**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-Q

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

For the quarterly period ended March 30, 2003

OR

o **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 charter)

| | |
|---|---|
| **Delaware**<br>(State or Other Jurisdiction of Incorporation or Organization of Registrant) | **16-0442930**<br>(I.R.S. Employer Identification No.) |
| **7950 Jones Branch Drive, McLean, Virginia**<br>(Address of principal executive offices) | **22107-0910**<br>(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 ☒ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No o

The total number of shares of the registrant’s Common Stock, $1.00 par value, as of April 28, 2003, was 268,604,936.

**TABLE OF CONTENTS**

## 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

### Operating Summary

Earnings per diluted share, on a generally accepted accounting principles ("GAAP") basis, were 93 cents for the first quarter of 2003 versus 91 cents per share for the same period last year. For the first three months of 2003, net income rose 3% to $249.8 million and operating income increased 2% to $411.0 million. Operating revenues were $1.55 billion for the first quarter, a 3% increase over the same period last year.

### Newspaper Results

Reported newspaper publishing revenues increased $48.1 million or 4% for the first three months of 2003 as compared to the first quarter of 2002. Newspaper operating revenues are derived principally from advertising and circulation sales, which accounted for 72% and 22%, respectively, of total newspaper revenues for the first quarter 2003. Ad revenues also include those derived from advertising placed with newspaper Internet products. Other newspaper publishing revenues are mainly from commercial printing businesses and also include earnings from the company's 50% owned joint operating agencies in Detroit and Tucson. The table below presents these components of reported revenues for the first quarter of 2003 and 2002.

Newspaper operating revenues, in thousands of dollars

| First Quarter | 2003 | 2002 | % Change |
|---|---|---|---|
| Newspaper advertising | $1,006,047 | $ 969,803 | 4 |
| Newspaper circulation | 302,431 | 299,262 | 1 |
| Commercial printing and other | 85,591 | 76,907 | 11 |
| Total | $1,394,069 | $1,345,972 | 4 |

The table below presents the components of reported newspaper advertising revenues for the first quarter of 2003 and 2002.

Advertising revenues, in thousands of dollars

| First Quarter | 2003 | 2002 | % Change |
|---|---|---|---|
| Local | $ 415,085 | $404,062 | 3 |
| National | 162,752 | 159,155 | 2 |
| Classified | 428,210 | 406,586 | 5 |
| Total ad revenue | $1,006,047 | $969,803 | 4 |

Newspaper advertising revenues rose $36.2 million or 4% primarily due to gains in local and classified advertising. Circulation revenues gained $3.2 million or 1% for the first quarter. Other newspaper revenues rose $8.7 million or 11% primarily because of higher commercial printing volume. A higher foreign exchange rate in 2003 for Newsquest operations favorably impacted revenue comparisons.

In the tables that follow, newspaper advertising linage and related revenues are presented on a pro forma basis. Pro forma basis means that these results are presented as if all properties owned at the end of the first quarter of 2003 were owned throughout the periods presented. For Newsquest, advertising revenue is reflected in the amounts below, however, advertising linage and preprint distribution statistics are not included.

Advertising revenues, in thousands of dollars (pro forma)

| First Quarter | 2003 | 2002 | % Change |
|---|---|---|---|
| Local | $ 416,988 | $407,069 | 2 |
| National | 163,024 | 159,560 | 2 |
| Classified | 429,282 | 408,534 | 5 |
| Total ad revenue | $1,009,294 | $975,163 | 4 |

Advertising linage, in thousands of inches, and preprint distribution, in millions (pro forma)

| First Quarter | 2003 | 2002 | % Change |
|---|---|---|---|
| Local | 8,697 | 8,901 | (2) |
| National | 934 | 872 | 7 |
| Classified | 13,761 | 13,194 | 4 |
| Total Run-of-Press linage | 23,392 | 22,967 | 2 |
| Preprint distribution | 2,569 | 2,306 | 11 |

The table below reconciles advertising revenues on a pro forma basis to advertising revenues on a GAAP basis.

| First Quarter | 2003 | 2002 |
|---|---|---|
| Pro forma ad revenues | $1,009,294 | $975,163 |
| Add: Effect of properties sold | — | 603 |
| Less: Effect of properties acquired | (3,247) | (5,963) |
| As reported ad revenues | $1,006,047 | $969,803 |

For the first three months of 2003, reported and pro forma local advertising revenues rose 3% and 2%, respectively, with pro forma linage down 2%. Local ad revenues benefited from revenue gains from small- and medium-sized advertisers and from revenues generated from new publishing products.

Reported and pro forma national advertising revenues advanced 2% for the first quarter on a 7% volume increase. At USA TODAY, advertising revenues increased 1% despite diminished demand for travel-related advertising as a result of uncertainties leading up to and during the war in Iraq.

