup deemed appropriate in arriving at its opinion.

In rendering its opinion, Citigroup assumed and relied, without assuming any responsibility for independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with it and upon the assurances of ADVO s management that they were not aware of any relevant information that was omitted or that remained undisclosed to Citigroup. With respect to financial forecasts and other information and data relating to ADVO provided to or otherwise reviewed by or discussed with Citigroup, Citigroup was advised by ADVO s management that such forecasts and other information and data were reasonably prepared on bases reflecting the best currently available estimates and judgments of ADVO s management as to the future financial performance of ADVO. Citigroup assumed, with ADVO s consent, that the merger will be consummated in accordance with its terms, without waiver, modification or amendment of any material term, condition or agreement. Citigroup did not make, and it was not provided with, an independent evaluation or appraisal of the assets or liabilities, contingent or otherwise, of ADVO, and did not make any physical inspection of the properties or assets of ADVO.

In connection with Citigroup s engagement and at the direction of ADVO, Citigroup approached, and held discussions with, selected third parties to solicit indications of interest in the possible acquisition of ADVO, and Citigroup considered the results of this solicitation in its analysis. Citigroup expressed no view, and its opinion did not address, the relative merits of the merger as compared to any alternative business strategies

that might exist for ADVO or the effect of any other transaction in which ADVO might engage. Citigroup s opinion necessarily was based on information available to it, and financial, stock market and other conditions and circumstances existing and disclosed to Citigroup as of the date of the opinion.

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In preparing its opinion, Citigroup performed a variety of financial and comparative analyses, including those described below. The summary of these analyses is not a complete description of the analyses underlying Citigroup s opinion. The preparation of a financial opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a financial opinion is not readily susceptible to summary description. Citigroup arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole, and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis for purposes of its opinion. Accordingly, Citigroup believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion.

In its analyses, Citigroup considered industry performance, general business, economic, market and financial conditions and other matters existing as of the date of its opinion, many of which are beyond the control of ADVO. No company, business or transaction used in those analyses as a comparison is identical to ADVO or the merger, and an evaluation of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed.

The estimates contained in Citigroup s analyses and the valuation ranges resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by its analyses. In addition, analyses relating to the value of businesses or securities do not necessarily purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates used in, and the results derived from, Citigroup s analyses are inherently subject to substantial uncertainty.

The type and amount of consideration payable in the merger was determined through negotiation between ADVO and Valassis, and the decision to enter into the merger agreement was solely that of the ADVO board of directors. Citigroup s opinion was only one of many factors considered by the ADVO board of directors in its evaluation of the merger and should not be viewed as determinative of the views of the ADVO board of directors or ADVO s management with respect to the merger or the consideration payable in the merger.

The following is a summary of the material financial analyses presented to the ADVO board of directors in connection with Citigroup s opinion. **The financial analyses summarized below include information presented in tabular format. In order to fully understand Citigroup s financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Citigroup s financial analyses.**

Fifty-Two Week Trading Range

Citigroup reviewed the historical trading price for ADVO common stock during the 12-month period ended June 30, 2006, during which period the range of closing per share prices for ADVO common stock was $23.06 to $35.80. Citigroup noted that the merger consideration of $37.00 per share exceeded this range, and represented a premium of 50.3% over the closing per share price for ADVO common stock on June 30, 2006, which was $24.61, and premiums of 60.5% and 3.4%, respectively, over the low and high closing per share prices for ADVO common stock during the 12-month period ended June 30, 2006.

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Citigroup also analyzed ADVO s volume-weighted-average share price, or VWAP, over the three, six, twelve, and twenty-four month periods leading up to June 30, 2006. The following table summarizes Citigroup s findings:

	Volume-Weighted-Average Share Price
Past 3 Months	$ 28.82
Past 6 Months	$ 29.34
Past 12 Months	$ 29.02
Past 24 Months	$ 30.48

Citigroup noted that the merger consideration of $37.00 per share represented a premium to the three, six, twelve and twenty-four month VWAPs, and that approximately 97% of trading volume within the past twenty-four months occurred at prices below $37.00 per share.

Twelve Month Price Target Analysis

Citigroup examined the most recent 12-month price targets for ADVO common stock published by Wall Street research analysts and applied a 10% cost of equity discount rate to derive an implied equity value per share range of approximately $27.50 to $33.50 as of June 30, 2006. Citigroup noted that the merger consideration of $37.00 per share exceeded this range.

Comparable Companies Analysis

Citigroup compared financial, operating, stock market information and forecasted financial information for ADVO with selected publicly traded companies that operate in the marketing services sector. The selected comparable companies considered by Citigroup were:

Catalina Marketing Corporation

Harte-Hanks, Inc.

Valassis Communications, Inc.

Citigroup derived for ADVO and each of the comparable companies firm value as a multiple of, among other things, last twelve months, or LTM, earnings before interest, taxes, depreciation and amortization, or EBITDA, and estimated calendar year 2006 EBITDA. Citigroup calculated firm value as (a) equity value, based on the per share price and fully diluted shares outstanding as reflected in each company s latest publicly available information, assuming the exercise of all in-the-money options, warrants and convertible securities outstanding, less the proceeds from such exercise; plus (b) non-convertible indebtedness; plus (c) non-convertible preferred stock; plus (d) minority interests; minus (e) investments in unconsolidated affiliates and cash and cash equivalents.

Citigroup also reviewed common share prices of ADVO and each of the comparable companies as a multiple of, among other things, LTM earnings per share, or EPS, and estimated calendar year 2006 EPS, commonly referred to as price-to-earnings, or P/E, multiples. For the comparable companies, Citigroup used common share prices as of the market close on June 30, 2006, and for ADVO, Citigroup used the closing share price of ADVO common stock as of June 30, 2006 and the per share merger consideration.

Historical financial information for the comparable companies was obtained from public filings. Estimated financial data for the selected companies were based on mean estimates as of June 30, 2006 from the Institutional Brokerage Estimate System, a data service that compiles Wall Street research analysts estimates. Estimated financial data for ADVO were based on estimates (a) prepared internally by ADVO s management, referred to as the management estimates, and (b) obtained from selected Wall Street analysts reports as of June 30, 2006, referred to as the Wall Street estimates.

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The following chart sets forth the multiples derived by Citigroup:

	Firm Value/ LTM EBITDA	Firm Value/ 2006E EBITDA	Share Price/ LTM EPS	Share Price/ 2006E EPS
Comparable Companies at June 30 Share Prices				
Mean	8.7x	8.5x	18.1x	17.5x
Median	8.5x	8.5x	19.3x	18.0x
ADVO Estimates at June 30 Share Prices				
ADVO Management Estimates	7.9x	6.4x	20.0x	17.1x
ADVO Wall Street Estimates		7.5x		18.0x
ADVO Estimates at Transaction Price				
ADVO Management Estimates	11.7x	9.5x	30.1x	25.7x
ADVO Wall Street Estimates		11.0x		27.1x

E = Estimated

Citigroup noted that both the ADVO firm value to estimated 2006 EBITDA multiple at the transaction price and the ADVO share price to estimated 2006 EPS multiple at the transaction price, using either management estimates or Wall Street estimates, exceeded the average trading multiples for the comparable companies.

Based on the information for comparable companies, Citigroup derived a range for the implied equity value per share of ADVO common stock of approximately $23.00 to $28.50 using the Wall Street estimates and approximately $24.50 to $33.00 using management estimates. Citigroup noted that the merger consideration of $37.00 per share exceeded these derived ranges.

Premiums Paid Analysis

Citigroup reviewed publicly available information for 24 pending or completed negotiated (i.e., non-hostile), all-cash merger or acquisition transactions involving publicly traded companies announced since January 1, 2000 with transaction values between $1.0 billion and $1.5 billion, which did not include any transactions where the target company was a financial institution or real estate investment trust. For each selected precedent transaction, Citigroup derived the implied premium paid per share of common stock of the target company relative to: (a) the closing per share price of the target company common stock one day prior to the announcement of the transaction; (b) the average of the closing per share prices of the target company common stock for the one-week period prior to the announcement of the transaction; and (c) the average of the closing per share prices of the target company common stock for the one-month period prior to the announcement of the transaction.

The selected transactions reviewed by Citigroup were (in each case, the target company is listed first, followed by the acquiror):

Serologicals Corporation / Millipore Corporation

Alderwoods Group, Inc. / Service Corporation International

The Sports Authority, Inc. / Investor Group led by Leonard Green & Partners, L.P.

Serena Software, Inc. / Silver Lake Partners

Linens n Things Inc. / Investor Group led by Apollo Management, L.P.

Advanced Neuromodulation Systems Inc. / St. Jude Medical, Inc.

ShopKo Stores, Inc. / Investor Group led by Sun Capital Partners IV, LP

IDX Systems Corporation / General Electric Company

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Priority Healthcare Corporation / Express Scripts, Inc.

US Unwired Inc. / Sprint Corporation

Overnite Corporation / United Parcel Service, Inc.

CUNO Incorporated / 3M Company

SOLA International Inc. / Investor Group led by Carl Zeiss AG and EQT III Limited

Ionics, Incorporated / General Electric Company

Hollywood Entertainment Corporation / Movie Gallery, Inc.

Kaneb Services LLC / Valero L.P.

The Robert Mondavi Corporation / Constellation Brands, Inc.

Orbitz, Inc. / Cendant Corporation

US Oncology, Inc. / Welsh, Carson, Anderson & Stowe IX, L.P.

TheraSense, Inc. / Abbott Laboratories

Esperion Therapeutics, Inc. / Pfizer Inc.

Gaylord Container Corporation / Temple-Inland Inc.

Net2Phone, Inc. / AT&T Corp.

