GANNETT CO INC /DE/
Form 10-Q
August 03, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 26, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-6961

GANNETT CO., INC.

(Exact name of registrant as specified in its charter)

Delaware	**16-0442930**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
7950 Jones Branch Drive, McLean, Virginia	**22107-0910**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (703) 854-6000.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	x	Accelerated Filer	¨
Non-Accelerated Filer	¨	Smaller Reporting Company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ¨ No x

The total number of shares of the registrant s Common Stock, $1.00 par value outstanding as of June 26, 2011 was 240,794,072.

PART I. FINANCIAL INFORMATION

Items 1 and 2. Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT S DISCUSSION AND ANALYSIS OF OPERATIONS

Results from Operations

Gannett Co., Inc. (the Company) reported 2011 second quarter earnings per diluted share from continuing operations, on a GAAP (generally accepted accounting principles) basis of $0.62 compared to $0.73 for the second quarter of 2010.

Results for the second quarter of 2011 include $6 million of non-cash charges primarily associated with facility consolidations ($4 million after-tax or $0.02 per share), $9 million in costs due to workforce restructuring ($5 million after-tax or $0.02 per share) and a $20 million ($0.08 per share) net tax benefit related primarily to a tax settlement covering multiple years. Results for the second quarter of 2010 included a $29 million ($0.12 per share) net tax benefit due primarily to the expiration of the statutes of limitations and the release of certain reserves related to the sale of a business in a prior year partially offset by additions to reserves for prior year tax positions.

A consolidated summary of the Company s results from continuing operations is presented below.

In thousands of dollars, except per share amounts

Second Quarter	**September 30, 2011**	**September 30, 2010**	**September 30, Change**
Operating revenues	$ 1,334,939	$ 1,365,143	(2%)
Operating expenses	1,093,185	1,092,534	
Operating income	$ 241,754	$ 272,609	(11%)
Income from continuing operations attributable to Gannett Co., Inc.	$ 151,527	$ 175,165	(13%)
Per share basic	$ 0.63	$ 0.74	(15%)
Per share diluted	$ 0.62	$ 0.73	(15%)

Operating Revenues

Operating revenues declined 2% to $1.33 billion for the second quarter of 2011 and 3% to $2.59 billion for the first six months of the year. Revenue growth in the digital segment increased significantly in the quarter and year-to-date period due primarily to strong revenue growth at CareerBuilder. Broadcasting segment revenue was up in the quarter overcoming the impact of the crisis in Japan on auto advertising and significantly lower political spending compared to the level achieved in the second quarter last year. For the year-to-date period, broadcasting segment revenue was down due to the absence of advertising associated with the Olympics, the Super Bowl (which moved from CBS in 2010 to Fox in 2011), and political activities. Revenue results for the quarter and year-to-date period in the publishing segment reflect an increase in digital advertising placed on websites affiliated with publishing operations tempered by the softening economic environment and continued weakness in the real estate market.

The Company completed the sale of The Honolulu Advertiser as well as a small directory publishing operation during the second quarter of 2010. Revenues associated with these businesses, reflected as discontinued operations, totaled approximately $10 million and $33 million in the second quarter and year-to-date periods of 2010.

Operating Expenses

Operating expenses including facility consolidation and workforce restructuring costs in the second quarter and year-to-date period this year were relatively unchanged compared to last year. These expense results reflect ongoing efforts to create efficiencies through various means, including facility consolidations in this and prior quarters. Lower expenses in the publishing and broadcast segments were offset by higher costs in the digital segment which resulted from that segment s solid revenue growth and investments in new initiatives.

Newsprint expense comparisons to the prior year were 9% higher for the second quarter and 11% higher for the year-to-date period, reflecting substantially higher usage prices partially offset by a 9% consumption decline for the quarter and a 10% consumption decline for the year-to-date period. Pension costs were lower in the quarter and year-to-date period, reflecting strong investment returns in 2010 and the impact of the closure of the Newsquest pension plan to future benefit accruals effective March 31, 2011.

Operating Income

Operating income was $242 million for the second quarter of 2011, a decrease of $31 million or 11%. The second quarter decline was principally due to lower publishing segment revenues which were partially offset by lower publishing segment expenses. For broadcasting, successful revenue efforts to overcome much higher political spending last year as well as lower expenses led to an increase in operating income of 3%. Operating income for digital improved by 32% reflecting significant revenue gains at CareerBuilder.