Reported and pro forma classified ad revenues gained 5% with pro forma linage up 4%. Gains in classified ad revenues were driven by the automotive and real estate categories, which increased 5% and 10%, respectively. Employment ad revenues fell 1% for the quarter.

Circulation revenues, as reported and pro forma, increased 1% for the first quarter. Pro forma net paid daily circulation for the company's newspapers, excluding USA TODAY, fell 1% in the first quarter. Sunday net paid circulation was down less than 1% from the same period last year. USA TODAY reported an average daily paid circulation of 2,249,717 in the ABC Publisher's Statement for the 26 weeks ended March 30, 2003, a 2% increase over the comparable period a year ago.

For the first three months of 2003, reported newspaper operating expenses rose $30.3 million or 3% primarily as a result of higher pension and other employee benefit costs and increased commercial printing expenses. A higher foreign exchange rate in 2003 for Newsquest operations adversely impacted expense comparisons. Newsprint expense for the first quarter was even with the same period last year as a 4% increase in consumption was offset by lower newsprint prices. The increase in newsprint consumption was driven by higher commercial printing volume.

Operating income for the quarter rose $17.8 million or 5% reflecting local and classified advertising revenue gains partially offset by higher pension and other employee benefit costs and increased commercial printing expenses.

**Television Results**

In the first quarter, television revenues declined $9.0 million or 5% due to expanded war coverage and the reluctance of advertisers to spend in the weeks leading up to the war. In addition, the first quarter of 2002 benefited from Winter Olympic-related advertising. National revenues fell 6% and local revenues fell 5% for the first quarter of 2003 as compared to the first quarter of 2002. Operating expenses declined slightly in the first quarter as lower programming and sales costs were partially offset by increased pension and other benefit costs. Operating income fell $8.8 million or 12% due to revenue losses caused by the war and the absence of Winter Olympic-related advertising from the first quarter of 2002.

**Operating Cash Flow**

The company's consolidated operating cash flow, defined as operating income plus depreciation and amortization of intangible assets, increased $9.3 million or 2% to $467.1 million for the first quarter, reflecting improved newspaper segment results. All references to "operating cash flow" are to a non-GAAP financial measure. Management believes that use of this measure allows investors and management to measure, analyze and compare the cash resources generated from its business segment operations in a meaningful and consistent manner. The focus on operating cash flow is appropriate given the consistent and generally predictable strength of cash flow generation by newspaper and television operations, and the short period of time it takes to convert new orders to cash. A reconciliation of these non-GAAP amounts to the company's operating income, which the company believes is the most directly comparable financial measure calculated and presented in accordance with GAAP on the company's consolidated statements of income, is presented in Note 8 "Business Segment Information" of the Notes to Condensed Consolidated Financial Statements.

**Non-Operating Income and Expense / Provision for Income Taxes**

The company's interest expense rose $7.4 million or 26%, reflecting higher rates partially offset by lower debt levels. In March 2002, the company refinanced $1.8 billion in commercial paper obligations with the issuance of fixed rate unsecured notes. The daily average outstanding balance of commercial paper was $2.5 billion during the first quarter 2003 and $4.5 billion during the first quarter 2002. The weighted average interest rate on commercial paper was 1.3% and 1.8% for the first quarter 2003 and 2002, respectively.

Because the company has $2.6 billion in commercial paper obligations at March 30, 2003 that have relatively short-term maturity dates, the company is subject to significant changes in the amount of interest expense it might incur. Assuming the current level of borrowings, a 1/2% increase or decrease in the average interest rate for commercial paper would result in an increase or decrease in annual interest expense of $13.0 million.

During the first quarter of 2003, the company completed a non-monetary transaction under which it contributed its newspaper in El Paso to a newly formed partnership, Texas-New Mexico Newspapers Partnership. The partnership includes the El Paso newspaper and five other daily newspapers in nearby New Mexico that were contributed by Media News Group. In exchange for its contribution, the company received a 66% interest in the partnership.

In accordance with generally accepted accounting principles, the company recorded this non-monetary transaction as two simultaneous but separate events; that is, a sale of 34% of its interest in the El Paso newspaper for which a non-operating gain was recognized, and the acquisition of a 66% interest in the partnership. The non-monetary gain from the partnership transaction is reflected in non-operating income and was partially offset by other non-operating charges, including those for the write-down of minority interest investments in Internet businesses.

The company's effective income tax rate was 34.2% and 34.4% for the first quarter 2003 and 2002, respectively.

**Net Income**

Net income for the first quarter advanced $6.3 million or 3% and earnings per diluted share increased to 93 cents from 91 cents, a 2% increase. The weighted average number of diluted shares outstanding for the first quarter of 2003 totaled 270,059,000, compared to 268,546,000 for the first quarter of 2002. Exhibit 11 of this Form 10-Q presents the weighted average number of basic and diluted shares outstanding and the earnings per share for each period.

