

GANNETT CO INC /DE/
Form 10-Q
August 07, 2013

UNITED STATES
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 June 30, 2013

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
(State or other jurisdiction of incorporation or organization)

16-0442930
(I.R.S. Employer Identification No.)

7950 Jones Branch Drive, McLean, Virginia
(Address of principal executive offices)

22107-0910
(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

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 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 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

The total number of shares of the registrant's Common Stock, \$1 par value outstanding as of June 30, 2013 was 229,139,789.

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

Overview

Gannett Co., Inc. (the Company or Gannett) is a leading international media and marketing solutions company, informing and engaging more than 100 million people on multiple platforms every month through its network of publishing, broadcasting, and digital properties. Its publishing operations include 82 daily newspapers and about 480 magazines and other non-dailies in the U.S., as well as 17 daily paid-for titles, and more than 200 weekly print products, magazines and trade publications in the U.K. Its broadcasting operations consist of 23 television stations in 19 U.S. markets (including 12 television stations in the top 25 markets), reaching 18% of U.S. television households, and its Captivate subsidiary, which operates video messaging screens in elevators of office buildings and select hotel lobbies across North America. The Company's Digital segment consists of stand-alone digital subsidiaries, including CareerBuilder, the global leader in human capital solutions, helping companies target, attract and retain talent. Its online job site, CareerBuilder.com, is the single largest within North America, based on listings, traffic and ad revenue. In addition, the Company provides digital applications to consumers and commercial customers across all of its segments, ranging from online news and entertainment to digital marketing solutions.

Recent Developments

On June 12, 2013, Gannett entered into a merger agreement for the acquisition of Belo Corp. (Belo) for aggregate cash consideration of approximately \$1.5 billion, plus the assumption of \$715 million of existing Belo debt (the Merger). Belo is the owner of 20 television stations (nine in the top 25 U.S. markets) that reach more than 14% of U.S. television households, including ABC, CBS, NBC, FOX, CW and MyNetwork TV (MNTV) affiliates and their associated websites. Belo also has three local and two regional news channels. Upon completion of the merger, Gannett will operate the fourth-largest English-language television station group in the United States, reaching nearly one-third of all U.S. households.

The Merger will nearly double Gannett's broadcast portfolio from 23 to 43 stations, including stations Gannett expects to service through shared services or similar arrangements. Upon completion of the Merger, Gannett will achieve greater geographic diversity, operating or servicing 21 stations in the top 25 U.S. markets. Gannett's broadcast group will become the #1 CBS affiliate group, the #4 ABC affiliate group and will expand its already #1 NBC affiliate group position. In connection with the Merger, Gannett and Belo have arranged that, simultaneously with the consummation of the Merger, there will be a restructuring of certain of Belo's media holdings pursuant to which their stations located in the Louisville, Kentucky; Phoenix, Arizona; Portland, Oregon; St. Louis, Missouri; and Tucson, Arizona television markets (the Assigned Stations) will be conveyed to third parties (the Restructuring and, together with the Merger, the Transaction). Gannett will enter into shared services and similar support arrangements with the third party owners of these stations.

Closing of the Transaction is expected to occur by the end of 2013 and is subject to regulatory approvals and customary closing conditions. The closing of the Merger is subject to a condition that the merger agreement be approved by the holders of Belo common shares representing at least two-thirds of the voting power of all outstanding common shares entitled to vote in accordance with the Delaware General Corporation Law. Belo's directors and executive officers, who collectively own approximately 42% of the voting power of Belo's outstanding shares, have entered into voting and support agreements to vote their shares in favor of the Merger. Closing of the Merger also is subject to the expiration or termination of any waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, the grant by the Federal Communications Commission (FCC) of its consent to the consummation of the Transaction, and other customary closing conditions. The Merger will be funded through a combination of available cash as well as debt financing to be undertaken by the Company. The merger agreement does not contain a financing condition.

On July 29, 2013, the Company completed the private placement of \$600 million in aggregate principal amount of its 5.125% senior unsecured notes due 2020 (the 2020 Notes). The 2020 Notes were priced at 98.566% of face value, resulting in a yield to maturity of 5.375%. Subject to certain exceptions, the 2020 Notes may not be redeemed by the Company prior to July 15, 2016. The 2020 Notes were issued in a private offering that is exempt from the registration

requirements of the Securities Act of 1933. The 2020 Notes are guaranteed on a senior basis by the subsidiaries of the Company that guarantee its revolving credit facilities and its notes maturing in 2014 and thereafter. The Company used the net proceeds to repay the outstanding amount of indebtedness incurred under its revolving credit facilities. Remaining proceeds will be used to repay its outstanding unsecured notes and/or for general corporate purposes.