Operating income was $420 million for the year-to-date period, a decrease of 14%. For the year-to-date period, publishing results were similarly affected by those factors mentioned for second quarter results. Broadcasting results for the year-to-date period were down slightly, reflecting the absence of Olympic and Super Bowl advertising and lower political ad revenue. Digital operating income results for the year-to-date period were sharply higher, again principally reflecting CareerBuilder s revenue growth.

Income from Continuing Operations Attributable to Gannett Co., Inc.

Income from continuing operations attributable to Gannett Co., Inc. was $152 million for the second quarter of 2011, a decrease of $24 million or 13% compared to 2010. Earnings per diluted share were $0.62 in the second quarter compared to $0.73 last year. For the year-to-date period income from continuing operations attributable to Gannett Co., Inc. was $242 million, a decrease of $50 million or 17% compared to 2010. Earnings per diluted share were $0.99 for the year-to-date period compared to $1.21 last year. These lower results paralleled the overall change in operating income.

The following is a discussion of the Company s reported operating segment results:

Publishing Results

Publishing revenues declined 5% to $977 million from $1.03 billion in the second quarter last year and declined 6% to $1.91 billion for the year-to-date period. Publishing revenues are derived principally from advertising and circulation sales, which accounted for 66% and 27%, respectively, of total publishing revenues for the second quarter and 65% and 28%, respectively for the year-to-date period. Advertising revenues include amounts derived from advertising placed with print products as well as publishing related internet web sites and mobile applications. All other publishing revenues are mainly from commercial printing operations. The table below presents these components of publishing revenues.

Publishing revenues, in thousands of dollars

Second Quarter	September 30, 2011	September 30, 2010	September 30, Change
Advertising	$ 646,864	$ 692,172	(7%)
Circulation	265,433	270,086	(2%)
All other	64,842	64,765	
Total	$ 977,139	$ 1,027,023	(5%)

Year-to-Date	September 30, 2011	September 30, 2010	September 30, Change
Advertising	$ 1,248,600	$ 1,341,507	(7%)
Circulation	533,646	549,086	(3%)
All other	124,678	127,889	(3%)

Total	$	1,906,924	$	2,018,482	(6%)

The table below presents the principal categories of advertising revenues for the publishing segment.

Advertising revenues, in thousands of dollars

Second Quarter	September 30, 2011	September 30, 2010	September 30, Change
Retail	$ 333,104	$ 350,723	(5%)
National	115,045	125,766	(9%)
Classified	198,715	215,683	(8%)
Total publishing advertising revenue	$ 646,864	$ 692,172	(7%)

Year-to-Date	2011	2010	Change
Retail	$ 635,601	$ 675,905	(6%)
National	219,781	242,390	(9%)
Classified	393,218	423,212	(7%)
Total publishing advertising revenue	$ 1,248,600	$ 1,341,507	(7%)

Publishing advertising revenues decreased 7% in the quarter to $647 million from $692 million in the second quarter of 2010 and decreased 7% for the year-to-date period to $1.25 billion from $1.34 billion. For U.S. publishing, advertising revenue decreased 7% for the second quarter and year-to-date period. In the UK, advertising revenues were lower by 2% for the second quarter and 6% for the year-to-date period. On a constant currency basis, advertising revenues in the UK declined 10% for the second quarter and 11% for the year-to-date period. The average exchange rate used to translate UK publishing results from the British pound to U.S. dollars increased 9% to 1.63 for the second quarter of 2011 from 1.49 last year and increased 6% to 1.61 for the year-to-date period from 1.53 last year.

The percentage changes in the advertising categories for domestic publishing, Newsquest and in total on a constant currency basis are as follows:

Second Quarter	September 30, U.S. Publishing	September 30, Newsquest (in pounds)	September 30, Total Constant Currency	September 30, Total Publishing Segment
Retail	(6%)	(6%)	(6%)	(5%)
National	(10%)	3%	(9%)	(9%)
Classified	(8%)	(15%)	(10%)	(8%)
Total	(7%)	(10%)	(8%)	(7%)

Year-to-Date	U.S. Publishing	Newsquest (in pounds)	Total Constant Currency	Total Publishing Segment
Retail	(6%)	(7%)	(6%)	(6%)
National	(10%)	(1%)	(10%)	(9%)
Classified	(6%)	(15%)	(9%)	(7%)
Total	(7%)	(11%)	(8%)	(7%)

For the second quarter and year-to-date periods, retail advertising revenues declined 5% and 6% respectively. Retail advertising comparisons in the second quarter this year were better than comparisons in the first quarter, due in part to the later Easter this year. However, retail comparisons for the quarter and year-to-date period, were negatively impacted by the soft economy in both the U.S. and UK.