**Liquidity and Capital Resources**

The company's cash flow from operating activities was $402.0 million for the first three months of 2003, reflecting solid newspaper and television results. Cash flow from operating activities was $260.0 million for the first quarter of 2002. Cash flow was reduced in the first quarter of 2002 because of the payment of 2001 federal income taxes, which were delayed from the normal due dates in 2001, as permitted by the Internal Revenue Service rules.

Cash used by the company for investing activities totaled $52.6 million for the three months ended March 30, 2003. Of this amount, capital expenditures totaled $43.9 million for the first quarter, compared to $57.8 million in the first quarter last year.

Cash used by the company for financing activities totaled $48.4 million, reflecting the payment of the fourth quarter 2002 dividend of $64.3 million partially offset by proceeds from the exercise of stock options. The company's regular quarterly dividend of $0.24 per share, which was declared in the first quarter of 2003, totaled $64.4 million and was paid on April 1, 2003.

Working capital increased $210.0 million from the end of the year 2002 reflecting an increase in cash and equivalents partially offset by lower receivables due to seasonal trends in revenues. The increase in cash and equivalents is due to the purchase of British pounds in the weeks ahead of the SMG publishing acquisition closing (see discussion in "Other Matters" below), which occurred in early April 2003. The company's commercial paper obligations also increased due to the purchase of the publishing business of SMG.

The company's foreign currency translation adjustment, included in accumulated other comprehensive income and reported as part of shareholders' equity, totaled $5.3 million at the end of the first quarter versus $56.0 million at the end of 2002, reflecting a weakening of Sterling against the U.S. dollar at the end of the first quarter of 2003 versus the end of year 2002. Newsquest's assets and liabilities at March 30, 2003 were translated from Sterling to U.S. dollars at an exchange rate of $1.57 versus $1.60 at the end of 2002. Newsquest's financial results were translated at an average rate of $1.60 for the first quarter of 2003 versus $1.43 for the first quarter of 2002.

The company is exposed to foreign exchange rate risk primarily due to its operations in the United Kingdom, for which Sterling is the functional currency, which is then translated into U.S. dollars. Translation gains or losses affecting the Condensed Consolidated Statements of Income have not been significant in the past. If the price of Sterling against the U.S. dollar had been 10% less than the actual price, reported net income for the first three months of 2003 would have decreased approximately 1%.

The company has a 13.5% general partnership interest in Ponderay Newsprint Company. The company, on a several basis, is a guarantor of 13.5% of the principal and interest on a term loan held by Ponderay that totals $120 million at March 30, 2003.

**Other Matters**

In early April 2003, the company completed its acquisition of the publishing business of SMG plc for £216 million (approximately U.S. $340 million). SMG Publishing consists of three Scottish newspapers, eleven specialty consumer and business-to-business magazine titles, and an online advertising and content business.

In late March 2003, the company entered into an agreement with Independent News and Media Limited for the acquisition of its Greater London regional publishing business ("Independent Regionals Business") for £60 million (approximately U.S. $94 million). The Independent Regionals Business consists of 45 Greater London regional newspapers, including the Post Newspaper Series and the Kentish Times Newspaper Series. The acquisition is subject to the approval of the Secretary of State for Trade and Industry in the United Kingdom. Closing of this transaction is expected near the end of the second quarter or early in the third quarter of 2003.

**Certain Factors Affecting Forward-Looking Statements**

Certain statements in this Quarterly Report on Form 10-Q contain forward-looking information. The words “expect”, “intend”, “believe”, “anticipate”, “likely”, “will” and similar expressions generally identify forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results and events to differ materially from those anticipated in the forward-looking statements.

Potential risks and uncertainties which could adversely affect the company’s ability to obtain these results include, without limitation, the following factors: (a) increased consolidation among major retailers or other events which may adversely affect business operations of major customers and depress the level of local and national advertising; (b) a continued economic downturn in some or all of the company’s principal newspaper or television markets leading to decreased circulation or local, national or classified advertising; (c) a decline in general newspaper readership patterns as a result of competitive alternative media or other factors; (d) an increase in newsprint or syndication programming costs over the levels anticipated; (e) labor disputes which may cause revenue declines or increased labor costs; (f) acquisitions of new businesses or dispositions of existing businesses; (g) a decline in viewership of major networks and local news programming; (h) rapid technological changes and frequent new product introductions prevalent in electronic publishing; (i) an increase in interest rates; (j) a weakening in the Sterling to U.S. dollar exchange rate; and (k) general economic, political and business conditions.

