GANNETT CO INC /DE/
Form 10-Q
November 02, 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 September 25, 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 September 25, 2011 was 238,288,133.

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 third quarter earnings per diluted share, on a GAAP (generally accepted accounting principles) basis of $0.41 compared to $0.42 for the third quarter of 2010.

Results for the third quarter of 2011 include $9 million in costs due to workforce restructuring ($5 million after-tax or $0.02 per share) and a non-cash impairment charge for an investment in an online business of $2 million ($1 million after-tax). Results for the third quarter of 2010 included $23 million of non-cash charges associated primarily with facility consolidations and intangible asset impairments ($18 million after-tax or $0.08 per share) and $8 million in costs due to workforce restructuring ($5 million after-tax or $0.02 per share).

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

In thousands of dollars, except per share amounts

Third Quarter	2011	2010	Change
Operating revenues	$ 1,266,034	$ 1,312,335	(4%)
Operating expenses	1,067,873	1,112,047	(4%)
Operating income	$ 198,161	$ 200,288	(1%)
Non-operating expense	(41,581)	(31,600)	32%
Net income attributable to Gannett Co., Inc.	$ 99,788	$ 101,409	(2%)
Per share basic	$ 0.42	$ 0.43	(2%)
Per share diluted	$ 0.41	$ 0.42	(2%)

Operating Revenues

Operating revenues declined 4% to $1.27 billion for the third quarter of 2011 and 3% to $3.85 billion for the first nine months of the year. Solid digital segment revenue growth was reported for the third quarter and year-to-date periods, driven primarily by higher revenue at CareerBuilder. The revenue decline in the Broadcasting segment reflects gains in non-political advertising and retransmission revenue that were offset by declines in political revenues. The third quarter of 2010 included $21 million of political revenue, $18 million more than recognized in the third quarter of 2011. For the year-to-date period, broadcasting revenues were 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 reduced political activities. While publishing revenues overall for the quarter and year-to-date periods were lower reflecting the softening economic environment in the U.S. and UK, digital advertising placed on websites, tablets and mobile applications affiliated with publishing operations rose significantly.

As further discussed in the sections below, third quarter 2011 company-wide digital revenues, which include digital segment revenues and all digital revenues generated and reported by the other business segments, were $273 million, 10% higher compared to the third quarter in 2010 and were approximately 22% of the Company s total operating revenues. Year-to-date 2011 company-wide digital revenues were $801 million, 12% higher than 2010 and were approximately 21% of the Company s total operating revenues.

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 $33 million in the 2010 year-to-date period.

Operating Expenses

Operating expenses for the quarter and year-to-date, which include facility consolidation and intangible asset impairments as well as workforce restructuring costs, were down 4% for the quarter and 2% year-to-date. These expense reductions reflect ongoing efforts to create efficiencies through facility consolidations and other savings initiatives. Expenses were lower in all segments for the third quarter of 2011 and declined in the publishing and broadcasting segments on a year-to-date basis. Digital segment expenses year-to-date increased compared to last year, which resulted from that segment s solid revenue growth and investment in new initiatives.

Newsprint expense comparisons to the prior year were slightly higher for the third quarter, reflecting a 10% increase in usage prices partially offset by a 9% consumption decline. Newsprint expense increased 7% on a year-to-date basis, as an 18% increase in usage price was partially offset by a 9% decline in consumption. 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 $198 million for the third quarter of 2011, a decrease of $2 million or 1% compared to the third quarter last year. The publishing segment reported lower earnings, down 18% for the quarter, reflecting soft ad revenue results partially offset by reduced expense levels. Reported earnings for broadcasting rose 3% for the quarter as substantially lower political ad revenues in 2011 were more than offset by higher non-political revenues and by lower expense levels. Operating income for digital more than doubled reflecting significant revenue gains at CareerBuilder. In addition, total digital segment expenses were lower reflecting an asset impairment charge last year.

Operating income was $619 million for the year-to-date period, a decrease of 10%. Publishing results were similarly affected by those factors mentioned for third quarter comparisons. Broadcasting results year-to-date were down slightly, reflecting the absence of Olympic and Super Bowl advertising and much lower political ad revenue. However, these factors were almost totally offset by higher non-political ad revenues, higher retransmission revenues and lower expense levels. 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.

