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ADVO INC
Form 11-K
June 20, 2002

FORM 11-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

Annual Report pursuant to Section 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2001

or

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

For the transition period from _____ to _____

Commission file number 1-11720

ADVO, Inc. 401(k) Savings Plan

(Full title of the plan)

ADVO, Inc.
One Univac Lane,
P.O. Box 755,
Windsor, CT 06095-0755

(Name of issuer of the securities held pursuant to the plan and the address of its principal executive offices)

ADVO, Inc. 401(k) Savings Plan

Annual Report

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Year Ended December 31, 2001

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Report of Independent Auditors

Financial Statements:

Statements of Assets Available for Plan Benefits as of
December 31, 2001 and 2000

Statements of Changes in Assets Available for Plan Benefits for the
years ended December 31, 2001 and 2000

Notes to Financial Statements

Supplemental Schedule:

Schedule I - Schedule H, Line 4i -Schedule of Assets (Held at End of Year)

Signature

Exhibit 23 - Consent of Ernst & Young LLP

Report of Independent Auditors

To the Plan Administrator of
ADVO, Inc.
401(k) Savings Plan

We have audited the accompanying statements of assets available for plan benefits of the ADVO, Inc. 401(k) Savings Plan as of December 31, 2001 and 2000, and the related statements of changes in assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets available for plan benefits of the Plan at December 31, 2001 and 2000, and the changes in its assets available for plan benefits for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2001, is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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\s\ Ernst & Young LLP

Hartford, Connecticut
June 6, 2002

ADVO, INC.
401(k) SAVINGS PLAN
STATEMENTS OF ASSETS AVAILABLE FOR PLAN BENEFITS

| Assets | December 31, | |
|------------------------------------|---------------|---------------|
| | 2001 | 2000 |
| Investments at Fair Value | \$ 75,268,954 | \$ 76,781,444 |
| Receivables: | | |
| Employees' Contributions | 338,555 | 348,047 |
| Employer's Contributions | 208,623 | 215,939 |
| Total Receivables | 547,178 | 563,986 |
| Assets Available for Plan Benefits | \$ 75,816,132 | \$ 77,345,430 |

See accompanying notes to financial statements.

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ADVO, INC.
401(k) SAVINGS PLAN
STATEMENTS OF CHANGES IN ASSETS AVAILABLE FOR PLAN BENEFITS

| Additions to assets attributed to: | Year-ended December 31, | |
|--|----------------------------|----------------|
| | 2001 | 2000 |
| Investment income: | | |
| Net realized and unrealized depreciation in fair value of investments | \$ (7,637,450) | \$ (3,568,712) |
| Interest | 212,858 | 199,095 |
| Dividends | 1,904,778 | 3,385,412 |
| Contributions: | | |

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| | | |
|---|---------------|---------------|
| Employee | 7,505,562 | 7,488,874 |
| Employer | 4,990,152 | 4,922,064 |
| Employee rollover | 559,122 | 504,555 |
| | ----- | ----- |
| Total Additions | 7,535,022 | 12,931,288 |
| Deductions to assets attributed to: | | |
| Benefit payments | 9,064,320 | 8,367,735 |
| | ----- | ----- |
| Net (decrease)/increase in assets available for plan benefits: | (1,529,298) | 4,563,553 |
| Assets Available for Plan Benefits: | | |
| Beginning of the year | 77,345,430 | 72,781,877 |
| | ----- | ----- |
| End of the year | \$ 75,816,132 | \$ 77,345,430 |
| | ===== | ===== |

See accompanying notes to financial statements.

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ADVO, INC.
401(k) SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

A. DESCRIPTION OF THE PLAN

The following description of the ADVO, Inc. 401(k) Savings Plan ("Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan covering all employees ("participants") of ADVO, Inc. (the "Company") who have completed six months of service. For the 2000 plan year, employees were required to complete one year of service.

The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions

Participants may contribute up to 16 percent of their annual compensation on a pretax basis, as defined in the Plan. Participants may also contribute amounts representing rollover distributions from other defined contribution plans.

The Company contributes 100 percent of the first 6 percent of a participant's pay deferral contributions to the Plan.