**CONDENSED CONSOLIDATED BALANCE SHEETS**
**Gannett Co., Inc. and Subsidiaries**
Unaudited, in thousands of dollars

| | Mar. 30, 2003 | Dec. 29, 2002 |
|---|---|---|
| **ASSETS** | | |
| *Current assets* | | |
| Cash and cash equivalents | $ 393,048 | $ 90,374 |
| Trade Receivables, less allowance (2003 - $37,454; 2002 - $36,610) | 737,318 | 827,398 |
| Inventories | 122,122 | 101,189 |
| Prepaid expenses and other receivables | 107,841 | 114,118 |
| *Total current assets* | 1,360,329 | 1,133,079 |
| *Property, plant and equipment* | | |
| Cost | 4,429,595 | 4,422,767 |
| Less accumulated depreciation | (1,903,657) | (1,887,762) |
| *Net property, plant and equipment* | 2,525,938 | 2,535,005 |
| *Intangible and other assets* | | |
| Goodwill | 8,879,510 | 8,822,299 |
| Other intangible assets, less accumulated amortization | 104,977 | 98,807 |
| Investments and other assets | 1,145,302 | 1,143,824 |
| *Total intangible and other assets* | 10,129,789 | 10,064,930 |
| **Total assets** | $14,016,056 | $13,733,014 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

**CONDENSED CONSOLIDATED BALANCE SHEETS**
**Gannett Co., Inc. and Subsidiaries**
Unaudited, in thousands of dollars

| | Mar. 30, 2003 | Dec. 29, 2002 |
|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| *Current liabilities* | | |
| Accounts payable and current portion of film contracts payable | $ 272,095 | $ 327,742 |
| Compensation, interest and other accruals | 287,007 | 287,873 |
| Dividends payable | 64,566 | 64,443 |
| Income taxes | 185,348 | 121,276 |
| Deferred income | 166,856 | 157,291 |
| *Total current liabilities* | 975,872 | 958,625 |
| Deferred income taxes | 695,623 | 678,541 |
| Long-term debt | 4,538,721 | 4,547,265 |
| Postretirement medical and life insurance liabilities | 377,955 | 378,855 |
| Minority interest | 90,732 | — |
| Other long-term liabilities | 263,584 | 257,933 |
| *Total liabilities* | 6,942,487 | 6,821,219 |
| *Shareholders' equity* | | |
| Preferred stock of $1 par value per share Authorized: 2,000,000 shares; Issued: none | | |
| Common stock of $1 par value per share Authorized: 800,000,000 shares; Issued: 324,420,732 shares | 324,421 | 324,421 |
| Additional paid-in-capital | 294,024 | 279,778 |
| Retained earnings | 8,683,459 | 8,498,015 |
| Accumulated other comprehensive (loss) income | (5,548) | 44,190 |
| | 9,296,356 | 9,146,404 |
| Less treasury stock, 56,029,284 shares and 56,511,046 shares, respectively, at cost | (2,221,484) | (2,231,557) |
| Deferred compensation related to ESOP | (1,303) | (3,052) |
| *Total shareholders' equity* | 7,073,569 | 6,911,795 |
| **Total liabilities and shareholders' equity** | $14,016,056 | $13,733,014 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
**Gannett Co., Inc. and Subsidiaries**
Unaudited, in thousands of dollars (except per share amounts)

| | Thirteen weeks ended Mar. 30, 2003 | Thirteen weeks ended Mar. 31, 2002 | % Inc (Dec) |
|---|---|---|---|
| **Net Operating Revenues:** | | | |
| Newspaper advertising | $1,006,047 | $ 969,803 | 3.7 |
| Newspaper circulation | 302,431 | 299,262 | 1.1 |
| Television | 158,176 | 167,186 | (5.4) |
| Other | 85,591 | 76,907 | 11.3 |
| ***Total*** | 1,552,245 | 1,513,158 | 2.6 |
| **Operating Expenses:** | | | |
| Cost of sales and operating expenses, exclusive of depreciation | 836,622 | 807,116 | 3.7 |
| Selling, general and administrative expenses, exclusive of depreciation | 248,571 | 248,331 | 0.1 |
| Depreciation | 54,229 | 53,369 | 1.6 |
| Amortization of intangible assets | 1,830 | 1,833 | (0.2) |
| ***Total*** | 1,141,252 | 1,110,649 | 2.8 |
| ***Operating income*** | 410,993 | 402,509 | 2.1 |
| **Non-operating income (expense):** | | | |
| Interest expense | (36,109) | (28,754) | 25.6 |
| Other | 4,852 | (2,292) | **** |
| ***Total*** | (31,257) | (31,046) | 0.7 |
| **Income before income taxes** | 379,736 | 371,463 | 2.2 |
| Provision for income taxes | 129,900 | 127,900 | 1.6 |
| ***Net income*** | $ 249,836 | $ 243,563 | 2.6 |
| ***Net income per share-basic*** | $ 0.93 | $ 0.92 | 1.1 |
| ***Net income per share-diluted*** | $ 0.93 | $ 0.91 | 2.2 |
| ***Dividends per share*** | $ 0.24 | $ 0.23 | 4.3 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**Gannett Co., Inc. and Subsidiaries**
Unaudited, in thousands of dollars