Net Income attributable to Gannett Co., Inc. was $100 million for the third quarter of 2011, a decrease of $2 million or 2% compared to 2010. Earnings per diluted share were $0.41 in the third quarter compared to $0.42 last year. For the year-to-date period income from continuing operations attributable to Gannett Co., Inc. was $342 million, a decrease of $51 million or 13% compared to 2010. Earnings per diluted share were $1.40 for the year-to-date period compared to $1.63 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 $918 million from $969 million in the third quarter last year and declined 5% to $2.82 billion for the year-to-date period. Publishing revenues are derived principally from advertising and circulation sales, which accounted for 64% and 29%, respectively, of total publishing revenues for the third 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, mobile and tablet 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

Third Quarter	2011	2010	Change
Advertising	$ 591,676	$ 646,720	(9%)
Circulation	262,099	264,627	(1%)
All other	63,989	58,022	10%
Total	$ 917,764	$ 969,369	(5%)

Year-to-Date	2011	2010	Change
Advertising	$ 1,840,276	$ 1,988,227	(7%)
Circulation	795,745	813,713	(2%)
All other	188,667	185,911	1%
Total	$ 2,824,688	$ 2,987,851	(5%)

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

Advertising revenues, in thousands of dollars

Third Quarter	2011	2010	Change
Retail	$ 303,008	$ 321,527	(6%)
National	98,976	116,874	(15%)
Classified	189,692	208,319	(9%)
Total publishing advertising revenue	$ 591,676	$ 646,720	(9%)

Year-to-Date	2011	2010	Change
Retail	$ 938,609	$ 997,537	(6%)
National	318,757	359,288	(11%)
Classified	582,910	631,402	(8%)
Total publishing advertising revenue	$ 1,840,276	$ 1,988,227	(7%)

Publishing advertising revenues decreased 9% in the quarter to $592 million from $647 million in the third quarter of 2010 and decreased 7% for the year-to-date period to $1.84 billion from $1.99 billion. For U.S. publishing, advertising revenue decreased 9% for the third quarter and 8% for the year-to-date period. In the UK, advertising revenues were lower by 4% for the third quarter and 5% for the year-to-date period. On a constant currency basis, advertising revenues in the UK declined 8% for the third quarter and 10% 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 4% to 1.61 for the third quarter of 2011 from 1.55 last year and increased 5% to 1.61 for the 2011 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:

Third Quarter	U.S. Publishing	Newsquest (in pounds)	Total Constant Currency	Total Publishing Segment
Retail	(6%)	(5%)	(6%)	(6%)
National	(17%)	7%	(16%)	(15%)
Classified	(9%)	(12%)	(10%)	(9%)
Total	(9%)	(8%)	(9%)	(9%)

Year-to-Date	U.S. Publishing	Newsquest (in pounds)	Total Constant Currency	Total Publishing Segment
Retail	(6%)	(6%)	(6%)	(6%)
National	(13%)	2%	(12%)	(11%)

Classified	(7%)	(14%)	(9%)	(8%)
Total	(8%)	(10%)	(8%)	(7%)

For the third quarter and year-to-date periods, retail advertising revenues declined 6%. Most retail advertising categories continue to be adversely affected by the softening economy in both the U.S. and UK.

National advertising revenues decreased 15% for the quarter. A decline in advertising demand at USA TODAY and USA WEEKEND was partially offset by an increase in national advertising at Newsquest. At USA TODAY, a substantial increase in technology advertising spending, the largest category in the quarter, was more than offset by declines in entertainment, automotive and financial categories. National advertising for the year-to-date period declined 11% reflecting lower advertising at USA TODAY, USA WEEKEND and at the Company s local U.S. community newspapers.

Classified advertising at the Company s domestic publishing operations declined 9% for the third quarter of 2011 reflecting the softening economy. Employment advertising in the U.S. was unchanged compared to the third quarter last year, while automotive revenues declined 5% reflecting, in part, supply chain and inventory issues as a result of the Japan situation. The real estate category, reflecting the problematic housing market nationwide, was 20% lower in the third quarter. Newsquest classified advertising was 12% lower in pounds for the quarter, however this was better than second quarter comparisons due in part to an 11 percentage point improvement in employment ad comparisons. On a year-to-date basis, domestic classified revenues declined 7% reflecting an increase in employment, offset primarily 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:

Third Quarter	**U.S. Publishing**	**Newsquest (in pounds)**	**Total Constant Currency**	**Total Publishing Segment**
Automotive	(5%)	(13%)	(6%)	(6%)
Employment	0%	(14%)	(5%)	(3%)
Real Estate	(20%)	(12%)	(17%)	(16%)
Legal	(18%)		(18%)	(18%)
Other	(11%)	(9%)	(10%)	(9%)
Total	(9%)	(12%)	(10%)	(9%)