National advertising revenues decreased 9% for the quarter reflecting softer advertising demand at USA TODAY. Overall, national advertising comparisons this quarter improved relative to comparisons in the first quarter. Comparisons in pounds for Newsquest were 8 percentage points better than first quarter comparisons. While there was strong growth in the telecommunications and financial categories in the quarter for USA TODAY, these gains were offset by declines in other categories. National advertising for the year-to-date period declined 9% reflecting lower advertising at USA TODAY and local U.S. community newspapers.

Classified advertising at the Company s domestic publishing operations softened during the quarter, declining 8% reflecting the unsteady economy as well as the crisis in Japan. Automotive was 4% lower in the U.S. while employment was virtually flat. Although the real estate category was down in the quarter in the U.S., the percentage decline was consistent with first quarter comparisons. Classified comparisons in the UK continued to be impacted by the soft economy, especially in the employment category. On a year-to-date basis, domestic classified declined 6% reflecting increases in employment and automotive, offset by declines in real estate, legal and other.

The percentage changes in the classified categories for domestic publishing, Newsquest and in total on a constant currency basis are as follows:

Second Quarter	**September 30, U.S. Publishing**	**September 30, Newsquest (in pounds)**	**September 30, Total Constant Currency**	**September 30, Total Publishing Segment**
Automotive	(4%)	(14%)	(6%)	(4%)
Employment		(25%)	(9%)	(6%)
Real Estate	(19%)	(10%)	(16%)	(13%)
Legal	(17%)		(17%)	(17%)
Other	(8%)	(9%)	(9%)	(6%)
Total	(8%)	(15%)	(10%)	(8%)

Year-to-Date	**U.S. Publishing**	**Newsquest (in pounds)**	**Total Constant Currency**	**Total Publishing Segment**
Automotive	1%	(13%)	(2%)	(1%)
Employment	3%	(27%)	(9%)	(7%)
Real Estate	(19%)	(8%)	(15%)	(13%)
Legal	(16%)		(16%)	(16%)
Other	(7%)	(10%)	(8%)	(6%)
Total	(6%)	(15%)	(9%)	(7%)

The Company s publishing operations, including U.S. Community Publishing, USA TODAY and affiliated companies and Newsquest, generate advertising revenues from web sites and mobile applications that are associated with their publishing businesses. These revenues are reflected within the retail, national and classified categories presented and discussed above, and they are separate and distinct from revenue generated by businesses included in the Company s Digital segment. These digital advertising revenues increased 12% for the quarter and year-to-date periods reflecting the Company s continued focus on cross-platform sales and the impact of the Company s Yahoo! initiative that began late last year. U.S. Community Publishing digital revenues increased 9% in the quarter reflecting gains in the automotive, employment and retail categories and increased 11% on a year-to-date basis. Digital revenues at USA TODAY were 23% higher for the quarter and 22% higher for the first six months of 2011.

Circulation revenues declined 2% for the second quarter of 2011 to $265 million from $270 million last year and declined 3% to $534 million for the first six months of 2011. Circulation revenues improved sequentially within the quarter and in June were down just 0.4%. Net paid daily circulation for publishing operations, excluding USA TODAY declined 6% for the quarter and year-to-date periods. Sunday net paid circulation was down less than 1% for the quarter and 2% for the year-to-date period. The Company continued to focus on improving Sunday circulation and in June 2011 Sunday net paid circulation was up 1% compared to June 2010 due to increased single copy sales. In the March 2011 ABC Publishers Statement, circulation for USA TODAY for the previous six months increased slightly from 1,826,622 in 2010 to 1,829,099.

All Other revenues were flat for the quarter and were down 3% for the year-to-date period, primarily due to an increase in commercial printing revenues in the UK, offset by lower domestic commercial printing revenues.

Publishing operating expenses were down 1% in the quarter to $838 million from $847 million in the second quarter of 2010 and were down 1% to $1.65 billion for the year-to-date period. The expense declines primarily reflect the result of continuing efficiency efforts including the effects of facility consolidation in prior periods, offset, in part by higher newsprint expenses, workforce restructuring charges and facility consolidation costs. Workforce restructuring and facility consolidation costs together totaled $15 million in the current quarter and $29 million in the first six months of 2011.