| | Mar. 30, 2003 | Mar. 31, 2002 |
|---|---|---|
| ***Cash flows from operating activities:*** | | |
| Net Income | $ 249,836 | $ 243,563 |
| Adjustments to reconcile net income to operating cash flows: | | |
| Depreciation | 54,229 | 53,369 |
| Amortization of intangibles | 1,830 | 1,833 |
| Deferred income taxes | 4,998 | 23,298 |
| Other, net | 91,208 | (62,051) |
| ***Net cash flow from operating activities*** | 402,101 | 260,012 |
| ***Cash flows from investing activities:*** | | |
| Purchase of property, plant and equipment | (43,947) | (57,755) |
| Payments for acquisitions, net of cash acquired | — | (3,200) |
| Payments for investments | (11,863) | (9,173) |
| Proceeds from investments | 2,489 | 40,696 |
| Proceeds from sale of certain assets | 749 | 2,243 |
| ***Net cash used for investing activities*** | (52,572) | (27,189) |
| ***Cash flows from financing activities*** | | |
| Net payment of long-term debt, net of debt issuance fees | (8,544) | (236,928) |
| Dividends paid | (64,269) | (60,903) |
| Proceeds from issuance of common stock | 24,346 | 35,635 |
| ***Net cash used for financing activities*** | (48,467) | (262,196) |
| *Effect of currency rate change* | 1,612 | (1,026) |
| ***Net increase in cash and cash equivalents*** | 302,674 | (30,399) |
| *Balance of cash and cash equivalents at beginning of year* | 90,374 | 140,629 |
| ***Balance of cash and cash equivalents at end of first quarter*** | $ 393,048 | $ 110,230 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 30, 2003**

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and footnotes which are normally included in the Form 10-K and annual report to shareholders. The financial statements covering the 13-week period ended March 30, 2003, and the comparative period of 2002, reflect all adjustments which, in the opinion of the company, are necessary for a fair statement of results for the interim periods and reflect all normal and recurring adjustments which are necessary for a fair presentation of the company's financial position, results of operations and cash flows as of the dates and for the periods presented.

**2. Stock-based Compensation**

Stock-based compensation is accounted for by using the intrinsic value-based method in accordance with Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees." Under APB No. 25, because the exercise price of the company's employee stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized. As permitted, the company has elected to adopt the disclosure only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123").

SFAS No. 123 establishes a fair value-based method of accounting for employee stock-based compensation plans. The company has chosen to continue to report stock-based compensation in accordance with APB No. 25, and provides the following pro forma disclosure of the effects of applying the fair value method to all applicable awards granted. Had compensation cost for the company's stock options been determined based on the fair value at the grant date for those awards as permitted (but not required) under the alternative method of SFAS No. 123, the company's results of operations and related per share amounts would have been reduced to the pro forma amounts indicated below:

| **First Quarter** | **2003** | **2002** |
|---|---|---|
| *Net income as reported* | $249,836 | $243,563 |
| Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | 16,682 | 13,582 |
| *Pro forma net income* | $233,154 | $229,981 |
| *Earnings per share:* | | |
| Basic — as reported | $ 0.93 | $ 0.92 |
| Basic — pro forma | $ 0.87 | $ 0.86 |
| Diluted — as reported | $ 0.93 | $ 0.91 |
| Diluted — pro forma | $ 0.86 | $ 0.86 |

**3. Acquisitions and Dispositions**

During the first quarter of 2003, the company completed a non-monetary transaction under which it contributed its newspaper in El Paso to a newly formed partnership, Texas-New Mexico Newspapers Partnership. The partnership includes the El Paso newspaper and five other daily newspapers in nearby New Mexico that were contributed by Media News Group. In exchange for its contribution, the company received a 66% interest in the partnership. The company recorded this non-monetary transaction as two simultaneous but separate events; that is, a sale of 34% of its interest in the El Paso newspaper for which a non-operating gain was recognized, and the acquisition of a 66% interest in the partnership. The non-monetary gain from the partnership transaction is reflected in non-operating income and was partially offset by other non-operating charges, including those for the write-down of minority interest investments in Internet businesses. This acquisition did not significantly affect newspaper operating results for the first quarter.

**4. Goodwill and other intangible assets**

On Dec. 31, 2001, the company adopted SFAS No. 142, “Goodwill and Other Intangible Assets,” which eliminated the amortization of goodwill and other intangibles with indefinite useful lives unless the intangible asset is deemed to be impaired. The company performed an impairment test of its goodwill and determined that no impairment of goodwill existed at Dec. 29, 2002. Intangible assets that have finite useful lives are amortized over their useful lives and are subject to tests for impairment.