U.S. Home Corporation / Lennar Corporation

The following table sets forth the results of these analyses:

	Precedent Transaction Premiums	
	Mean	Median
1 Day Prior to Announcement	25.3%	27.2%
1 Week Average	25.3%	30.5%
1 Month Average	27.3%	29.3%

Based on these data and its judgment and experience, Citigroup applied a premium range of approximately 20% to 30% to the closing per share price for ADVO common stock on June 30, 2006 of $24.61, and derived a range of approximately $29.50 to $32.00 for the implied equity value per share of ADVO common stock. Citigroup noted that the merger consideration of $37.00 per share exceeded the range derived by Citigroup for the implied equity value per share of ADVO common stock using the premiums paid analyses.

Citigroup also noted that the merger consideration of $37.00 per share represented a premium to the three, six, twelve and twenty-four month volume weighted average trading prices of ADVO common stock. See Fifty-Two Week Trading Range for further detail.

Precedent Transaction Analysis

It is Citigroup s view that there have been no recent comparable precedent transactions. Citigroup believes the most recent comparable transaction to be the acquisition of Big Flower Holdings, Inc. (now Vertis, Inc.) by Thomas H. Lee Company and Evercore Capital Partners L.P. in 1999.

Citigroup derived, among other things, the ratio of the firm value of Big Flower Holdings based on the consideration paid in the transaction to Big Flower Holdings revenue and EBITDA, in each case, for the last twelve-month period prior to the announcement of the transaction, using information available in public documents, company press releases and information published in selected Wall Street analysts reports.

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Based on these calculations, Citigroup derived a firm value to LTM EBITDA multiple of 7.9x. Citigroup applied this multiple to ADVO s EBITDA for the 12 months ended March 25, 2006, and further derived the implied equity value per share of ADVO common stock of $24.50. Citigroup noted that the merger consideration of $37.00 per share was greater than the implied equity value per share derived by Citigroup using this precedent transaction analysis.

Forecasted Stock Price Analysis

Citigroup analyzed the present value of ADVO s hypothetical standalone forecasted stock prices in 2006, 2007 and 2008 as a function of estimated EPS and P/E multiples. Citigroup calculated a range of present values of forecasted stock prices applying a 10% cost of equity discount rate per annum and assuming that shares of ADVO common stock continue to trade at a constant P/E multiple within a range of 17.0x to 19.0x derived from the current Wall Street analysts estimates of ADVO s calendar year P/E multiple. Citigroup used calendar year estimated EPS based on internal estimates prepared by ADVO s management, referred to as the Management Case, as well as calendar year estimated EPS adjusted to reflect certain sensitivities to the Management Case, the lowest of which is referred to as the Sensitivity Case, to take into account the potential for lower revenue per piece growth, reduction in wrap revenue and lower pieces per package growth. The results of this analysis are summarized as follows:

	Present Value of Forecasted Stock Prices			
	Management Case		Sensitivity Case	
2006E	$ 24.43	$27.31	$ 24.04	$26.87
2007E	$ 27.28	$30.49	$ 24.53	$27.42
2008E	$ 30.81	$34.44	$ 24.05	$26.88

E = Estimated

Citigroup noted that the merger consideration of $37.00 per share exceeded the ranges derived using this present value forecasted stock price analysis under both the Management Case and the Sensitivity Case.

Discounted Cash Flow Analysis

Citigroup performed a discounted cash flow analysis to calculate the estimated present value of the standalone unlevered, after-tax free cash flows that ADVO could generate based on the Management Case for fiscal years 2006 through 2010. Citigroup also performed a discounted cash flow analysis based on the Sensitivity Case to take into account the potential for lower revenue per piece growth, reduction in wrap revenue and lower pieces per package growth. In these discounted cash flow analyses, the fiscal year 2006 cash flows represented half-year cash flows due to the valuation periods beginning on March 31, 2006, which is half way through ADVO s fiscal year.

Estimated terminal values for ADVO were calculated by applying to ADVO s fiscal year 2010 estimated EBITDA a range of EBITDA terminal value multiples of 7.5x to 8.0x, which range of terminal value multiples takes into account ADVO s historical EBITDA trading multiples. The unlevered, after-tax free cash flows and terminal values were then discounted to present value using discount rates ranging from 8.2% to 10.0%, which discount range was derived taking into account the estimated weighted average cost of capital for ADVO utilizing selected data of ADVO and the publicly held companies in the marketing services sector referred to above under Comparable Companies Analysis. This analysis indicated the following approximate implied equity value per share ranges for ADVO common stock under both the Management Case and the Sensitivity Case, as compared to the merger consideration:

Implied Equity Value Per Share Range				Merger Consideration
Management Case		Sensitivity Case		
$37.00	$42.50	$29.00	$33.50	$37.00

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Citigroup noted that the merger price of $37.00 per share equaled the low end of the range of implied equity value per share of ADVO common stock in the Management Case, and exceeded the range of implied equity value per share of ADVO common stock in the Sensitivity Case.

Leveraged Buyout Analysis

Citigroup performed a leveraged buyout analysis to estimate the theoretical purchase price that could be paid by a hypothetical financial buyer in an acquisition of ADVO under the Management Case and the Sensitivity Case described above, taking into account the pro forma leverage structure of similar leveraged buyout transactions. Citigroup assumed that a financial buyer would attempt to realize a return on its investment at the end of ADVO s fiscal year 2010. Estimated exit values for ADVO were calculated by applying to ADVO s fiscal year 2010 estimated EBITDA a range of exit value multiples of 7.5x to 8.0x, which range of exit value multiples was derived taking into account ADVO s historical EBITDA trading multiples. Citigroup then derived a range of theoretical purchase prices based on an assumed required internal rate of return on equity for a financial buyer of approximately 22.5% to 27.5%, which range of percentages was, in Citigroup s professional judgment, generally reflective of the range of required internal rates of return on equity commonly assumed when performing a leveraged buyout analysis for businesses similar to ADVO. This analysis indicated the following approximate implied equity value per share ranges for ADVO common stock under both the Management Case and the Sensitivity Case, as compared to the merger consideration:

Implied Equity Value Per Share Range		
Management Case	**Sensitivity Case**	**Merger Consideration**
$32.00 $36.00	$27.00 $30.00	$37.00

Citigroup noted that the merger price of $37.00 per share exceeded the implied equity value per share ranges for ADVO common stock under both the Management Case and the Sensitivity Case.

Miscellaneous

Under the terms of Citigroup s engagement letter, dated May 18, 2006, ADVO has agreed to pay Citigroup for its financial advisory services in connection with the merger: an opinion fee of $500,000, which fee was payable upon delivery of Citigroup s opinion; and a transaction fee (against which the opinion fee will be credited), payable contingent upon consummation of the merger, equal to 0.60% of the total consideration, including indebtedness for borrowed money assumed, payable in the merger. ADVO also has agreed to reimburse Citigroup for reasonable travel and other expenses incurred by Citigroup in performing its services, including reasonable fees and expenses of its legal counsel, and to indemnify Citigroup and related persons against liabilities, including liabilities under the federal securities laws, arising out of its engagement.

Citigroup has in the past provided services to ADVO unrelated to the merger, for which services Citigroup received reimbursement for expenses it incurred in performing its services, but no compensation. In the ordinary course of business, Citigroup and its affiliates may actively trade or hold the securities of ADVO and Valassis for their own account or for the account of customers and, accordingly, may at any time hold a long or short position in those securities. In addition, Citigroup and its affiliates, including Citigroup Inc. and its affiliates, may maintain relationships with ADVO, Valassis and their respective affiliates.

ADVO selected Citigroup as its financial advisor in connection with the merger based on Citigroup s reputation, experience and familiarity with ADVO, Valassis and their respective businesses. Citigroup is an internationally recognized investment banking firm which regularly engages in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

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Material U.S. Federal Income Tax Consequences

The following is a general summary of the material U.S. federal income tax consequences of the merger to U.S. holders (as defined below) of shares of our common stock whose shares are exchanged for cash in the merger. The summary is based on the provisions of the Internal Revenue Code of 1986, as amended (which we refer to as the Code), Treasury regulations promulgated thereunder, judicial decisions and administrative rulings, all as in effect as of the date hereof and all of which are subject to change, possibly with retroactive effect.

For purposes of this summary, we use the term U.S. holder to mean:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation for federal income tax purposes, created or organized under the laws of the United States or any of its political subdivisions;
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury Regulations to be treated as a United States person; or
- an estate the income of which is subject to United States federal income tax regardless of its source.

If a partnership holds shares of our common stock, the tax treatment of a partner will generally depend on the status of the partners and the activities of the partnership. If a U.S. holder is a partner in a partnership holding shares of our common stock, such holder should consult its tax advisor.

This discussion addresses only stockholders that hold shares of our common stock as a capital asset within the meaning of Section 1221 of the Code. Further, this summary does not address all of the U.S. federal income tax consequences that may be relevant to particular holders in light of their individual circumstances or to holders who are subject to special treatment under the U.S. federal income tax laws (including, for example, persons who are not citizens or residents of the United States, insurance companies, dealers in securities or foreign currencies, tax-exempt organizations, financial institutions, mutual funds, pass-through entities and investors in such entities, holders who hold their shares of our common stock as part of a hedge, straddle, constructive sale, or conversion transaction, holders who are subject to the alternative minimum tax provisions of the Code, and holders who acquired their shares of our common stock upon the exercise of employee stock options or otherwise as compensation). In addition, no information is provided herein with respect to the tax consequences of the merger under applicable state, local or foreign laws.

HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS TO DETERMINE THE PARTICULAR TAX CONSEQUENCES TO THEM (INCLUDING THE APPLICATION AND EFFECT OF ANY STATE, LOCAL OR FOREIGN INCOME AND OTHER TAX LAWS) OF THE MERGER.