On August 5, 2013, the Company entered into an agreement to replace, amend and restate its existing credit facilities with a credit facility expiring on August 5, 2018 (the “Amended and Restated Credit Agreement”). Total commitments under the new revolving credit agreement are \$1.1 billion. Subject to total leverage ratio limits, the new revolving credit agreement eliminates the Company’s restriction on incurring additional indebtedness. The maximum total leverage ratio permitted by the Company’s new revolving credit agreement is 3.5x for the next 18 months, reducing to 3.25x from the 18th to the 30th month anniversary of the closing date, and then reducing to 3.0x thereafter, provided that if the Company completes its proposed acquisition of Belo, then each maximum total leverage ratio for the applicable period is increased by 0.5x. Commitment fees on the revolving credit agreement are equal to 0.375% - 0.50% of the undrawn commitments, depending upon the Company’s leverage ratio, and are paid on the average undrawn balance under the revolving credit agreement for each quarter. Under the agreement, the Company may borrow at an applicable margin above the Eurodollar base rate (LIBOR loan) or the higher of the Prime Rate, the Federal Funds Effective Rate plus 0.50%, or the one month LIBOR rate plus 1.00% (ABR loan). The applicable margin is determined based on the Company’s leverage ratio but will differ between LIBOR loans and ABR loans. For LIBOR based borrowing, the margin varies from 1.75% to 2.50%. For ABR based borrowing, the margin will vary from 0.75% to 1.50%. At its current leverage ratios, the Company’s applicable margins will be 2.00% and 1.00%, respectively. The Company also borrowed \$144.8 million under a new five-year term loan. The interest rate on the term loan is equal to the rate for revolving credit loans in the Amended and Restated Credit Agreement. Both the revolving credit loans and the term loan are guaranteed by the Company’s wholly-owned material domestic subsidiaries.

Results from Operations

The Company generates revenue within its Publishing segment primarily through advertising and subscriptions to Gannett’s print and digital publications. Its advertising departments sell retail, classified and national advertising across multiple platforms including print, web sites, mobile, tablet and other specialty publications. The principal sources of revenues within the Company’s Broadcasting segment are advertising, fees paid for retransmission of the Company’s television signals on satellite and cable networks, and payments for other services, such as the production of advertising content. Advertising includes local advertising focused on the immediate geographic area of the stations, national advertising, and advertising on the stations’ web, tablet and mobile products. The largest subsidiary within Gannett’s Digital segment is CareerBuilder, which generates revenues both through its own sales force by providing talent and compensation intelligence, human resource related consulting services and recruitment solutions and through sales of employment advertising placed with its affiliated media organizations.

The Company’s operating expenses consist primarily of payroll and benefits. Other significant operating expenses include production (raw materials) and distribution costs within its Publishing segment, the costs of locally produced and purchased syndicated programming in the Broadcasting segment and sales and marketing costs within the Digital segment.

Consolidated Summary

A consolidated summary of the Company’s results is presented below:

In thousands of dollars, except earnings per share amounts	Second Quarter			Year-to-Date			
	2013	2012	Change	2013	2012	Change	
Operating revenues	\$1,302,699	\$1,307,040	—	% \$2,540,434	\$2,525,627	1	%
Operating expenses	1,099,817	1,090,522	1	% 2,186,495	2,173,451	1	%
Operating income	\$202,882	\$216,518	(6	%) \$353,939	\$352,176	1	%
Non-operating expense	\$36,541	\$29,759	23	% \$65,735	\$62,983	4	%
Net income attributable to Gannett Co., Inc.	\$113,620	\$119,889	(5	%) \$218,185	\$188,112	16	%
Per share – basic	\$0.50	\$0.51	(2	%) \$0.95	\$0.80	19	%
Per share – diluted	\$0.48	\$0.51	(6	%) \$0.93	\$0.79	18	%

Gannett reported 2013 second quarter earnings per diluted share, on a GAAP (generally accepted accounting principles) basis of \$0.48 compared to \$0.51 for the second quarter of 2012. Earnings per diluted share on a

year-to-date GAAP basis were \$0.93 in 2013 compared to \$0.79 last year.