The following table displays the intangible assets that are subject to amortization and the intangible assets that are not subject to amortization as of Mar. 30, 2003, and Dec. 29, 2002:

Goodwill and other intangible assets are as follows:

| | Mar. 30, 2003 | | Dec. 29, 2002 | |
|---|---|---|---|---|
| (in thousands of dollars) | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Amortized intangible assets: | | | | |
| Subscriber lists | $ 117,800 | $12,823 | $ 109,800 | $10,993 |
| Unamortized intangible assets: | | | | |
| Goodwill | $8,879,510 | $ — | $8,822,299 | $ — |

As of March 30, 2003, Newspaper goodwill was $7.4 billion and Television goodwill was $1.5 billion. Goodwill increased primarily due to the Texas-New Mexico Newspapers Partnership transaction as described in Note 3.

Amortization expense for subscriber lists was $1.8 million in the quarter ended March 30, 2003. Subscriber lists are amortized on a straight-line basis over 15 years. For each of the next five years, amortization expense relating to the identified intangibles is expected to be approximately $7.8 million.

**5. Long-term debt**

In March 2003, the company renewed and downsized a 364-day facility that was part of a revolving credit agreement entered into in March 2002. The $1.2 billion 364-day facility extends to March 2004. At the end of the 364-day period, any borrowings outstanding under the 364-day credit facility are convertible into a one-year term loan at the company’s option.

At March 30, 2003, the company had a total of $4.095 billion of credit available under two revolving credit agreements. At December 29, 2002, the company had a total of $4.305 billion of credit available under two revolving credit agreements. As a result of these two credit agreements, commercial paper is carried on the balance sheet as long-term debt.

Approximate annual maturities of long-term debt, assuming that the company used the $4.095 billion revolving credit agreements to refinance existing unsecured promissory notes on a long-term basis and assuming the company's other indebtedness was paid on its scheduled pay dates, are as follows:

| (in thousands) | Mar. 30, 2003 |
| --- | --- |
| 2005 | $1,869,394 |
| 2006 | 13,947 |
| 2007 | 2,061,007 |
| 2008 | 86,665 |
| Later years | 507,708 |
| Total | $4,538,721 |

The fair value of the company's total long-term debt, determined based on quoted market prices for similar issues of debt with the same remaining maturities and similar terms, totaled $4.71 billion at March 30, 2003.

The company has a 13.5% general partnership interest in Ponderay Newsprint Company. The company, on a several basis, is a guarantor of 13.5% of the principal and interest on a term loan held by Ponderay that totals $120 million at March 30, 2003.

### 6. Comprehensive Income

Comprehensive income for the company includes net income; foreign currency translation adjustments; and unrealized gains or losses on available-for-sale securities, as defined under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

Comprehensive income totaled $200.1 million for the first quarter of 2003 and $221.7 million for the first quarter of 2002. Net income totaled $249.8 million and other comprehensive losses totaled $49.7 million in 2003. Net income totaled $243.6 million and other comprehensive losses totaled $21.9 million in 2002.

### 7. Outstanding Shares

The weighted average number of common shares outstanding (basic) in the first quarter totaled 268,179,000 compared to 266,182,000 for the first quarter of 2002. The weighted average number of diluted shares outstanding in the first quarter totaled 270,059,000 compared to 268,546,000 for the first quarter of 2002.

## 8. Business Segment Information

**BUSINESS SEGMENT INFORMATION**
**Gannett Co., Inc. and Subsidiaries**
Unaudited, in thousands of dollars

| | Thirteen weeks ended March 30, 2003 | Thirteen weeks ended March 31, 2002 | % Inc (Dec) |
|---|---|---|---|
| **Net Operating Revenues:** | | | |
| Newspaper publishing | $1,394,069 | $1,345,972 | 3.6 |
| Television | 158,176 | 167,186 | (5.4) |
| ***Total*** | $1,552,245 | $1,513,158 | 2.6 |
| **Operating Income (net of depreciation and amortization):** | | | |
| Newspaper publishing | $ 362,485 | $ 344,703 | 5.2 |
| Television | 63,955 | 72,769 | (12.1) |
| Corporate | (15,447) | (14,963) | (3.2) |
| ***Total*** | $ 410,993 | $ 402,509 | 2.1 |
| **Depreciation and Amortization:** | | | |
| Newspaper publishing | $ 45,582 | $ 45,235 | 0.8 |
| Television | 6,571 | 6,417 | 2.4 |
| Corporate | 3,906 | 3,550 | 10.0 |
| ***Total*** | $ 56,059 | $ 55,202 | 1.6 |
| **Operating Cash Flow (1):** | | | |
| Newspaper publishing | $ 408,067 | $ 389,938 | 4.6 |
| Television | 70,526 | 79,186 | (10.9) |
| Corporate | (11,541) | (11,413) | (1.1) |
| ***Total*** | $ 467,052 | $ 457,711 | 2.0 |

(1) Operating Cash Flow represents operating income for each of the company's business segments plus related depreciation and amortization expense.