Newsprint expense increased 9% in the second quarter as compared to 2010, reflecting a 20% increase in usage prices that was partially offset by a 9% decline in consumption. Newsprint expense increased 11% for the first six months of 2011, reflecting a 23% increase in usage prices that was partially offset by a 10% decline in consumption. Newsprint usage price comparisons in the third quarter of 2011 are expected to be less unfavorable than in the second quarter, and consumption is expected to be lower than in the third quarter of 2010.

Publishing segment operating income was $139 million in the quarter, a decrease of 23% compared to $180 million last year. Operating income for the year-to-date period was $256 million, a decrease of 26% compared to last year. The decreases reflect lower operating revenues partially offset by lower operating expenses, as discussed above.

A separate discussion of publishing operating expenses and operating income excluding the effect of special items (Non-GAAP basis) appears on page 11.

Digital Results

The Digital segment includes results for CareerBuilder, PointRoll, ShopLocal, Planet Discover and Metromix.

Digital segment operating revenues were $173 million in the second quarter of 2011 compared to $154 million in 2010, an increase of $19 million or 13%. Year-to-date operating revenues were $331 million compared to $295 million, an increase of $36 million or 12%, primarily reflecting strong revenue growth at CareerBuilder.

Digital operating expenses were $137 million in the second quarter of 2011 compared to $127 million in 2010, an increase of $11 million or 8%. Year-to-date operating expenses were $279 million compared to $264 million in 2010, an increase of $15 million or 6%. Digital segment expenses reflected higher revenue levels as well as investments in new initiatives. Digital segment operating income was 32% higher and totaled $36 million for the second quarter 2011 and was 69% higher and totaled $52 million for the year-to-date period.

Second quarter 2011 company-wide digital revenues, which include digital segment revenues and all digital revenues generated and reported by the other business segments, were $276 million, 13% higher compared to the second quarter in 2010 and were approximately 21% of the Company s total operating revenues. Year-to-date 2011 company-wide digital revenues were $529 million, 12% higher than 2010 and were approximately 20% of the Company s total operating revenues.

Broadcasting Results

Broadcasting includes results from the Company s 23 television stations and Captivate. Reported broadcasting revenues were $184 million in the second quarter, slightly higher than the second quarter last year which benefitted from $12 million in politically related advertising demand. Revenues for the year-to-date period 2011 were $348 million, a decline of just 1% from $352 million last year which benefitted from substantial political and Olympic advertising as well as additional advertising when the Super Bowl was on CBS in the first quarter of 2010 as compared to 2011 when it was on FOX.

Television revenues were $178 million in the second quarter, up compared to $177 million last year despite a net decrease of $9 million in political spending. Television revenues for the year-to-date period were $336 million compared to $339 million for the comparable period last year, a decrease of just 1% despite the net decrease in political spending as well as the absence of $19 million in Olympic spending that benefitted the Company s NBC affiliated stations in the first quarter of 2010 and $2 million in ad demand related to the Super Bowl, which moved from CBS in 2010 to Fox in 2011. Digital revenues for the television stations were 29% higher for the quarter and 28% higher for the first six months of 2011, reflecting the Company s focus on local digital sales through Yahoo! and community websites. Retransmission revenues totaled $19 million for the quarter and $39 million for the year-to-date period, an increase of 24% and 25%, respectively over the comparable periods in 2010. The increase in revenues from last year is primarily due to finalizing a new retransmission agreement at the end of 2010 with one of the Company s largest distributors. There are no incremental costs associated with retransmission revenues; therefore all of these revenues contribute directly to operating income.

Broadcasting operating expenses for the second quarter totaled $104 million, down 2% from the second quarter 2010. Broadcasting operating expenses for the year-to-date period were down very slightly from 2010. Operating income was $80 million for the second quarter and $144 million for the year-to-date period 2011 compared to $78 million and $147 million, respectively in 2010.

Total adjusted television revenues, defined to exclude the estimated incremental impact of ad demand related to political spending were up 5% for the second quarter of 2011. Although revenue growth was impacted by cancellations by foreign car manufacturers due to the crisis in Japan, higher ad demand in many categories offset the decline in auto. As a result, core TV advertising (local and national revenue excluding political) was up about a percent and a half for the second quarter of 2011. Adjusted television revenues excluding the estimated incremental

impact of ad demand related to political spending, the Olympics and Super Bowl were up 6% for the year-to-date period as compared to the same period of 2010. Based on current trends, excluding the estimated incremental impact of political spending, the percentage increase in total adjusted television revenues in the third quarter year over year is expected to be in the mid-single digits.