The receipt of cash in exchange for shares of our common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. For U.S. federal income tax purposes, a U.S. holder who receives cash in exchange for shares of our common stock pursuant to the merger generally will recognize capital gain or loss equal to the difference, if any, between (1) the amount of cash received and (2) the holder s adjusted tax basis in the shares of our common stock surrendered in exchange therefor. Such capital gain or loss will be long-term capital gain or loss if the holder s holding period for the shares of our common stock exceeds one year as of the date of the merger. Certain limitations apply to the use of capital losses. If a holder acquired different blocks of our stock at different times or different prices, such holder must determine its tax basis and holding period separately with respect to each block of stock.

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Payments of cash made in connection with the merger may be subject to information reporting and backup withholding at a rate of 28%, unless a holder of ADVO common stock:

- provides a correct taxpayer identification number and any other required information to the exchange agent; or
- is a corporation or comes within certain exempt categories and otherwise complies with the applicable requirements of the backup withholding rules.

All non-corporate holders of ADVO common stock should complete and sign the Substitute Form W-9 included as part of the letter of transmittal to be delivered following completion of the merger. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be refunded or credited against the holder s U.S. federal income tax liability, provided that the required information is furnished to the Internal Revenue Service.

Governmental and Regulatory Approvals

Under the provisions of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder, which we refer to as the HSR Act, the merger may not be completed until the expiration of a 30-day waiting period following the filing of notification and report forms with the Antitrust Division of the United States Department of Justice (which we refer to as the Antitrust Division) and the United States Federal Trade Commission (which we refer to as the FTC) by ADVO and Valassis, unless a request for additional information and documentary material is received from the Antitrust Division or the FTC or unless early termination of the waiting period is granted. If, within the initial 30-day waiting period, either the Antitrust Division or the FTC issues a request for additional information and documentary material concerning the merger, then the waiting period will be extended until the 30th calendar day after the date of substantial compliance with the request by both parties, unless earlier terminated by the Antitrust Division or the FTC or further extended by court order or with the consent of ADVO and Valassis. ADVO and Valassis filed their respective notification and report forms with the Antitrust Division and the FTC under the HSR Act on July 19, 2006, and accordingly, the waiting period will expire on August 18, 2006, unless a request is made for additional information or documentary material.

The Antitrust Division and the FTC frequently scrutinize the legality under the antitrust laws of transactions such as the merger. At any time before or after the merger, the Antitrust Division, the FTC, a state attorney general, or a foreign competition authority could take action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the merger or seeking divestiture of substantial assets of ADVO or Valassis or their subsidiaries. Private parties may also bring legal actions under the antitrust laws under certain circumstances.

While we believe that we will receive the requisite approvals and clearances for the merger, there can be no assurance that a challenge to the merger on antitrust grounds will not be made or, if a challenge is made, of the result of such challenge. Similarly, there can be no assurance that ADVO and Valassis will obtain the regulatory approvals necessary to complete the merger or that the granting of these approvals will not involve the imposition of conditions to the completion of the merger or require changes to the terms of the merger. These conditions or changes could result in the conditions to the merger not being satisfied prior to the termination date or at all. Under the terms of the merger agreement, Valassis is not obligated to hold separate or otherwise dispose of, or to conduct, restrict, operate, invest or otherwise change the assets or business of ADVO, Valassis, or any of their respective subsidiaries in any manner which has or would reasonably be expected to have a material adverse effect on the combined business, financial condition or results of operations of Valassis, ADVO and their respective subsidiaries taken as a whole; provided, however, that Valassis is obligated to take or commit to take such actions, including, without limitation, proposing, negotiating, committing to and effecting, by consent decree, hold separate order, or otherwise, the sale, transfer, license, divestiture or other disposition of, or that limit or would limit Valassis or its subsidiaries ability to retain, any business, assets or operations of Valassis or its subsidiaries generating revenues of up to $60 million in Valassis fiscal year 2005, in each case as may be

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required in order to resolve any objections under the antitrust laws to the merger or to avoid the entry of, or to effect the dissolution of, any injunction, temporary restraining order, or other order in any suit or proceeding, which would otherwise have the effect of preventing, materially delaying or materially impairing the consummation of the merger.

Interests of ADVO s Directors and Executive Officers in the Merger

Some of the directors and executive officers of ADVO may have financial interests in the merger that are different from, or are in addition to, the interests of stockholders of ADVO generally. The ADVO board of directors was aware of these interests and considered them, among other matters, in approving the merger agreement.

Agreements with Mr. S. Scott Harding. Mr. Harding is party to an employment agreement with ADVO with a three-year term ending on October 15, 2007, which will automatically extend upon expiration for one year, unless a notice of intent to terminate is given by either party. If Mr. Harding s employment is terminated by ADVO without cause or if Mr. Harding resigns for good reason (each, as defined in the agreement), Mr. Harding will receive 24 months salary and, in lieu of any bonus for the year of termination, an additional year s salary. However, Mr. Harding is not permitted to resign for good reason by reason of a substantial decrease in his duties for 90 days following the merger. In addition, ADVO will pay premiums for post-employment health coverage for the lesser of the two-year severance period or the applicable COBRA period. All severance will be paid in a lump sum if the termination by ADVO without cause or by Mr. Harding for good reason is within six months following a change in control, such as completion of the merger. In the event that Mr. Harding s employment terminates under circumstances entitling him to severance under his employment agreement (which is expected if he enters into the consulting agreement contemplated by the parties thereof), the estimated cash severance benefits payable to Mr. Harding would be approximately $2,430,000, based on Mr. Harding s current annual base salary. In addition, under Mr. Harding s employment agreement, in the event that Mr. Harding is subject to the so-called golden parachute excise tax, the amount of payments subject to the excise tax (including, if necessary, any stock options or restricted shares vested as a result of the change in control) will be reduced to the maximum amount that Mr. Harding could receive without being subject to the tax, unless Mr. Harding would be placed in a better after-tax position without such reduction. In that case, Mr. Harding would be permitted to retain all payments.

In connection with the merger, Mr. Harding expects to enter into a consulting agreement with Valassis, although its terms have not been finalized.

Change-in-Control Severance Agreements. Each of our executive officers other than Mr. S. Scott Harding, including Jeffrey E. Epstein, Myron L. Lubin, Donald E. McCombs and Stephanie Molnar, is party to a change-in-control severance agreement. These agreements provide that, if, during the one to two-year period (depending on the executive) following a change in control, such as completion of the merger, the executive s employment is terminated by ADVO without cause or the executive resigns for good reason (each, as defined in the agreements), the executive would receive a lump sum payment equal to the product of a multiple between one and two times his or her base pay and highest annual incentive bonus awarded during the previous three calendar years. For a number of years following such termination equal to the severance multiple, the executive would also receive continued eligibility to participate in all benefit plans and continued medical, dental and life insurance plan coverage. In addition, under the change-in-control severance agreements, in the event that an executive officer is subject to the so-called golden parachute excise tax, the amount of payments under the agreement that are subject to the excise tax will be reduced to the maximum amount that the executive could receive without being subject to the tax, unless the executive would be placed in a better after-tax position without such reduction. In that case, the executive would be permitted to retain all payments.

Stock Options and Stock-Based Awards. The merger agreement provides that, at the effective time of the merger, each outstanding option to purchase shares of ADVO common stock, including any options held by our directors and executive officers, whether or not vested, will vest and be converted into the right to receive an

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amount in cash (less any applicable withholding of taxes) equal to the product of (a) the number of shares of ADVO common stock subject to the option times (b) the excess, if any, of $37.00 over the per share exercise price of the option. The merger agreement also provides that at the effective time of the merger, each outstanding and unvested share of ADVO restricted stock, including those held by our directors and executive officers, will vest and no longer be subject to any restrictions. Assuming that the effective time occurs on September 29, 2006, at the effective time, the directors and executive officers will vest in respect of 658,833 stock options and 180,966 restricted shares in the aggregate.

Indemnification and Director and Officer Insurance. The merger agreement includes provisions relating to indemnification and insurance for directors and officers of ADVO. Please see the section entitled The Merger Agreement Covenants Indemnification, Exculpation, and Insurance beginning on page 43 of this document for more detail regarding the indemnification and insurance provisions in the merger agreement.

Appraisal Rights

Under Section 262 of the DGCL, any holder of our common stock who does not wish to accept the merger consideration may dissent from the merger and elect to exercise appraisal rights. A stockholder who exercises appraisal rights may ask the Delaware Court of Chancery to determine the fair value of his, her or its shares (exclusive of any element of value arising from the accomplishment or expectation of the merger) and may ask to receive payment of fair value in cash, together with a fair rate of interest, if any, provided that the stockholder complies with the provisions of Section 262 of the DGCL.

Holders of record of ADVO common stock who do not vote in favor of the adoption of the merger agreement, and who otherwise comply with the applicable provisions of Section 262 of the DGCL, will be entitled to exercise appraisal rights under Section 262 of the DGCL in connection with the merger. A person having a beneficial interest in shares of our common stock held of record in the name of another person, such as a broker, bank or other nominee, must act promptly to cause the record holder to follow the steps summarized below properly and in a timely manner to perfect appraisal rights.

The following discussion is not a complete statement of the law pertaining to appraisal rights under the DGCL and is qualified in its entirety by the full text of Section 262 of the DGCL, which is reprinted in its entirety as Annex C and incorporated into this proxy statement by reference. All references in Section 262 of the DGCL and in this summary to a stockholder or holder are to the record holder of the shares of ADVO common stock as to which appraisal rights are asserted.

Holders of shares of ADVO common stock who follow the procedures set forth in Section 262 of the DGCL will be entitled to have their ADVO common stock appraised by the Delaware Court of Chancery and to receive, in lieu of the consideration that they would otherwise receive in the merger, payment in cash of the fair value of the shares of ADVO common stock, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, as determined by that court. Under Section 262 of the DGCL, when a proposed merger of a Delaware corporation is to be submitted for approval at a meeting of its stockholders, the corporation, not less than twenty days prior to the meeting, must notify each of its stockholders who was a stockholder on the record date for this meeting with respect to shares for which appraisal rights are available, that appraisal rights are so available, and must include in this required notice a copy of Section 262 of the DGCL.

