



**NEWS**  
**FROM ADVO, INC.**

## **ADVO Reports First Quarter Results**

WINDSOR, CT – January 26, 2006 – ADVO, Inc. (NYSE: AD) today reported that revenue for its first fiscal quarter ended December 24, 2005 grew to \$358.2 million, increasing \$8.2 million, or 2.3%, over the prior year quarter. Diluted E.P.S. for the quarter grew 46.2% over the prior year quarter to \$0.38. The Company's first quarter fiscal 2005 E.P.S. did not include incremental expenses of \$0.03 for the expensing of stock options as the result of the adoption of FAS123(R) in fiscal 2006.

Shared advertising packages distributed declined 0.5% to 1.041 billion versus the prior year quarter, primarily due to households in the Gulf Coast where mail was undeliverable in the wake of the hurricanes. Pieces per package increased 5.6%, to 8.35, the largest quarter over quarter improvement the Company has realized in six quarters. Shared advertising piece volumes increased 5.1% to 8.7 billion pieces. Revenue per piece declined 2.4% driven by lower insert weights and lower revenues in the Company's ShopWise® wrap product. The Company continues to experience gains with respect to its second mailing date in Southern California, with average revenue per week increasing 10.9% sequentially versus the last quarter of fiscal 2005, and up 147% over the prior year period.

The increase in pieces per package positively leveraged the Company's distribution costs as unused postage dropped 2.1 percentage points versus the prior year quarter, to 20.7%, and drove a 1.5 percentage point improvement in distribution expense as a percent of revenue. In addition, while print and paper expenses and operating costs increased, up 1.6 and 0.3 percentage points, respectively, SG&A for the period declined 2.1 percentage points versus the prior year, driven by lower sales expense. As a result, first quarter operating margins as a percent of revenue improved significantly, up 1.7 percentage points over the prior year, to 5.8%.

Scott Harding, ADVO's Chief Executive Officer, stated, "A key goal in fiscal 2006 is to improve our profit margins. In the first quarter, we did just that, demonstrating the operating leverage that is inherent in our business when we fill our packages and control costs. We continue to be pleased with the progress we are making in our second mailing program in Southern California, where this leverage is even more pronounced. Profitable growth and category diversification remain equally important objectives. In the first quarter we achieved our 14<sup>th</sup> consecutive quarter of revenue growth on top of 16% growth in the year ago quarter. Although we were disappointed in our quarterly revenue growth of 2.3%, we continue to be confident in our long-term opportunity to drive sustained profitable growth across our business, capitalizing on the value that our media platform, products, services and solutions provide today's advertisers."

The Company will hold an analyst conference call to discuss its first quarter earnings today at 5:15-6:00 p.m. ET. The call in number is 1-800-810-0924, and the replay number is 1-888-203-1112 (access code #4059686). The replay will be available until midnight February 16, 2006. The call will also be available via webcast through the Investor Relations section of ADVO's website at [www.advo.com](http://www.advo.com).

**ONE TARGETING CENTRE WINDSOR, CT 06095-2639 860-285-6100**

## Key Statistics – 1Q06 Results and Growth vs. 1Q05

	<u>Total</u>
Advertising Packages ( <i>millions</i> )	1,041.0
Advertising Package Growth	-0.5%
Pieces per Package	8.35
Pieces per Package Growth	5.6%
Advertising Pieces ( <i>millions</i> )	8,689.8
Advertising Piece Growth	5.1%
Revenue per Thousand Pieces	\$38.12
Revenue per Thousand Piece Growth	-2.4%
% Underweight	20.7%
Percentage Point Improvement	2.1pp

## Diluted Earnings per Share: Reconciliation of The Pro Forma Impact of the Adoption of FAS123(R)\*

	<u>Three Months Ended</u>	
	<u>December 24, 2005</u>	<u>December 25, 2004</u>
Diluted Earnings per share – As Reported	\$0.38	\$0.26
Pro Forma FAS123(R) expense	--	0.03
Diluted Earnings per share – Pro Forma	<u>\$0.38</u>	<u>\$0.23</u>

\* This pro forma financial measure reconciliation is provided because the 1Q06 as reported E.P.S. includes incremental expenses the Company incurred as a result of the adoption of new accounting rules related to FAS123(R), and management believes that reconciling E.P.S. in this manner facilitates comparisons to prior period results.