All investment programs are fully participant directed. Participants direct the investment of their and the Company's contributions into various investment

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options offered by the Plan. The Plan currently offers nine investment options: three collective investment funds, four mutual funds, and two ADVO custom funds which include a fund with Company common stock.

Participant Accounts

Each participant's account is credited with the participant's contribution, the Company's matching contribution, and the Plan's earnings. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

Vesting

Participants are immediately vested in their voluntary contributions and related employer matching contributions plus actual earnings thereon.

Payment of Benefits

Upon termination of service, a participant may elect to receive a lump-sum amount equal to the value of their account.

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ADVO, INC.
401(k) SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

Loans

Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50 percent of their account balance. The loans are secured by the balance in the participant's account and bear interest at a rate commensurate with local prevailing rates as determined quarterly by the plan administrator. Principal and interest are paid ratably through monthly payroll deductions.

Expenses of the Plan

All costs and expenses of operation and administration of the Plan are paid by the Company.

Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants will remain 100 percent vested in their accounts. After payment of expenses, distributions would be made pro rata based on the value of such accounts.

ADVO Custom Funds

Employer custom funds include the ADVO AXP New Dimensions Fund and the ADVO Stock Fund. Custom funds are unregistered custom separate accounts maintained by the Trustee and established by the Company for the benefit of the Plan and any other qualified plan of the Company. Ownership is represented by each plan's proportionate units of participation.

Although the performance of the custom fund is based on the performance of the

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underlying mutual fund or Company common stock, the value of a fund unit is different from the net asset value of the mutual fund or the price of one share of common stock. Changes in the unit value of the fund will be affected by price changes in the underlying mutual fund or common stock, earnings, dividends, interest and applicable fees and expenses of the fund. Additionally, the funds maintain highly liquid money market instruments which may contribute to differences in performance between the fund units and net asset value of the underlying mutual funds or common stock.

Subsequent Event

Effective January 1, 2002, the MailCoups Inc. 401(k) Savings Plan will merge into the Plan. MailCoups Inc.'s associates will be entitled to the provisions of the ADVO Plan.

B. SUMMARY OF ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Valuation of Investments

The fair value of investments in mutual funds is based on the quoted market prices of the shares held in these funds at year-end.

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ADVO, INC
401(k) SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

The fair value of investments in the collective investment funds and the ADVO custom funds is based on the net asset value ("NAV") of participation units held by the Plan at year-end. These NAVs are calculated based on the current market value of the underlying securities and the current number of units held by participants in these funds.

Participant loans are stated at their outstanding principal balances which approximate fair value.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires plan management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While management believes that the estimates and related assumptions in the preparation of these financial statements are appropriate, actual results could differ from those estimates.

C. INVESTMENTS

The Plan's investments are primarily held by bank-administered trust funds. The following table presents the fair value of investments. Investments that represent 5% or more of the Plan's assets available for plan benefits are separately identified by the following "*".

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| | December 31, | |
|---|------------------------|---------------|
| | ----- 2001 ----- | 2000 ----- |
| Cash | \$ 3,121 | \$ 2,754 |
| Collective Investment Funds: | | |
| Merrill Lynch Income Accumulation Fund | 9,239,356 * | 7,247,837 * |
| Barclays Global Investors Asset Allocation Fund | 9,471,071 * | 10,535,251 * |
| Barclays Global Investors S&P MidCap Stock Fund | 6,041,626 * | 5,027,571 * |
| Mutual Funds | | |
| Templeton Foreign Fund | 2,952,642 | 2,952,219 |
| Barclays Global Investors S&P 500 Stock Fund | 17,575,977 * | 20,035,185 * |
| Lord Abbett Developing Growth Fund | 2,389,022 | 2,137,339 |
| Merrill Lynch Retirement Reserves Money Fund | 5,493,808 * | 3,851,055 |
| ADVO Custom Funds: | | |
| ADVO AXP New Dimensions Fund | 13,864,215 * | 16,997,779 * |
| ADVO Stock Fund | 5,680,370 * | 5,719,970 * |
| Participant Loans | 2,557,746 | 2,274,484 |
| | ----- | ----- |
| TOTAL | \$ 75,268,954 | \$ 76,781,444 |
| | ===== | ===== |