This proxy statement constitutes the required notice to the holders of the shares of ADVO common stock in respect of the merger, and Section 262 of the DGCL is attached to this proxy statement as Annex C. Any ADVO stockholder who wishes to exercise his, her or its appraisal rights in connection with the merger or who wishes to preserve the right to do so should review the following discussion and Annex C carefully, because failure to timely and properly comply with the procedures specified in Annex C will result in the loss of appraisal rights under the DGCL.

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A holder of ADVO common stock wishing to exercise appraisal rights must not vote in favor of the adoption of the merger agreement, and must deliver to ADVO before the taking of the vote on the adoption of the merger agreement at the special meeting a written demand for appraisal of his, her or its ADVO common stock. This written demand for appraisal must be separate from any proxy or ballot abstaining from the vote on the adoption of the merger agreement or instructing or effecting a vote against the adoption of the merger agreement. This demand must reasonably inform ADVO of the identity of the stockholder and of the stockholder s intent thereby to demand appraisal of his, her or its shares in connection with the merger. A holder of ADVO common stock wishing to exercise appraisal rights must be the record holder of the shares of ADVO common stock on the date the written demand for appraisal is made and must continue to hold the shares of ADVO common stock through the effective date of the merger. Accordingly, a holder of ADVO common stock who is the record holder of ADVO common stock on the date the written demand for appraisal is made, but who thereafter transfers the shares of ADVO common stock prior to consummation of the merger, will lose any right to appraisal in respect of the shares of ADVO common stock.

A proxy that is signed and does not contain voting instructions will, unless revoked, be voted in favor of the adoption of the merger agreement, and it will constitute a waiver of the stockholder s right of appraisal and will nullify any previously delivered written demand for appraisal. **Therefore, a stockholder who votes by proxy and who wishes to exercise appraisal rights must vote AGAINST adoption of the merger agreement, or abstain from voting on the adoption of the merger agreement.**

Only a holder of record of ADVO common stock on the date of the making of a demand for appraisal will be entitled to assert appraisal rights for the shares of ADVO common stock registered in that holder s name. A demand for appraisal should be executed by or on behalf of the holder of record, fully and correctly, as the holder s name appears on the holder s stock certificates, and must state that the person intends to demand appraisal of the holder s shares. If the shares of ADVO common stock are held of record by a person other than the beneficial owner, including a broker, fiduciary (such as a trustee, guardian or custodian), depository or other nominee, execution of the demand should be made in that capacity, and if the ADVO common stock is held of record by more than one holder as in a joint tenancy or tenancy in common, the demand should be executed by or on behalf of all joint holders. An authorized agent, including an agent for one or more joint holders, may execute a demand for appraisal on behalf of a holder of record. The agent, however, must identify the record holder or holders and expressly disclose the fact that, in executing the demand, the agent is acting as agent for the record holder or holders. A record holder such as a broker who holds ADVO common stock as nominee for several beneficial owners may exercise appraisal rights with respect to the shares of ADVO common stock held for one or more beneficial owners while not exercising appraisal rights with respect to the ADVO common stock held for other beneficial owners. In this case, the written demand should set forth the number of shares of ADVO common stock as to which appraisal is sought. When no number of shares of ADVO common stock is expressly mentioned, the demand will be presumed to cover all ADVO common stock in brokerage accounts or other nominee forms held by such record holder, and those who hold shares in brokerage accounts or other nominee forms and who wish to exercise appraisal rights under Section 262 of the DGCL are urged to consult with their brokers to determine the appropriate procedures for the making of a demand for appraisal by such a nominee.

A stockholder who elects to exercise appraisal rights under Section 262 of the DGCL should mail or deliver a written demand to: ADVO, Inc., One Targeting Centre, Windsor, CT 06095, Attention: Corporate Secretary. If we complete the merger, we will give written notice of the effective time of the merger within ten days after the effective time of the merger to each of our former stockholders who did not vote in favor of the merger agreement and who made a written demand for appraisal in accordance with Section 262 of the DGCL. Within 120 days after the effective time of the merger, but not thereafter, the surviving corporation or any former ADVO stockholder who has complied with the statutory requirements summarized above may file a petition in the Delaware Court of Chancery, with a copy served on the surviving corporation in the case of a petition filed by the stockholder, demanding a determination of the fair value of the shares of ADVO common stock that are entitled to appraisal rights. None of Valassis, ADVO or the surviving corporation is under any obligation to, and none of

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them has any present intention to, initiate any negotiations with respect to the fair value of such shares. Accordingly, it is the obligation of ADVO stockholders wishing to assert appraisal rights to take all necessary action to perfect and maintain their appraisal rights within the time prescribed in Section 262 of the DGCL.

Within 120 days after the effective date of the merger, any former ADVO stockholder who has complied with the requirements for exercise of appraisal rights will be entitled, upon written request, to receive from the surviving corporation or its successor a statement setting forth the aggregate number of shares of ADVO common stock not voted in favor of adopting the merger agreement, and with respect to which demands for appraisal have been received and the aggregate number of former holders of these shares of ADVO common stock. These statements must be mailed within ten days after a written request therefor has been received by the surviving corporation or within ten days after expiration of the period for delivery of demands for appraisal under Section 262 of the DGCL, whichever is later.

If a petition for an appraisal is filed timely with the Delaware Court of Chancery by a former ADVO stockholder and a copy thereof is served upon the surviving corporation, the surviving corporation will then be obligated within twenty days of service to file with the Delaware Register in Chancery a duly verified list containing the names and addresses of all former ADVO stockholders who have demanded appraisal of their shares of ADVO common stock and with whom agreements as to value have not been reached. After notice to such former ADVO stockholders as required by the Delaware Court of Chancery, the Delaware Court of Chancery shall conduct a hearing on such petition to determine those former ADVO stockholders who have complied with Section 262 of the DGCL and who have become entitled to appraisal rights thereunder. The Delaware Court of Chancery may require the former ADVO stockholders who demanded appraisal of their shares of ADVO common stock to submit their stock certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceeding. If any former stockholder fails to comply with such direction, the Delaware Court of Chancery may dismiss the proceedings as to that former stockholder.

After determining which, if any, former ADVO stockholders are entitled to appraisal, the Delaware Court of Chancery will appraise their shares of ADVO common stock, determining their fair value, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. ADVO stockholders considering seeking appraisal should be aware that the fair value of their shares of ADVO common stock as determined under Section 262 of the DGCL could be more than, the same as or less than the value of the consideration they would receive pursuant to the merger agreement if they did not seek appraisal of their shares of ADVO common stock, and that investment banking opinions as to the fairness from a financial point of view of the consideration payable in a merger are not opinions as to fair value under Section 262 of the DGCL.

In determining fair value, the Delaware Court of Chancery is required to take into account all relevant factors. In Weinberger v. UOP, Inc., the Delaware Supreme Court discussed the factors that could be considered in determining fair value in an appraisal proceeding, stating that proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court should be considered and that [f]air price obviously requires consideration of all relevant factors involving the value of a company. The Delaware Supreme Court has stated that in making this determination of fair value the court must consider market value, asset value, dividends, earnings prospects, the nature of the enterprise and any other facts which could be ascertained as of the date of the merger which throw any light on future prospects of the merged corporation. Section 262 of the DGCL provides that fair value is to be exclusive of any element of value arising from the accomplishment or expectation of the merger. In Cede & Co. v. Technicolor, Inc., the Delaware Supreme Court stated that such exclusion is a narrow exclusion [that] does not encompass known elements of value, but which rather applies only to the speculative elements of value arising from such accomplishment or expectation. In Weinberger, the Delaware Supreme Court construed Section 262 of the DGCL to mean that elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered.

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In addition, Delaware courts have decided that a stockholder s statutory appraisal remedy may or may not be a dissenter s exclusive remedy, depending on the factual circumstances.

The costs of the appraisal action may be determined by the Delaware Court of Chancery and levied upon the parties as the Delaware Court of Chancery deems equitable. Upon application of a former ADVO stockholder, the Delaware Court of Chancery may also order that all or a portion of the expenses incurred by any former ADVO stockholder in connection with an appraisal proceeding, including, without limitation, reasonable attorneys fees and the fees and expenses of experts used in the appraisal proceeding, be charged pro rata against the value of all of the shares of ADVO common stock entitled to appraisal.

Any holder of ADVO common stock who has duly demanded an appraisal in compliance with Section 262 of the DGCL will not, after the consummation of the merger, be entitled to vote the shares of ADVO common stock subject to this demand for any purpose or be entitled to the payment of dividends or other distributions on those shares of ADVO common stock (except dividends or other distributions payable to holders of record of ADVO common stock as of a record date prior to the effective date of the merger).

If any stockholder who properly demands appraisal of his, her or its ADVO common stock under Section 262 of the DGCL fails to perfect, or effectively withdraws or loses, his, her or its right to appraisal, as provided in Section 262 of the DGCL, that stockholder s shares of ADVO common stock will be deemed to have been converted into the right to receive the merger consideration payable in the merger in respect of those shares (without interest). An ADVO stockholder will fail to perfect, or effectively lose or withdraw, his, her or its right to appraisal if, among other things, no petition for appraisal is filed within 120 days after the effective date of the merger, or if the stockholder delivers to ADVO or the surviving corporation, as the case may be, a written withdrawal of their demand for appraisal. Any attempt to withdraw an appraisal demand in this matter more than 60 days after the effective date of the merger will require the written approval of the surviving corporation and, once a petition for appraisal is filed, the appraisal proceeding may not be dismissed as to any holder absent court approval.