Year-to-Date	**U.S. Publishing**	**Newsquest (in pounds)**	**Total Constant Currency**	**Total Publishing Segment**
Automotive	(1%)	(13%)	(3%)	(2%)
Employment	2%	(23%)	(7%)	(5%)
Real Estate	(19%)	(9%)	(16%)	(14%)
Legal	(17%)		(17%)	(17%)
Other	(8%)	(10%)	(9%)	(7%)
Total	(7%)	(14%)	(9%)	(8%)

The Company s publishing operations, including U.S. Community Publishing, USA TODAY and affiliated companies and Newsquest, generate advertising revenues from web sites, tablets 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 associated with publishing operations increased 8% for the quarter and 11% for year-to-date period 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 and 10% on a year-to-date basis reflecting gains in the automotive, employment and retail categories. Digital revenues in the UK were 6% higher in pounds for the quarter and 4% higher for the first nine months of 2011.

Circulation revenues declined 1% for the third quarter of 2011 to $262 million from $265 million last year and declined 2% to $796 million for the first nine months of 2011. Circulation revenues improved sequentially relative to comparisons for the first and second quarters this year. 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 virtually flat for the quarter and down 1% for the year-to-date period. In the September 2011 ABC Publishers Statement, circulation for USA TODAY for the previous six months decreased 3% from 1,830,594 in 2010 to 1,784,242.

All Other revenues increased 10% for the quarter and were up 1% for the year-to-date period, primarily due to an increase in commercial printing revenues in the UK.

Publishing operating expenses were down 3% in the quarter to $810 million from $838 million in the third quarter of 2010 and were down 2% to $2.46 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. The year-to-date decline is partially offset by higher newsprint expenses, workforce restructuring charges and facility consolidation costs. Workforce restructuring costs totaled $9 million in the current quarter and workforce restructuring and facility consolidation costs totaled $37 million in the first nine months of 2011. In the third quarter and year-to-date periods of 2010, workforce restructuring and facility consolidation costs totaled $9 million.

Newsprint expense increased slightly in the third quarter as compared to 2010, reflecting a 10% increase in usage prices that was almost offset by a 9% decline in consumption. Newsprint expense increased 7% for the first nine months of 2011, reflecting an 18% increase in usage prices that was partially offset by a 9% decline in consumption. The Company expects its newsprint expense to be lower in the fourth quarter of 2011 compared with 2010 due to reduced consumption.

Publishing segment operating income was $108 million in the quarter compared to $131 million last year, a decrease of 18%. Operating income for the year-to-date period was $364 million, a decrease of 23% compared to last year. The decreases reflect lower operating revenues partially offset by reduced 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 12.

Digital Results

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

Digital segment operating revenues were $174 million in the third quarter of 2011 compared to $158 million in 2010, an increase of $16 million or 10%. Year-to-date operating revenues were $505 million compared to $452 million, an increase of $53 million or 12%, primarily reflecting continued strong revenue growth at CareerBuilder. CareerBuilder continues to build market share in the U.S. market and its international operations have expanded in Europe and Asia.

Digital operating expenses were $140 million in the third quarter of 2011 compared to $142 million in 2010, a decrease of $2 million or 2%. Expenses decreased in this year s third quarter primarily due to intangible asset impairments and workforce restructuring charges taken in the third quarter last year. This favorable impact on expense comparisons was partially offset by increased expenses in support of revenue growth as well as continued investment in new digital initiatives. Year-to-date operating expenses were $418 million, an increase of $13 million or 3% compared to last year, reflecting effects similar to those discussed in the quarter comparisons. Digital segment operating income more than doubled in the third quarter of 2011 to $34 million. Digital segment operating income increased 86% to $87 million for the year-to-date period.

Broadcasting Results

Broadcasting includes results from the Company s 23 television stations and Captivate. Reported broadcasting revenues were $174 million in the third quarter, 6% lower than the third quarter last year which benefitted from $21 million in politically related advertising demand, $18 million more than recognized in the third quarter of 2011. Revenues for the year-to-date period were $523 million, a decline of 3% from $537 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 for the quarter and year-to-date periods were $169 million and $505 million, down by 6% and 3%, respectively, from the comparable periods in 2010. Digital revenues for the television stations were 28% higher for the quarter and for the first nine months of 2011, reflecting the Company s focus on local digital sales through Yahoo! and community websites. Retransmission revenues totaled $20 million for the quarter and $59 million for the year-to-date period, an increase of 27% and 25%, respectively, over the comparable periods in 2010. The increase in retransmission revenues from last year is primarily due to finalizing a new agreement at the end of 2010 with one of the Company s largest distributors as well as price escalators in other contracts. There are no incremental costs associated with retransmission revenues; therefore, all of these revenues contribute directly to operating income.