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ADVO, INC
401(k) SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

During 2001 and 2000, the Plan's investments (including investments purchased, sold as well as held during the year) (depreciated)/appreciated in fair value as determined by quoted market prices as follows:

| | Net Realized and Unrealized (Depreciation)/ Appreciation In Fair Value of Investments | |
|-----------------------------|---|----------------|
| | ----- 2001 ----- | 2000 ----- |
| Collective Investment Funds | \$ (717,082) | \$ 828,362 |
| Mutual Funds | (4,149,112) | (5,356,017) |
| ADVO Custom Funds | (2,771,256) | 958,943 |
| | ----- | ----- |
| | \$ (7,637,450) | \$ (3,568,712) |
| | ===== | ===== |

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D. DIFFERENCES BETWEEN FINANCIAL STATEMENTS AND FORM 5500

The following is a reconciliation of assets available for plan benefits per the financial statements to the Plan's Form 5500:

| | December 31, | |
|---|---------------|---------------|
| | 2001 | 2000 |
| | ----- | ----- |
| Assets available for plan benefits per the financial statements | \$ 75,816,132 | \$ 77,345,430 |
| Transfer from the MailCoups, Inc. 401(k) Savings Plan | 805,045 | -- |
| Amounts allocated to withdrawn participants | -- | (429,623) |
| | ----- | ----- |
| Assets available for plan benefits per the Form 5500 | \$ 76,621,177 | \$ 76,915,807 |
| | ===== | ===== |

The following is a reconciliation of benefit payments per the financial statements to the Plan's Form 5500:

| | Year Ended December 31, | |
|---|-------------------------|--------------|
| | 2001 | 2000 |
| | ----- | ----- |
| Benefit payments per the financial statements | \$ 9,064,320 | \$ 8,367,735 |
| Add: Current year amounts allocated to withdrawn participants | -- | 429,623 |
| Less: Prior year amounts allocated to withdrawn participants | (429,623) | (107,053) |
| | ----- | ----- |
| Benefits paid to participants per the Form 5500 | \$ 8,634,697 | \$ 8,690,305 |
| | ===== | ===== |

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ADVO, INC
401(k) SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

Amounts allocated to withdrawn participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to year-end but not yet paid.

E. INCOME TAX STATUS

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The Plan has received a determination letter from the Internal Revenue Service dated August 23, 1995, stating the Plan is qualified under Section 401(a) of the Internal Revenue Code (the "Code") and, therefore, the related trust is exempt from taxation. Subsequent to this issuance of the determination letter, the Plan was amended. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan, as amended, is qualified and the related trust is tax exempt.

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SCHEDULE I

ADVO, INC.
 401(k) SAVINGS PLAN
 EMPLOYER IDENTIFICATION NUMBER 06-0885252, PLAN NUMBER 001
 SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2001

| Identity of Issue, Borrower, Lessor or Similar Party ----- | Description of Investment, Including Maturity Date, Rate of Interest, Par or Maturity Value ----- |
|--|--|
| Cash | -- |
| Collective Investment Funds: | |
| Merrill Lynch Income Accumulation Fund | 9,239,356 units |
| Barclays Global Investors Asset Allocation Fund | 275,803 units |
| Barclays Global Investors S&P MidCap Stock Fund | 160,767 units |
| Mutual Funds: | |
| Templeton Foreign Fund | 319,205 units |
| Barclays Global Investors S&P 500 Stock Fund | 1,009,533 units |
| Lord Abbett Developing Growth Fund | 158,109 units |
| Merrill Lynch Retirement Reserves Money Fund | 5,493,807 units |
| *ADVO Custom Funds: | |
| ADVO AXP New Dimensions Fund | 475,034 units |
| ADVO Stock Fund | 164,718 units |
| Participant Loans | Bear interest at rates ranging from 6.00%-10.50% with varying maturity dates |
| TOTAL | |

* Indicates party-in-interest to the Plan.

Cost column is not applicable because all investment programs are fully participant directed.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the ADVO, Inc., Associate Savings Committee has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

ADVO, Inc.
401(k) Savings Plan

Date: June 19, 2002

By: \s\ SCOTT ESPOSITO

Scott Esposito
Vice President, Human Resources