Failure to follow the steps required by Section 262 of the DGCL for perfecting appraisal rights may result in the loss of these rights, in which event the shares held by the ADVO stockholder will be deemed to have been converted into the right to receive the merger consideration payable in the merger in respect of those shares (without interest).

Any stockholder wishing to exercise appraisal rights is urged to consult with legal counsel prior to attempting to exercise such rights.

Certain Projections

In connection with Valassis and other potential bidders review of ADVO and in the course of the negotiations between ADVO and Valassis described in The Merger Background of the Merger, ADVO provided Valassis and other potential bidders with non-public financial projections for the fiscal years ended September 2006, 2007, 2008, 2009 and 2010 (the projections). The projections do not give effect to the merger, the financing of the merger, or various recapitalization and stand-alone financial restructuring alternatives.

The management of ADVO prepared the projected financial information set forth below for internal purposes only. ADVO does not as a matter of course make public projections as to future revenues, earnings, or other results. However, the projected financial information is included in this proxy statement only because such information was provided to Valassis and the other potential bidders as part of ADVO s sale process. The accompanying projected financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of ADVO s management, was prepared on a reasonable basis and reflected

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the best then currently available estimates and judgments, and presented, to the best of management s knowledge and belief, the expected future financial performance of ADVO under its base case projections without giving effect to the alternative scenarios referred to in The Merger Background of the Merger and The Merger Opinion of Our Financial Advisor. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this proxy statement are cautioned not to rely on the projected financial information.

In compiling the projections for its current operating divisions and corporate support functions, ADVO s management took into account historical performance trends, the assumed impact of estimated future market conditions, and the expected outcome of various operational, expense containment and other initiatives. Although the projections are presented with numerical specificity, these projections reflect numerous assumptions and estimates as to future events made by our management that they believed were reasonable at the time the projections were prepared. Investors should read Forward-Looking Statements in this proxy statement and Forward-Looking Statements contained in Management s Discussion and Analysis of Financial Condition and Results of Operations as set forth in the Form 10-K for the year ended September 24, 2005. Factors that may cause actual events or results to differ materially from the projections or the assumptions underlying the projections include, but are not limited to, items such as industry performance and general business, economic, regulatory, market and financial conditions, all of which are difficult to predict and are beyond the control of ADVO s management. Accordingly, there can be no assurance that the projections will be realized, and actual results may be materially greater or less than those contained in the projections.

Except to the extent required by applicable federal securities laws, ADVO does not intend, and expressly disclaims any responsibility to, update or otherwise revise the projections to reflect circumstances existing after the date when made or to reflect the occurrence of subsequent events even in the event that any or all of the assumptions underlying the projections are shown to be in error. The information presented for the fiscal years ending September 2006, 2007, 2008, 2009 and 2010 was prepared in the first and second quarters of ADVO s 2006 fiscal year. The major assumptions underlying the projections include:

1) Modest growth in shared mail packages over the projection period;

2) Net increase in pieces per package over the projection period driven by growth of existing customers and successful penetration of new customers, offsetting the elimination of the detached address label (DAL) piece;

3) Net increase in revenue per piece driven by anticipated postage increases and changes in product mix as a result of the elimination of the DAL;

4) Modest improvement within the Wrap product line;

5) Controlled growth of fixed costs;

6) No pay-down of existing debt and no change in effective interest rates on borrowing; and

7) Modest growth in year-over-year capital expenditures with a one-time increase in fiscal year 2007 for investments required to be eligible for new postal rate structures.

The inclusion of the projected financial information should not be regarded as a representation by ADVO or any other person that the forecasted results will be achieved or that Valassis, ADVO or any other person relied on them when determining whether to proceed with the merger. The projections were also provided to Citigroup in connection with their financial analysis of the transaction. As discussed in The Merger Opinion of Our Financial Advisor , Citigroup reflected the projections in the Management Case and also made adjustments to the projections (including without limitation adjustments to take account of the potential for lower revenue per piece growth, reduction in wrap revenue and lower pieces per package growth) in preparing the Sensitivity Case it presented to the ADVO board of directors in connection with Citigroup s opinion as to the fairness of the merger. In addition, Valassis has advised us that its board of directors used more conservative projected financial information, including assumptions, than as reflected below in determining whether to proceed with the merger.

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Income Statement

(Dollars and shares in millions, except per share data)

	Fiscal Year Ended September				
	2006F	2007E	2008E	2009E	2010E
Revenue	$ 1,471	$ 1,536	$ 1,613	$ 1,717	$ 1,850
Adjusted Operating Income	$ 76	$ 91	$ 115	$ 136	$ 159
% Margin	5.2%	5.9%	7.2%	7.9%	8.6%
Adjusted Pretax Income	$ 70	$ 86	$ 111	$ 133	$ 158
Adjusted Net Income	$ 43	$ 53	$ 68	$ 81	$ 97
Diluted Shares Outstanding	31.5	31.8	32.3	32.8	33.3
Diluted Adjusted EPS	$ 1.36	$ 1.65	$ 2.10	$ 2.48	$ 2.90

Note: Adjusted Operating Income is used instead of Operating Income to highlight management adjustments to fiscal year 2006 and 2007 projections. Adjustments were made to fiscal 2006 of approximately $7.3 million in pre-tax costs and to fiscal 2007 of approximately $1.8 million in pre-tax costs related to one-time charges associated with previously announced strategic initiatives and other additional non-recurring costs. This presentation is not intended to reflect current Wall Street investment analysts expectations. Unadjusted Operating Income, Pre Tax Income, Net Income and Diluted EPS are shown below.

	Fiscal Year Ended September				
	2006F	2007E	2008E	2009E	2010E
Operating Income (Unadjusted)	$ 69	$ 89	$ 115	$ 136	$ 159
Pre Tax Income (Unadjusted)	$ 63	$ 84	$ 111	$ 133	$ 158
Net Income (Unadjusted)	$ 39	$ 51	$ 68	$ 81	$ 97
Diluted EPS (Unadjusted)	$ 1.22	$ 1.62	$ 2.10	$ 2.48	$ 2.90

Balance Sheet

(Dollars in millions)

	2006F	2007E	2008E	2009E	2010E
Cash	$ 52	$ 73	$ 121	$ 171	$ 235
Total Assets	$ 519	$ 561	$ 620	$ 696	$ 789
Total Stockholders Equity	$ 210	$ 248	$ 301	$ 368	$ 450

Note: All financials reflect fiscal year ending on the last Saturday in September.

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THE MERGER AGREEMENT

The following describes some of the material provisions of the merger agreement, but is not intended to be an exhaustive discussion of the merger agreement. The rights and obligations of the parties are governed by the express terms and conditions of the merger agreement and not by this summary or any other information contained in this proxy statement. We urge you to read the merger agreement carefully and in its entirety. The following summary is qualified in its entirety by reference to the merger agreement, a copy of which is attached as Annex A to this proxy statement and which is incorporated into this proxy statement by reference.

The merger agreement contains representations and warranties ADVO and Valassis made to each other. The statements embodied in those representations and warranties are qualified by information in confidential disclosure schedules that ADVO and Valassis have exchanged in connection with signing the merger agreement. Please note that certain representations and warranties were made as of a specified date, may be subject to a contractual standard of materiality different from those generally applicable to stockholders, or may have been used for the purpose of allocating risk between the parties rather than establishing matters as facts.

Structure and Effective Time

The merger agreement provides that Acquisition Sub, a wholly owned subsidiary of Valassis, will merge with and into ADVO. ADVO will survive the merger and will continue to exist after the merger as a wholly owned subsidiary of Valassis.

The merger will be effective when we file a certificate of merger with the Secretary of State of the State of Delaware (or at a later time if mutually agreed and specified in the certificate of merger). Valassis will file the certificate of merger on the closing date of the merger, which will be not later than two business days of the satisfaction or waiver of the conditions in the merger agreement, unless another date or time is agreed to in writing by ADVO and Valassis. We currently expect to complete the merger shortly after the special meeting. However, we cannot assure you when, or if, all the conditions to completion of the merger will be satisfied or waived. See Conditions to the Merger below.

Merger Consideration

At the effective time of the merger, each share of ADVO common stock issued and outstanding immediately prior to the effective time will automatically be cancelled and will cease to exist and will be converted into the right to receive $37.00 in cash, without interest, other than shares of ADVO common stock: (1) owned by ADVO, Valassis, Acquisition Sub or any of their respective subsidiaries, which shares will be cancelled and in respect of which no consideration shall be paid, and (2) owned by stockholders validly perfecting appraisal rights in accordance with the DGCL, which stockholders shall be entitled to payment of the appraisal value of such shares to the extent permitted by and in accordance with the provisions of the DGCL. See The Merger Appraisal Rights.

Payment Procedures

Before the merger becomes effective, Valassis will appoint National City Bank to act as exchange agent for the payment of merger consideration. At the effective time of the merger, Valassis or the surviving corporation will deposit with the exchange agent an amount of cash sufficient to pay the aggregate merger consideration.

If the merger agreement is adopted, as soon as reasonably practicable following the effective time of the merger, the exchange agent will mail to each holder of record of shares of ADVO common stock a letter of transmittal and instructions explaining how to surrender certificates representing shares of ADVO common stock in exchange for merger consideration. Each holder of certificates representing shares of ADVO common stock will, once such certificates are surrendered to the exchange agent together with a duly executed letter of transmittal and any other documents reasonably requested by the exchange agent, be entitled to receive the

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merger consideration in respect of the shares represented by such certificates as set forth above under Merger Consideration above. No interest will be paid or accrue on the merger consideration.