*This report contains certain forward looking statements regarding the Company's results of operations and financial position within the meaning of Sections 21E of the Securities Exchange Act of 1934, as amended. Such forward looking statements are based on current information and expectations and are subject to risks and uncertainties which could cause the Company's actual results to differ materially from those in the forward looking statements. The Company's business is promotional in nature, and ADVO serves its clients on a "just in time" basis. As a result, fluctuations in the amount, timing, pages, weight, and kinds of advertising pieces can vary significantly from period to period, depending on its customers' promotional needs, inventories, and other factors. In any particular period these transactional fluctuations are difficult to predict, and can materially affect the Company's revenue and profit results. The Company's business contains additional risks and uncertainties which include, but are not limited to: general changes in customer demand and pricing; the possibility of consolidation in the retail sector; the impact of economic or political conditions on advertising spending and the Company's distribution system; postal and paper prices; possible governmental regulation or*

*legislation affecting aspects of the Company's business; the efficiencies achieved with technology upgrades; fluctuations in interest rates; and other general economic factors.*

ADVO is the nation's leading direct mail media company, with annual revenues of nearly \$1.4 billion. Serving 17,000 national, regional and local retailers, the company reaches 114 million households, more than 90% of the nation's homes, with its *ShopWise*® shared mail advertising.

The company's industry-leading targeting technology, coupled with its unparalleled logistics capabilities, enable retailers seeking superior return on investment to target, version and deliver their print advertising directly to consumers most likely to respond.

Demonstrating ADVO's effectiveness as a print medium, the company's "Have You Seen Me? ®" missing child card, distributed with each *ShopWise*® package, is the most recognized mail in America. This signature public service program has been responsible for safely recovering 140 children. The program was created in partnership with the National Center for Missing & Exploited Children and the U.S. Postal Service in 1985.

ADVO employs 3,700 people at its 24 mail processing facilities, 33 sales offices and headquarters in Windsor, CT. The company can be visited online at [www.ADVO.com](http://www.ADVO.com).

#### CONTACTS:

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**ADVO, Inc.**  
**Results of Operations**  
**Quarter Ended December 24, 2005**  
(In thousands, except per share data)

	<b><u>Quarter Ended</u></b>	
	<b><u>December 24,</u></b> <b><u>2005</u></b> <i>(Unaudited)</i>	<b><u>December 25,</u></b> <b><u>2004</u></b> <i>(Unaudited)</i>
<b>Revenues</b>	<b>\$ 358,225</b>	<b>\$ 350,053</b>
Cost of sales	276,348	268,726
Selling, general and administrative	<u>61,229</u>	<u>67,181</u>
<b>Operating income</b>	<b>20,648</b>	<b>14,146</b>
Interest expense	(1,986)	(1,546)
Equity earnings in joint ventures	827	655
Other income (expense), net	<u>39</u>	<u>(155)</u>
Income before income taxes	19,528	13,100
Provision for income taxes	<u>7,557</u>	<u>5,011</u>
<b>Net income</b>	<b><u>\$ 11,971</u></b>	<b><u>\$ 8,089</u></b>
<b>Basic earnings per share</b>	<b><u>\$ 0.38</u></b>	<b><u>\$ 0.26</u></b>
<b>Diluted earnings per share</b>	<b><u>\$ 0.38</u></b>	<b><u>\$ 0.26</u></b>
<b>Dividends declared per share</b>	<b><u>\$ 0.11</u></b>	<b><u>\$ 0.11</u></b>
Weighted average basic shares	31,249	30,729
Weighted average diluted shares	31,422	31,133