A reconciliation of "Operating Cash Flow" to "Operating Income", as presented in the Consolidated Statements of Income and Business Segment Information, follows:

**Quarter Ended Mar. 30, 2003**

| (in thousands) | Newspaper Publishing | Television | Corporate | Consolidated Total |
|---|---|---|---|---|
| ***Operating cash flow*** | $408,067 | $70,526 | $(11,541) | $467,052 |
| **Less:** | | | | |
| Depreciation | (43,752) | (6,571) | (3,906) | (54,229) |
| Amortization | (1,830) | — | — | (1,830) |
| ***Operating income*** | $362,485 | $63,955 | $(15,447) | $410,993 |

**Quarter Ended Mar. 31, 2002**

| (in thousands) | Newspaper Publishing | Television | Corporate | Consolidated Total |
|---|---|---|---|---|
| ***Operating cash flow*** | $389,938 | $79,186 | $(11,413) | $457,711 |
| **Less:** | | | | |
| Depreciation | (43,402) | (6,417) | (3,550) | (53,369) |
| Amortization | (1,833) | — | — | (1,833) |
| ***Operating income*** | $344,703 | $72,769 | $(14,963) | $402,509 |

**9. Accounting Pronouncements**

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was effective for exit or disposal activities that are initiated after December 31, 2002. The company had no significant exit or disposal activities in 2003.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The company is not subject to market risk associated with derivative commodity instruments, as the company is not a party to any such instruments. The company believes that its market risk from financial instruments, such as accounts receivable, accounts payable and debt, is not material. The company is exposed to foreign exchange rate risk primarily due to its operations in the United Kingdom, for which Sterling is the functional currency, which is then translated into U.S. dollars. Translation gains or losses affecting the Condensed Consolidated Statements of Income have not been significant in the past. If the price of Sterling against the U.S. dollar had been 10% less than the actual price, reported net income for the first three months of 2003 would have decreased approximately 1%.

Because the company has $2.6 billion in commercial paper obligations at March 30, 2003 that have relatively short-term maturity dates, the company is subject to significant changes in the amount of interest expense it might incur. Assuming the current level of borrowings, a 1/2% increase or decrease in the average interest rate for commercial paper would result in an increase or decrease in annual interest expense of $13.0 million.

The fair value of the company's total long-term debt, determined based on quoted market prices for similar issues of debt with the same remaining maturities and similar terms, totaled $4.71 billion at March 30, 2003.

[Table of Contents](#)

**Item 4. Controls and Procedures**

Based on their evaluation as of a date within 90 days of the filing of this Form 10-Q, the company’s Chairman, President and Chief Executive Officer and Senior Vice President and Chief Financial Officer have concluded the company’s disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. There have been no significant changes in the company’s internal controls or in other factors that could significantly affect those controls subsequent to the date of their evaluation.

[Table of Contents](#)

**PART II. OTHER INFORMATION**

*Item 6. Exhibits and Reports on Form 8-K*

(a) Exhibits.

See Exhibit Index for list of exhibits filed with this report.

(b) Form 8-K

Current Report on Form 8-K filed February 6, 2003, in connection with Regulation FD disclosures.

SIGNATURES

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

GANNETT CO., INC.

| | |
|---|---|
| Date: May 6, 2003 | /s/George R. Gavagan<br>George R. Gavagan<br>Vice President and Controller |
| Date: May 6, 2003 | /s/Thomas L. Chapple<br>Thomas L. Chapple<br>Senior Vice President,<br>Chief Administrative Officer<br>and General Counsel |

CERTIFICATIONS

I, Douglas H. McCorkindale, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gannett Co., Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 6, 2003

/s/ Douglas H. McCorkindale
Douglas H. McCorkindale
Chairman, President and
Chief Executive Officer

Table of Contents

I, Gracia C. Martore, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gannett Co., Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 6, 2003

/s/ Gracia C. Martore
Gracia C. Martore
Senior Vice President and
Chief Financial Officer