Treatment of ADVO Stock Options and Restricted Stock

Each option to purchase shares of ADVO common stock that is outstanding immediately prior to the effective time, whether or not vested, will be cancelled and the holder thereof will receive an amount in cash (without interest) equal to the excess, if any, of $37.00 over the per share exercise price of such option (minus any withholding of taxes required by law). At the effective time of the merger, each outstanding and unvested share of ADVO restricted stock, including those held by ADVO directors and executive officers, will vest and no longer be subject to any restrictions, and will be entitled to receive the same price per share as every other outstanding share of ADVO common stock.

Directors and Officers

The directors and officers of Acquisition Sub immediately before the merger will be the directors and officers of the surviving corporation, until the earlier of their resignation or removal or until their respective successors are duly elected and qualified.

Representations and Warranties

The merger agreement contains representations and warranties we made to Valassis and Acquisition Sub, including representations and warranties relating to:

- due organization, good standing and corporate power;
- ownership of significant subsidiary capital stock and the absence of certain restrictions or encumbrances with respect to the capital stock of any significant subsidiary;
- director and officer insurance;
- capital structure;
- corporate authorization to enter into and consummate the transactions contemplated by the merger agreement and the enforceability of the merger agreement;
- the recommendation by our board of directors of the merger agreement to our stockholders;
- absence of conflicts, consent or filing requirements, or violations under our charter documents, contracts, and applicable law (except for applicable antitrust notification requirements under the HSR Act and any other applicable antitrust, competition or premerger notification requirements) or judicial order;
- the reports, proxy statements and financial statements we have filed with the Securities and Exchange Commission, or SEC, and the accuracy of the information in those documents;

our compliance with the applicable listing and corporate governance rules and regulations of the New York Stock Exchange, or NYSE;

our internal controls and procedures for financial reporting and disclosure;

our lack of undisclosed liabilities;

accuracy of information supplied by ADVO for this proxy statement;

absence of certain changes or events from March 25, 2006 to July 5, 2006, the date of the merger agreement, and the absence of a material adverse effect on our business since March 25, 2006;

absence of any pending litigation or litigation-based order against us that would reasonably be expected to have a material adverse affect on our business;

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absence of breaches of material contracts and other representations relating to material contracts;

compliance with applicable laws and permit requirements, including federal, state, local, and foreign environmental laws;

employee benefit plans and labor relations;

absence of any excess golden parachute payment obligations to any of our current or former employees or directors;

taxes;

title to properties;

intellectual property;

stockholder voting requirements;

inapplicability of any takeover statutes;

brokers and finders fees;

receipt of an opinion from our financial advisor; and

actions we have taken to render our stockholder rights plan inapplicable to the merger and to ensure that the rights plan expires once the merger becomes effective.

Certain of our representations and warranties are qualified by a material adverse effect standard. A material adverse effect means any event, development, circumstance, change or effect that is or would reasonably be expected to be materially adverse to the business, financial condition or results of operations of ADVO and its subsidiaries, taken as a whole, except for any such effects or changes arising out of or relating to:

the announcement or the existence of the merger agreement and the transactions contemplated thereby;

changes in general economic or political conditions or the financial, credit or securities markets, as long as such changes do not substantially disproportionately affect ADVO;

changes in laws, rules, regulations or orders of any governmental entity or interpretations thereof by any governmental entity or changes in accounting rules applicable to ADVO and its subsidiaries;

changes affecting generally the industries in which ADVO and its subsidiaries conduct business, as long as such changes do not substantially disproportionately affect ADVO; or

any outbreak or escalation of hostilities or war or any act of terrorism.

The merger agreement contains representations and warranties Valassis made to us, including representations and warranties relating to:

due organization, good standing and corporate power;

corporate authorization to enter into and consummate the transactions contemplated by the merger agreement and the enforceability of the merger agreement;

the absence of conflicts, consent or filing requirements, or violations under Valassis charter documents, contracts, and applicable law (except for applicable antitrust notification requirements under the HSR Act and any other applicable antitrust, competition or premerger notification requirements) or judicial order;

capital structure of Acquisition Sub;

accuracy of information supplied by Valassis for this proxy statement;

accuracy and completeness of the financing commitment letter received by Valassis and the sufficiency of the proceeds from the debt financing contemplated by the financing commitment letter to satisfy Valassis and Acquisition Sub s obligations under the merger agreement;

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brokers and finders fees;

the absence of any pending litigation or litigation-based order against Valassis or any of its subsidiaries that would reasonably be expected to prevent or materially impair or delay the completion of the merger or Valassis or Acquisition Sub from satisfying their respective obligations under the merger agreement;

Valassis and Acquisition Sub not owning any of shares of ADVO common stock; and

no vote by stockholders of Valassis or any other holders of Valassis securities being necessary under Valassis certificate of incorporation or bylaws or under applicable law in order for Valassis to complete the merger.

Certain of Valassis representations and warranties are qualified by a material adverse effect standard. A material adverse effect, for purposes of the representations and warranties of Valassis, means any change or effect that, individually or in the aggregate, would reasonably be expected to prevent or materially impair or delay the completion of the merger or Valassis or Acquisition Sub from satisfying their respective obligations under the merger agreement.

The representations and warranties of each of the parties will expire once the merger becomes effective.

Covenants

Conduct of the Business of ADVO Prior to the Merger. From the date of the merger agreement until the merger becomes effective, ADVO and its subsidiaries have agreed to conduct business in all material respects in the ordinary course consistent with past practice and to use all commercially reasonable efforts to preserve intact its current business organizations, to keep available the services of its present officers, key employees, and consultants, and to preserve its relationships with customers, suppliers, licensors, licensees, distributors, and others having business dealings with it.

In addition, ADVO and its subsidiaries have agreed to various specific restrictions on ADVO s business and operations. Without Valassis prior written consent (except for certain specified exceptions), ADVO and its subsidiaries have agreed not to, among other things:

declare, set aside, make, or pay any dividends or other distributions (whether in cash, stock or property) in respect of any capital stock of ADVO, other than (1) the $0.11 cash dividend declared on June 22, 2006 and payable on August 4, 2006 to holders of ADVO common stock on July 28, 2006; (2) subject to their inapplicability to Valassis or the merger, dividends and distributions in accordance with our stockholder rights agreement; and (3) dividends or distributions by one of our wholly owned subsidiaries to ADVO or another wholly owned subsidiary of ADVO;

split, combine, or reclassify any of our capital stock or issue any other securities in respect of, in lieu of or in substitution of our capital stock;

purchase, redeem or otherwise acquire any of our capital stock or other securities, or any rights, warrants, or options to acquire such securities, unless required to do so by the terms of (1) our current stock plans, or (2) any existing plan, arrangement, or contract between ADVO or any of its subsidiaries and any of their respective directors or employees;

issue, deliver, sell, grant, pledge or otherwise encumber or subject to any lien any shares of ADVO capital stock, any other voting securities or any securities convertible into, or any rights, warrants or options to acquire, any such shares, voting securities or convertible securities, or any phantom stock, phantom stock rights, stock appreciation rights or stock based performance units, including pursuant to contracts in effect as of the date of the merger agreement, other than (1) the issuance of shares of ADVO common stock upon the exercise of stock options or in connection with ADVO stock based awards, in each case in accordance with

their terms on the date of the merger agreement, (2) the issuance of rights shares of ADVO capital stock pursuant to the stockholder rights agreements, or

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(3) grants required by the terms of any plans, arrangements or contracts existing on the date of the merger agreement between ADVO or any of its subsidiaries and any of their respective directors or employees;

amend the 5.71% Series A Senior Guaranteed Secured Notes due December 4, 2013, the Floating Rate Series B Senior Guaranteed Secured Notes due December 4, 2013, or ADVO s or its subsidiaries certificate of incorporation, bylaws or comparable charter or organizational documents, except as required by applicable law or regulation;

acquire in any manner any entity or division, business or equity interest of any entity or acquire outside the ordinary course of business any material assets, except for permitted capital expenditures;

sell, lease, license, mortgage, sell and leaseback or otherwise encumber or subject to any lien or otherwise dispose of any of its material properties assets or any interests therein (including securitizations), except for sales of inventory and used equipment in the ordinary course of business consistent with past practice,

enter into or materially modify or amend any lease of material property, other than in the ordinary course of business consistent with past practice;

incur any indebtedness for borrowed money, except under existing credit agreements and other specified lines of credit;

issue or sell any debt securities or calls, options, warrants or other rights to acquire the debt securities of ADVO or its subsidiaries;

guarantee the indebtedness for borrowed money or debt securities of another person;

enter into any keep well or other contract to maintain any financial statement condition of another person or enter into any arrangement having the same economic effect, other than short-term borrowings in the ordinary course under a specified credit agreement;

make any loans or advances to any other person, except (1) in the ordinary course of business and (2) loans, advances or similar arrangements between any wholly owned subsidiary of ADVO and ADVO or another wholly owned subsidiary of ADVO which would result in the aggregate principal amount of all of the outstanding foregoing loans and advances of ADVO and its subsidiaries not exceeding $100,000;

make any new capital expenditure exceeding specified amounts;

except as required by applicable law (1) pay, discharge, settle or satisfy any material claims, liabilities, obligations or litigation where the uninsured amount to be paid is greater than $250,000, other than in the ordinary course of business with respect to liabilities disclosed in the most recent audited financial statements or incurred since the date of such financial statements in the ordinary course of business; (2) cancel any material indebtedness in excess of $100,000; (3) waive or assign any claims or rights of material value; or (4) waive any material benefits of confidentiality, standstill or similar agreements to which ADVO or any of our subsidiaries is a party, or materially modify, knowing fail to enforce, or consent to certain material matters in such an agreement;

enter into any contracts restricting ADVO s or any of its subsidiaries ability to compete in any line of business, geographic area, or customer segment;

enter into, modify, amend or terminate any contract or waive, release or assign or delegate any material rights or claims thereunder, if doing so would reasonably be expected to have a material adverse effect (as defined above), materially impair ADVO s (or its subsidiaries) ability to perform its obligations under the merger agreement, or otherwise materially impede any of the transactions contemplated by the merger agreement;

enter into any material contract that could reasonably be expected to conflict with the merger or the merger agreement;

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take specified actions with respect to employee benefits matters;

make any changes with respect to accounting methods, principles or practices, or revalue any material assets of ADVO or any of its subsidiaries;

except as required by law, (i) make or change any tax election, (ii) settle any tax audit or (iii) file any amended tax return, in each case, that is reasonably likely to result in an increase to a tax liability, which increase is material to ADVO and its subsidiaries, taken as a whole; or

agree, commit, resolve, authorize, or propose to take any of the foregoing actions.