**ADVO, Inc.**  
**Consolidated Balance Sheets**  
(In thousands, except share data)

	<u><i>December 24,</i></u> <u><i>2005</i></u>	<u><i>September 24,</i></u> <u><i>2005</i></u>
	<i>(Unaudited)</i>	
<b><i>ASSETS</i></b>		
Current assets:		
Cash and cash equivalents	\$ 37,883	\$ 46,238
Accounts receivable, net	175,073	162,542
Inventories	2,883	2,500
Prepaid postage	4,928	10,747
Prepaid expenses and other current assets	8,378	6,360
Federal income taxes receivable	--	2,884
Deferred income taxes	<u>12,739</u>	<u>10,996</u>
Total current assets	241,884	242,267
 Property, plant and equipment	 429,707	 420,738
Less accumulated depreciation and amortization	<u>(235,157)</u>	<u>(226,735)</u>
Net property, plant and equipment	194,550	194,003
 Investment in deferred compensation plan	 15,975	 15,134
Goodwill	22,829	22,824
Other assets	<u>4,539</u>	<u>4,502</u>
<b><i>TOTAL ASSETS</i></b>	<b><u><u>\$ 479,777</u></u></b>	<b><u><u>\$ 478,730</u></u></b>
 <b><i>LIABILITIES</i></b>		
Current liabilities:		
Current portion on long-term debt	4,500	--
Accounts payable	31,710	55,276
Accrued compensation and benefits	28,653	27,919
Customer advances	7,775	7,302
Federal and state income taxes payable	7,398	325
Other current liabilities	<u>24,462</u>	<u>25,468</u>
Total current liabilities	104,498	116,290
 Long-term debt	 124,394	 124,867
Deferred income taxes	28,826	29,641
Deferred compensation plan	17,017	16,172
Other liabilities	9,590	6,475
 <b><i>STOCKHOLDERS' EQUITY</i></b>		
Preferred stock, \$.01 par value		
(Authorized 5,000,000 shares, none issued)	---	---
Common stock, \$.01 par value (Authorized		
80,000,000 shares, issued 31,720,732		
and 31,719,419 shares, respectively)	317	317
Additional paid-in capital	178,161	176,664
Accumulated earnings	<u>25,691</u>	<u>17,182</u>
	204,169	194,163
 Less shares of common stock held in treasury at cost	 (8,124)	 (8,124)
Less shares of common stock held in deferred compensation trust	(1,042)	(1,038)
Accumulated other comprehensive income	<u>449</u>	<u>284</u>
Total stockholders' equity	<u>195,452</u>	<u>185,285</u>
 <b><i>TOTAL LIABILITIES &amp; STOCKHOLDERS'</i></b>		
<b><i>EQUITY</i></b>	<b><u><u>\$ 479,777</u></u></b>	<b><u><u>\$ 478,730</u></u></b>

**ADVO, Inc.**  
**Consolidated Statements of Cash Flows**  
(In thousands)

	<i>Quarter Ended</i>	
	<i>December 24, 2005</i>	<i>December 25, 2004</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Cash flows from operating activities:</b>		
Net income	\$ 11,971	\$ 8,089
Adjustments to reconcile net income to net cash flows provided (used) by operating activities:		
Depreciation	9,580	9,280
Amortization of stock-based compensation	1,510	737
Amortization of debt issue costs	138	138
Deferred income taxes	(2,659)	(1,503)
Provision for bad debts	1,666	1,844
Equity earnings from joint ventures	(827)	(655)
Other	(20)	4
<b>Change in operating assets and liabilities, net of effects of acquisitions:</b>		
Accounts receivable	(14,175)	(30,053)
Inventories	(382)	(926)
Prepaid postage	5,820	(128)
Prepaid expenses and other current assets	(2,017)	377
Investment in deferred compensation plan	(189)	(447)
Other assets	223	2,133
Accounts payable	(23,590)	(4,043)
Accrued compensation and benefits	733	5,230
Deferred compensation plan	189	447
Customer advances	472	165
Federal and state income taxes payable	9,923	4,944
Other liabilities	1,871	(623)
Distributions from equity joint ventures	428	577
<b>Net cash provided (used) by operating activities</b>	<b>665</b>	<b>(4,413)</b>
<b>Cash flows from investing activities:</b>		
Expenditures for property, plant and equipment	(10,129)	(8,768)
Proceeds from disposals of property, plant and equipment	22	30
<b>Net cash used by investing activities</b>	<b>(10,107)</b>	<b>(8,738)</b>
<b>Cash flows from financing activities:</b>		
Revolving line of credit - net	4,500	---
Proceeds from exercise of stock options	21	1,653
Treasury stock transactions related to stock awards	--	(225)
Cash dividends paid	(3,443)	(3,378)
<b>Net cash provided (used) by financing activities</b>	<b>1,078</b>	<b>(1,950)</b>
Effect of exchange rate changes on cash and cash equivalents	9	30
<b>Change in cash and cash equivalents</b>	<b>(8,355)</b>	<b>(15,071)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>46,238</b>	<b>30,284</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 37,883</b>	<b>\$ 15,213</b>