Total adjusted television revenues, defined to exclude the estimated incremental impact of ad demand related to political spending, were up 5% for the third quarter of 2011. The increase was due, in part, to strengthened demand for automotive and several other key categories in the quarter. For the year-to-date period, adjusted television revenues excluding the estimated incremental impact of ad demand related to political spending, the Olympics and Super Bowl, were up 6%. Based on current trends, excluding the incremental impact of political spending, the

percentage increase in total adjusted television revenues for the fourth quarter of 2011 is expected to be in the high single digits.

Broadcasting operating expenses for the third quarter totaled $106 million, down 11% from the third quarter 2010. Broadcasting operating expenses for the year-to-date period were down 4% from 2010. Broadcasting expense comparisons were better due to the absence in 2011 of charges for facility consolidation, asset impairment and workforce restructuring. The third quarter of 2010 included $9 million for such charges. Operating income was $69 million for the third quarter and $212 million for the year-to-date period 2011 compared to $67 million and $213 million, respectively, in 2010.

Corporate Expense

Corporate expense in the third quarter of 2011 was $13 million, down slightly from the third quarter of 2010. Year-to-date corporate expense decreased 2% to $45 million from $46 million last year.

Non-Operating Income and Expense

Equity Earnings

Equity income decreased $4 million for the quarter and $1 million for the year-to-date period, reflecting an impairment of an equity method investment of $2 million in the third quarter as well as lower newspaper partnership results in the third quarter and year-to-date periods of 2011. Significantly higher results from Classified Ventures for the quarter and year-to-date partially offset those factors.

Interest Expense

The Company s interest expense for the third quarter was $41 million, about even with last year reflecting lower debt levels but a higher average rate. The Company s interest expense for the year-to-date period was $132 million, up 4% from 2010. Total average outstanding debt was $2.00 billion and $2.17 billion for the third quarter and year-to-date periods of 2011 compared to $2.56 billion and $2.78 billion last year, respectively. The weighted average interest rate for total outstanding debt was 7.26% and 7.31% for the third quarter and year-to date periods of 2011 compared to 5.94% and 5.65% last year, respectively. The Company reduced its debt by $103 million during the quarter and by $434 million during the year-to-date period.

At the end of the third quarter of 2011, the Company had $395 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 million.

Other Non-Operating Items

Other non-operating items decreased $6 million for the quarter, primarily due to lower interest income and certain investment losses related to the downturn in the financial markets. The change in the Company s other non-operating items of $3 million for the year-to-date period was 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 as well as the write down of an investment last year. These favorable variances were partially offset by lower interest income and other investment losses.

Provision for Income Taxes

The Company s effective income tax rate for continuing operations was 31.0% for the third quarter and 27.0% for the first nine months of 2011, compared to 35.2% and 28.8% for the comparable periods of 2010. The tax rate for the third quarter of 2011 reflects the benefit of certain state audit settlements and a lower tax rate applicable to UK operations.

For the first nine months of 2011 the tax rate also includes a special net tax benefit of $20 million, primarily from a certain significant multi-year audit settlement. The tax rate for the first nine 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. Additionally, the tax rate for the first nine 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 15.

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

Net income attributable to Gannett Co., Inc. was $100 million for the third quarter of 2011, a decrease of $2 million or 2% compared to 2010. Earnings per diluted share were $0.41 in the third quarter compared to $0.42 last year. For the year-to-date period of 2011, income from continuing operations attributable to Gannett Co., Inc. was $342 million, a decrease of $51 million or 13% compared to 2010. Earnings per diluted share were $1.40 for the year-to-date period compared to $1.63 last year.

The weighted average number of diluted shares outstanding for the third quarter of 2011 totaled 243,350,000 compared to 241,865,000 for the third quarter of 2010. For the first nine months of 2011 and 2010, the weighted average number of diluted shares outstanding totaled 243,551,000 and 241,324,000, 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, partially offset by shares repurchased in the third quarter 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 the 2010 year-to-date period. 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.

Operating Results Non-GAAP Information

The Company uses non-GAAP financial performance and liquidity measures to supplement the financial information presented on a GAAP basis. These non-GAAP financial measures are not to be considered in isolation from or as a substitute for the related GAAP measures, and shoul