The merger agreement provides that each of ADVO and Valassis will promptly advise the other if any representation, warranty, condition or agreement made in the agreement becomes untrue or inaccurate in a manner that would result in the failure of certain of the conditions to its obligation to complete the merger, and if it fails materially to comply with or satisfy in any material respect any covenant, condition or agreement under the merger agreement.

Each of ADVO and Valassis will promptly provide the other with copies of all filings to any governmental entity in connection with the merger agreement and the transactions contemplated thereby, to the extent permitted by law. However, neither ADVO nor Valassis is required to provide any portion of these filings to the other that includes confidential or proprietary information not directly related to the transactions contemplated by the merger agreement.

No Solicitation. ADVO shall not, and shall cause each of its subsidiaries and each of its representatives and its subsidiaries representatives not to, directly or indirectly:

solicit, initiate or knowingly encourage, or take any other action designed to, or which could reasonably be expected to, facilitate, any takeover proposal (as defined below); and

enter into, continue or otherwise participate in any discussions or negotiations regarding, or furnish to any person any non-public information relating to any takeover proposal.

In addition, ADVO and its subsidiaries, and the representatives of either, must cease as of the date of the merger agreement all existing discussions or negotiations with respect to any takeover proposal, and must request the prompt return or destruction of all confidential information previously furnished.

Takeover Proposal means any inquiry, proposal or offer from any person relating to, or that could reasonably be expected to lead to, any acquisition or purchase of assets (including equity securities) or businesses that constitute 20% or more of the revenues, net income or assets of ADVO and its subsidiaries (taken as a whole), or 20% or more of any class of equity securities of ADVO and its subsidiaries, any tender offer or exchange offer that if completed would result in any person beneficially owning 20% or more of any class of equity securities of ADVO or any of its subsidiaries, or any merger, consolidation, business combination, recapitalization, liquidation, dissolution, joint venture, binding share exchange or similar transaction involving ADVO or any of its subsidiaries pursuant to which any person or the stockholders of any person would own 20% or more of any class of equity securities of ADVO or any of its subsidiaries or of any resulting parent company of ADVO, in each case other than the transactions contemplated by the merger agreement.

Notwithstanding this restriction, at any time prior to the special meeting, in response to a bona fide, unsolicited written takeover proposal that ADVO s board of directors reasonably determines (after consultation with outside legal and financial advisors) constitutes or would reasonably likely lead to a superior proposal (as defined below), ADVO may:

furnish non-public information about ADVO and its subsidiaries to the person making the proposal pursuant to a customary confidentiality and standstill agreement not less restrictive than the confidentiality agreement between ADVO and Valassis, as long as such information was previously or is concurrently provided to Valassis; and

participate in discussions or negotiations with the person making such proposal regarding the proposal.

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Not later than 48 hours after receipt of any takeover proposal, ADVO must advise Valassis of such takeover proposal, including its material terms and conditions and the identity of the person making the proposal. In addition, ADVO must keep Valassis fully informed of the status of the proposal (including any change to its terms) and of any related discussions, and provide Valassis with copies of any and all correspondence and other written material relating to the terms or conditions of the proposal sent or received by ADVO or its subsidiaries, within 48 hours of such sending or receipt by ADVO or its subsidiaries.

Superior Proposal means any bona fide, good faith offer made by a third party that if consummated would result in such person (or its stockholders) owning, directly or indirectly, more than 50% of the shares of outstanding ADVO common stock or a majority of the assets of ADVO and its subsidiaries (taken as a whole), which the ADVO board of directors reasonably determines in good faith (after consultation with outside counsel and financial advisors) (1) to be more favorable to the stockholders of ADVO from a financial point of view than the merger (taking into account all the terms and conditions of such proposal and the merger agreement, including any changes to the financial and other terms of the merger agreement proposed by Valassis) and (2) which provides for fully committed and available financing and, other than in the case of a strategic buyer that the ADVO board of directors believes (with the advice of a financial advisor) has adequate financing resources to consummate the proposal, for which such person has received executed financing commitment letters from reputable sources.

The merger agreement provides that ADVO s board of directors will not withdraw or modify their approval or recommendation of the merger agreement or the transactions contemplated thereby in a manner adverse to Valassis, and will not adopt or recommend or take any neutral position with respect to any takeover proposal made by a third party, except as described below. Any such withdrawal, modification, adoption, or recommendation is referred to as an adverse recommendation change.

In circumstances not involving a competing takeover proposal and prior to the adoption of the merger agreement by ADVO stockholders, our board of directors can effect an adverse recommendation change if it determines in good faith (after consultation with outside legal counsel) that such action is necessary in order for it to comply with its fiduciary obligations to stockholders. To do so, ADVO must terminate the merger agreement and pay Valassis the termination fee described in Fees and Expenses below. ADVO also must give Valassis written notice at least one business day before such action is taken, describing in reasonable detail the action proposed to be taken and the basis for such action.

In circumstances involving a superior proposal and prior to the adoption of the merger agreement by ADVO stockholders, ADVO s board of directors may make an adverse recommendation change no earlier than three business days after Valassis receives written notice that the ADVO board of directors intends to take such action and specifying the terms and conditions of the superior proposal. During those three business days, ADVO must at the request of Valassis negotiate with Valassis in good faith to revise the merger agreement so that the competing takeover proposal no longer constitutes a superior proposal. If after such three day period the takeover proposal has not been withdrawn and continues to constitute a superior proposal, ADVO s board of directors c Book,Arial,Helvetica,sans-serif">Fannie Mae Mortgage-Backed Securities, 4.50%, 7/15/40 (o) 4,800 4,879,499 Freddie Mac Mortgage-Backed Securities, 4.50%, 4/01/25 (g) 44,829 46,967,810 51,847,309 Total U.S. Government Sponsored Agency Securities 8.9% 54,137,133 Warrants (p) SharesMachinery 0.0% Synventive Molding Solutions (Expires 1/15/13) 1 Media 0.0% CMP Susquehanna Radio Holdings Corp. (Expires 3/26/19) 51,701 Oil, Gas & Consumable Fuels 0.0% Turbo Cayman Ltd. (no expiration) 2 Software 0.0% HMH Holdings/EduMedia (Expires 3/09/17) 39,565 Total Warrants 0.0%

Schedule of Investments (continued)

BlackRock Limited Duration Income Trust (BLW)
(Percentages shown are based on Net Assets)

				Value
Total Long-Term Investments (Cost $761,894,787) 120.9%				$ 733,649,011
Short-Term Securities	Shares			
BlackRock Liquidity Funds, TempFund, Institutional Class,		0.15% (q)(r)	9,335,957	9,335,957
Total Short-Term Securities (Cost $9,335,957) 1.5%				9,335,957
Options Purchased	Contracts			
Exchange-Traded Put Options 0.0%				
Eurodollar 1-Year Mid-Curve Options:				
Strike Price USD 98.50, expires 6/01/10			223	15,331
Strike Price USD 97.25, expires 9/01/10			127	9,525
				24,856
Over-the-Counter Call Options 0.0%				
Marsico Parent Superholdco LLC, Strike Price USD 942.86, expires 12/01/19, Broker Goldman Sachs				
		Bank USA	46	9,660
Total Options Purchased				
		(Cost $130,795) 0.0%		34,516
Total Investments (Cost $771,361,539) 122.4%				743,019,484
Liabilities in Excess of Other Assets (22.4)%				(136,099,050)
Net Assets 100.0%				$ 606,920,434

* The cost and unrealized appreciation (depreciation) of investments as of May 31, 2010, as computed for federal income tax purposes, were as follows:

Aggregate cost		$ 771,898,952
Gross unrealized appreciation		$ 16,796,701
Net Gross unrealized unrealized depreciation depreciation	$ (28,879,468)	(45,676,169)

(a) Variable rate security. Rate shown is as of report date.
(b) Non-income producing security.

(c) Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional investors.

(d) Convertible security.
(e) Represents a zero-coupon bond. Rate shown reflects the current yield as of report date.
(f) Represents a payment-in-kind security which may pay interest/dividends in additional face/shares.
(g) All or a portion of security has been pledged as collateral in connection with reverse repurchase agreements.
(h) All or a portion of security has been pledged as collateral in connection with open financial futures contracts.
(i) Issuer filed for bankruptcy and/or is in default of interest payments.
(j) All or a portion of security has been pledged as collateral in connection with TALF Program.
(k) Other interests represent beneficial interest in liquidation trusts and other reorganization entities and are non-income producing.
(l) Amount is less than $1,000.
(m)The investment is held by a wholly owned taxable subsidiary of the Trust.
(n) Security is perpetual in nature and has no stated maturity date.
(o) Represents or includes a to-be-announced (TBA) transaction. Unsettled TBA transactions as of report date were as follows:

Counterparty	Value	Unrealized Appreciation
Goldman Sachs & Co.	$ 4,879,498$	59,998

(p) Warrants entitle the Trust to purchase a predetermined number of shares of common stock and are non-income producing. The purchase price and number of shares are subject to adjustment under certain conditions until the expiration date.
(q) Investments in companies considered to be an affiliate of the Trust, for purposes of Section 2(a)(3) of the Investment Company Act of 1940, as amended, were as follows:

Affiliate	Shares Held at August 31, 2009	Net Activity	Shares Held at May 31, 2010	Income
BlackRock Liquidity Funds, TempFund, Institutional Class	96,671,566	(87,335,609)	9,335,957	$49,449

(r) Represents the current yield as of report date.