Corporate Expense

Corporate expense in the second quarter of 2011 decreased 1% to $13 million from $14 million in the second quarter of 2010. Year-to-date corporate expense decreased 3% to $32 million from $33 million last year, primarily due to lower stock based compensation expense resulting from lower stock option award grants.

Non-Operating Income and Expense

Equity Earnings

Equity income increased $0.5 million for the quarter and $3 million for the year-to-date period, reflecting stronger results for the Company s digital investments partially offset by lower results at certain newspaper partnerships.

Interest Expense

The Company s interest expense for the second quarter was $45 million, up 6% from the second quarter of 2010 as the decline in the average debt balance was offset by a higher average rate as the Company s debt mix shifts to longer term fixed rate debt. The Company s interest expense for the year-to-date period was $91 million, up 7% from 2010. Total average outstanding debt was $2.18 billion and $2.25 billion for the second quarter and year-to-date periods of 2011 compared to $2.78 billion and $2.89 billion last year, respectively. The weighted average interest rate for total outstanding debt was 7.36% and 7.34% for the second quarter and year-to date periods of 2011 compared to 5.67% and 5.53% last year, respectively. The Company reduced its debt by $167 million during the quarter and $331 million during the year-to-date period.

At the end of the second quarter of 2011, the Company had $500 million in long-term floating rate obligations outstanding. A 50 basis points increase or decrease in the average interest rate for these obligations would result in an increase or decrease in annualized interest expense of $2.5 million.

Other Non-Operating Items

Other non-operating items increased $7 million for the quarter and $9 million for the year-to-date period, primarily due to a gain recognized in the second quarter of 2011 as a result of the prepayment of a secured promissory note that the Company received in connection with the disposition of publishing operations last year. For 2010, net non-operating expense of $3 million for the quarter and year-to-date period reflected primarily foreign currency losses and the write down of an investment.

Provision for Income Taxes

The Company s effective income tax rate for continuing operations was 22.2% for the second quarter and 25.3% for the first six months of 2011, compared to 22.0% and 26.3% for the comparable periods of 2010. The tax rate for the second quarter and first six months of 2011 includes a special net tax benefit of $20 million primarily from certain audit settlements. The tax rate for the second quarter and first six months of 2010 included a special net benefit of $29 million from the release of tax reserves related to the sale of a business in a prior year partially offset by additions to reserves for prior year tax positions. The tax rate for the first six months of 2010 also included a special $2 million tax charge related to health care reform legislation. A separate discussion of effective income tax rates excluding these special items (non-GAAP basis) appears on page 12.

Income from Continuing Operations Attributable to Gannett Co., Inc.

Income from continuing operations attributable to Gannett Co., Inc. was $152 million for the second quarter of 2011, a decrease of $24 million or 13% compared to 2010. Earnings per diluted share were $0.62 in the second quarter compared to $0.73 last year. For the year-to-date period of 2011 income from continuing operations attributable to Gannett Co., Inc. was $242 million, a decrease of $50 million or 17% compared to 2010. Earnings per diluted share were $0.99 for the year-to-date period compared to $1.21 last year.

The weighted average number of diluted shares outstanding for the second quarter of 2011 totaled 243,995,000 compared to 241,505,000 for the second quarter of 2010. For the first six months of 2011 and 2010, the weighted average number of diluted shares outstanding totaled 243,652,000 and 241,053,000, respectively. The increase is primarily due to issuance of shares for part of the Company s 401k match and shares issued upon stock option

exercises. There were no shares repurchased in 2010 or in the first and second quarters of 2011. See Part II, Item 2 for information on share repurchases.

Discontinued Operations

Earnings from discontinued operations represent the combined operating results (net of income taxes) of The Honolulu Advertiser and a small directory publishing operation in Michigan. The revenues and expenses, along with associated income taxes, from each of these properties have been removed from continuing operations and reclassified into a single line item amount on the Condensed Consolidated Statements of Income titled Loss from the operation of discontinued operations, net of tax for each period presented. In the second quarter of 2010 the Company also reported earnings of $21 million or $0.09 per diluted share for the gain on the disposition of these properties.