Table of Contents

**EXHIBIT INDEX**

| Exhibit Number | Description | Location |
|---|---|---|
| 3-1 | Second Restated Certificate of Incorporation of Gannett Co., Inc. | Incorporated by reference to Exhibit 3-1 to Gannett Co., Inc.'s Form 10-K for the fiscal year ended December 26, 1993 ("1993 Form 10-K"). Amendment incorporated by reference to Exhibit 3-1 to the 1993 Form 10-K. Amendment dated May 2, 2000, incorporated by reference to Gannett Co., Inc.'s Form 10-Q for the fiscal quarter ended March 26, 2000. |
| 3-2 | By-laws of Gannett Co., Inc. (reflects all amendments through July 23, 2002) | Incorporated by reference to Exhibit 3-2 to Gannett Co., Inc.'s Form 10-Q for the fiscal quarter ended June 30, 2002. |
| 3-3 | Form of Certificate of Designation, Preferences and Rights setting forth the terms of the Series A Junior Participating Preferred Stock, par value $1.00 per share, of Gannett Co., Inc. | Incorporated by reference to Exhibit 1 to Gannett Co., Inc.'s Form 8-A filed on May 23, 1990. |
| 4-1 | Rights Agreement, dated as of May 21, 1990, between Gannett Co., Inc. and First Chicago Trust Company of New York, as Rights Agent. | Incorporated by reference to Exhibit 1 to Gannett Co., Inc.'s Form 8-A filed on May 23, 1990. |
| 4-2 | Amendment No. 1 to Rights Agreement, dated as of May 2, 2000, between Gannett Co., Inc. and Norwest Bank Minnesota, N.A., as successor rights agent to First Chicago Trust Company of New York. | Incorporated by reference to Exhibit 2 to Gannett Co., Inc.'s Form 8-A/A filed on May 2, 2000. |
| 4-3 | Form of Rights Certificate | Incorporated by reference to Exhibit 1 to Gannett Co., Inc.'s Form 8-A filed on May 23, 1990. |
| 4-4 | Specimen Certificate for Gannett Co., Inc.'s common stock, par value $1.00 per share | Incorporated by reference to Exhibit 2 to Gannett Co., Inc.'s Form 8-B filed on June 14, 1972. |
| 10-1 | Gannett Co., Inc. Supplemental Retirement Plan Restatement dated February 1, 2003.* | Incorporated by reference to Exhibit 10-5 to Gannett Co., Inc.'s Form 10-K for the fiscal year ended December 29, 2002. |
| 10-2 | Gannett Co., Inc. Deferred Compensation Plan Restatement dated February 1, 2003.* | Incorporated by reference to Exhibit 10-7 to Gannett Co., Inc.'s Form 10-K for the fiscal year ended December 29, 2002. |

| Exhibit Number | Description | Location |
|---|---|---|
| 10-3 | First Amendment, dated as of February 28, 2003 and effective as of March 17, 2003 to the Competitive Advance and Revolving Credit Agreement dated as of March 11, 2002 among Gannett Co., Inc., the several lenders from time to time parties thereto, Bank of America, N.A., as Administrative Agent, JP Morgan Chase Bank and Bank One NA, as Co-Syndication Agents, and Barclays Bank PLC, as Documentation Agent. | Incorporated by reference to Exhibit 4-13 to Gannett Co., Inc.'s Form 10-K for the fiscal year ended December 29, 2002. |
| 11 | Statement re: computation of earnings per share. | Attached. |
| 99-1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Attached. |
| 99-2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Attached. |

The company agrees to furnish to the Commission, upon request, a copy of each agreement with respect to long-term debt not filed herewith in reliance upon the exemption from filing applicable to any series of debt which does not exceed 10% of the total consolidated assets of the company.

* Asterisks identify management contracts and compensatory plans or arrangements.

**Exhibit 11**

**CALCULATION OF EARNINGS PER SHARE**
**Gannett Co., Inc. and Subsidiaries**
**Unaudited, in thousands of dollars (except per share amounts)**

| | Thirteen weeks ended | |
|---|---|---|
| | **Mar. 30, 2003** | **Mar. 31, 2002** |
| Basic earnings: | | |
| Net income | $249,836 | $243,563 |
| Weighted average number of common shares outstanding | 268,179 | 266,182 |
| Earnings per share — basic | $ 0.93 | $ 0.92 |
| Diluted earnings: | | |
| Net income | $249,836 | $243,563 |
| Weighted average number of common shares outstanding | 268,179 | 266,182 |
| Dilutive effect of outstanding stock options and stock incentive rights | 1,880 | 2,364 |
| Weighted average number of shares outstanding, as adjusted | 270,059 | 268,546 |
| Earnings per share — diluted | $ 0.93 | $ 0.91 |

**Exhibit 99-1**

The following certification accompanies the issuer's Quarterly Report on Form 10-Q and is not filed as provided in SEC Release Nos. 33-8212, 34-47551 and IC-25967, dated March 21, 2003.

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Gannett Co., Inc. ("Gannett") on Form 10-Q for the period ended March 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas H. McCorkindale, chairman, president and chief executive officer of Gannett, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Gannett.

/s/ Douglas H. McCorkindale
Douglas H. McCorkindale
Chairman, President and
Chief Executive Officer

May 6, 2003

A signed original of this written statement required by Section 906 has been provided to Gannett and will be retained by Gannett and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 99-2**

The following certification accompanies the issuer's Quarterly Report on Form 10-Q and is not filed as provided in SEC Release Nos. 33-8212, 34-47551 and IC-25967, dated March 21, 2003.

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Gannett Co., Inc. ("Gannett") on Form 10-Q for the period ended March 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gracia C. Martore, senior vice president and chief financial officer of Gannett, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Gannett.

/s/ Gracia C. Martore
Gracia C. Martore
Senior Vice President and
Chief Financial Officer

May 6, 2003

A signed original of this written statement required by Section 906 has been provided to Gannett and will be retained by Gannett and furnished to the Securities and Exchange Commission or its staff upon request.