Schedule of Investments (continued)

BlackRock Limited Duration Income Trust (BLW)

Financial futures contracts sold as of May 31, 2010 were as follows:

Contracts	Issue	Expiration Date	Notional Value	Unrealized Appreciation (Depreciation)
18	Eurodollar	June 2010	$ 4,482,845	$ 9,845
18	Eurodollar	September 2010	$ 4,477,445	15,470
60	5-Year U.S. Treasury Bond	September 2010	$ 7,018,800	18,487
18	Eurodollar	December 2010	$ 4,466,645	11,420
18	Eurodollar	March 2011	$ 4,451,795	2,420
12	Eurodollar	June 2011	$ 2,956,013	(5,137)
12	Eurodollar	September 2011	$ 2,944,913	(9,937)
12	Eurodollar	December 2011	$ 2,934,113	(13,237)
12	Eurodollar	March 2012	$ 2,924,663	(15,637)
8	Eurodollar	June 2012	$ 1,943,876	(11,324)
8	Eurodollar	September 2012	$ 1,938,176	(12,024)
8	Eurodollar	December 2012	$ 1,932,676	(12,524)
8	Eurodollar	March 2013	$ 1,927,976	(13,124)
Total				$ (35,302)

Foreign currency exchange contracts as of May 31, 2010 were as follows:

Currency Purchased		Currency Sold		Counter-party	Settlement Date	Unrealized Appreciation (Depreciation)
EUR	516,900	USD	638,454	Citibank NA	7/14/10	$ (3,810)
USD	25,949,173	EUR	20,676,500	BNP Paribas	7/14/10	562,808
USD	456,702	EUR	369,500	Citibank NA	7/14/10	3,034
USD	807,827	EUR	652,500	Deutsche Bank AG	7/14/10	6,695
GBP	2,763,000	USD	4,100,842	Citibank NA	7/28/10	(104,537)
USD	1,733,579	GBP	1,126,000	Citibank NA	7/28/10	104,973

				Royal Bank of			
USD	11,335,649	GBP	7,326,500	Scotland		7/28/10	738,859
Total							$ 1,308,022

Schedule of Investments (continued)

BlackRock Limited Duration Income Trust (BLW)

Credit default swaps on traded indexes buy protection outstanding as of May 31, 2010 were as follows:

Issuer	Pay Fixed Rate	Counterparty	Expiration		Notional Amount (000)	Unrealized Appreciation
K. Hovnanian Enterprises, Inc.	5.00%	Goldman Sachs Bank USA	December 2011	USD	800	$ 8,682
K. Hovnanian Enterprises, Inc.	5.00%	Goldman Sachs Bank USA	December 2012	USD	600	7,097
Total						$ 15,779

Reverse repurchase agreements outstanding as of May 31, 2010 were as follows:

Counterparty	Interest Rate	Trade Date	Maturity Date	Net Closing Amount	Face Amount
RBS Securities Inc.	0.35%	4/28/10	Open	$ 6,039,246	$ 6,037,250
Credit Suisse Securities (USA) LLC	0.35%	4/28/10	Open	5,563,785	5,562,000
Credit Suisse Securities (USA) LLC	0.50%	4/28/10	Open	7,159,702	7,156,422
RBS Securities Inc.	0.35%	4/30/10	Open	1,260,542	1,260,150
Credit Suisse Securities (USA) LLC	0.55%	5/04/10	Open	8,864,765	8,860,974
BNP Paribas Securities	0.26%	5/18/10	6/14/10	35,641,603	35,638,000
Credit Suisse Securities (USA) LLC	0.27%	5/21/10	6/14/10	10,206,612	10,206,000
Barclays Capital Inc.	0.65%	5/25/10	Open	3,906,775	3,906,281

Credit Suisse Securities (USA) LLC	0.35%	5/25/10	Open	3,649,174	3,648,926
Credit Suisse Securities (USA) LLC	0.55%	5/28/10	Open	4,896,299	4,896,000
Credit Suisse Securities (USA) LLC	0.55%	5/28/10	Open	2,281,077	2,280,938
Total				$89,469,580	$89,452,941

For Trust compliance purposes, the Trust's industry classifications refer to any one or more of the industry sub-classifications used by one or more widely recognized market indexes or rating group indexes, and/or as defined by Trust management. This definition may not apply for purposes of this report, which may combine such industry sub-classifications for reporting ease.

Schedule of Investments (continued)

BlackRock Limited Duration Income Trust (BLW)

Fair Value Measurements - Various inputs are used in determining the fair value of investments, which are as follows:

Level 1 price quotations in active markets/exchanges for identical assets and liabilities

Level 2 other observable inputs (including, but not limited to: quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market-corroborated inputs)

Level 3 unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including the Trust's own assumptions used in determining the fair value of investments)

The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. For information about the Trust's policy regarding valuation of investments and other significant accounting policies, please refer to the Trust s most recent financial statements as contained in its semi-annual report.

The following tables summarize the inputs used as of May 31, 2010 in determining the fair valuation of the Trust s investments:

Investments in Securities

Valuation Inputs	Level 1	Level 2	Level 3	Total
Assets:				
Long-Term Investments:				
Asset-Backed Securities	-	$ 8,388,473	$ 2,483,693	$ 10,872,166
Common Stocks	$ 2,813,250	199,241	936,431	3,948,922
Corporate Bonds	-	240,257,291	3,459,201	243,716,492
Floating Rate Loan Interests	-	263,451,215	60,017,462	323,468,677
Foreign Agency Obligations	-	16,189,750	-	16,189,750
Municipal Bonds	-	1,459,557	-	1,459,557
Non-Agency Mortgage-Backed Securities	-	72,055,643	-	72,055,643
Other Interests	-	-	7,576,871	7,576,871
Preferred Stocks	-	-	223,800	223,800
U.S. Government Sponsored Agency Securities	-	54,137,133	-	54,137,133
Short-Term Securities	9,335,957	-	-	9,335,957
Total	$ 12,149,207	$ 656,138,303	$ 74,697,458	$742,984,968

Other Financial Instruments1

Valuation

Inputs	Level 1	Level 2	Level 3	Total
Assets	$ 82,498	$ 1,441,808	-	$ 1,524,306
Liabilities	(92,944)	(108,347)	$ (48,881)	(250,172)
Total	$ (10,446)	$ 1,333,461	$ (48,881)	$ 1,274,134

[1]Other financial instruments are swaps, financial futures contracts, foreign currency exchange contracts, options and unfunded loan commitments. Swaps, financial futures contracts, foreign currency exchange contracts and unfunded loan commitments are shown at the unrealized appreciation/depreciation on the instrument and options are shown at value.

Schedule of Investments (concluded)

BlackRock Limited Duration Income Trust (BLW)

The following table is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value:
Investments in Securities

	Asset-Backed Securities	Common Stocks	Corporate Bonds	Floating Rate Loan Interests	Other Interests	Preferred Stocks	Total
Balance, as of August 31, 2009	$ 2,668,212	$ 81,956	$ 6,270,943	$83,910,390	$ 504,368	-	$ 93,435,869
Accrued discounts/ premium	(29,471)	-	154,412	1,189,722	-	-	1,314,663
Realized gain (loss)	(165)	-	(805,867)	(10,090,807)	(29,532)	-	(10,926,371)
Change in unrealized appreciation (depreciation)[2]	(154,883)	97,990	6,611,296	23,095,627	834,925	-	30,484,955
Net purchases (sales)	-	-	(5,313,324)	(25,730,670)	-	-	(31,043,994)
Net transfers in/out of Level 3	-	756,485	(3,458,259)	(12,356,800)	6,267,110	$ 223,800	(8,567,664)
Balance, as of May 31, 2010	$ 2,483,693	$ 936,431	$ 3,459,201	$ 60,017,462	$ 7,576,871	$ 223,800	$ 74,697,458

2The change in unrealized appreciation/depreciation on securities still held at May 31, 2010 was $12,510,979.

The following table is a reconciliation of Level 3 other financial instruments for which significant unobservable inputs were used to determine fair value:

	Other Financial Instruments[3]	
	Assets	Liabilities
Balance, as of August 31, 2009	$ 63,812	-
Accrued discounts/premiums	-	-
Realized gain (loss)	-	-
Change in unrealized appreciation/ depreciation	(63,812)	$ (48,881)
Net purchases (sales)	-	-
Net transfers in/out of Level 3	-	-
Balance, as of May 31, 2010	$ -	$ (48,881)

[3] Other financial instruments are unfunded loan commitments.

Item 2 Controls and Procedures

2(a) The registrant's principal executive and principal financial officers or persons performing similar functions have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the 1940 Act)) are effective as of a date within 90 days of the filing of this report based on the evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act and Rule 13(a)-15(b) under the Securities Exchange Act of 1934, as amended.

2(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3 Exhibits

Certifications Attached hereto

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BlackRock Limited Duration Income Trust

By: /s/ Anne F. Ackerley
Anne F. Ackerley
Chief Executive Officer of
BlackRock Limited Duration Income Trust

Date: July 23, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Anne F. Ackerley
Anne F. Ackerley
Chief Executive Officer (principal executive officer) of
BlackRock Limited Duration Income Trust

Date: July 23, 2010

By: /s/ Neal J. Andrews
Neal J. Andrews
Chief Financial Officer (principal financial officer) of
BlackRock Limited Duration Income Trust

Date: July 23, 2010