Operating income for the second quarter of 2013 decreased 6% compared to the second quarter last year, reflecting lower Publishing and Digital segment operating income, partially offset by an increase in Broadcasting segment operating income. Broadcasting segment operating income increased 4% to \$98.1 million for the quarter due to an increase in core television revenue as well as substantially higher retransmission revenue. These Broadcasting segment revenue increases were partially

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offset by lower political advertising revenues. Digital segment operating income was \$35.3 million, as solid revenue growth at CareerBuilder was offset by higher expenses. Publishing segment operating income was \$85.2 million for the quarter, down 18% from last year due to advertising softness as well as special items and the absence of furlough savings in the second quarter of 2012.

For the year-to-date period, operating income increased 1% compared to last year. Broadcasting segment results for the year-to-date period were up 9% reflecting significant increases in retransmission revenue. Digital results were up 12% principally reflecting higher revenues at CareerBuilder. Publishing segment results were down 13% due to slow economic growth and secular challenges that tempered advertising demand.

Net income attributable to Gannett for the second quarter of 2013 decreased 5%, compared to 2012. Net income attributable to Gannett consists of net income reduced by net income attributable to noncontrolling interests. Net income attributable to noncontrolling interests was \$13.1 million in the second quarter of 2013 and \$15.7 million in the same period in 2012. For the year-to-date period, net income attributable to Gannett was \$218.2 million, versus \$188.1 million last year, an increase of 16%. Earnings per diluted share were \$0.93 for the year-to-date period compared to \$0.79 last year. Net income attributable to Gannett and earnings per diluted share were up significantly in the first six months of 2013, primarily due to a lower effective income tax rate of 17.1% compared to 29.3% in the first six months of 2012. The 2013 rate was lower than the comparable 2012 rate due to special items contributing a net tax benefit of \$27.8 million, including resolution of a multi-year federal exam and significant tax benefits resulting from state tax settlements.

The weighted average number of diluted shares outstanding for the second quarter of 2013 totaled 234,636,000 compared to 237,136,000 for the second quarter of 2012. For the first six months of 2013 and 2012, the weighted average number of diluted shares outstanding totaled 234,866,000 and 238,774,000 respectively. The decrease is primarily due to shares repurchased since the second quarter of 2012, partially offset by equity awards issued in connection with the Company's share-based compensation programs. See Part II, Item 2 for information on share repurchases.

Results for the second quarter of 2013 include \$21.7 million in costs associated with workforce restructuring (\$13.1 million after-tax or \$0.06 per share) and transformation costs of \$14.0 million (\$8.4 million after-tax or \$0.04 per share) that together total \$35.7 million (\$21.5 million after-tax or \$0.10 per share). Results for the second quarter of 2012 include \$9.7 million in costs due to workforce restructuring (\$5.8 million after-tax or \$0.02 per share), transformation costs of \$5.1 million (\$3.1 million after-tax or \$0.01 per share), and pension settlement charges of \$5.4 million (\$3.2 million after-tax or \$0.01 per share). Altogether, these second quarter 2012 costs totaled \$20.3 million (\$12.2 million after-tax or \$0.05 per share).

Year-to-date 2013 results include \$27.1 million in costs associated with workforce restructuring (\$16.4 million after-tax or \$0.07 per share), transformation costs of \$19.7 million (\$11.9 million after-tax or \$0.05 per share), other non-operating charges of \$2.8 million (\$2.5 million after-tax or \$0.01 per share), and special tax benefits of \$27.8 million or \$0.12 per share. The total 2013 year-to-date net cost of these special items was \$49.6 million (\$3.0 million after-tax or \$0.01 per share). Results for the first six months of 2012 include \$26.0 million in costs due to workforce restructuring (\$15.5 million after-tax or \$0.07 per share), transformation costs of \$9.9 million (\$6.0 million after-tax or \$0.03 per share) and pension settlement charges totaling \$5.4 million (\$3.2 million after-tax or \$0.01 per share). Altogether, these 2012 year-to-date costs totaled \$41.3 million (\$24.7 million after-tax or \$0.10 per share).

A separate discussion of results excluding the effect of special items (Non-GAAP basis) appears on page 9.

Operating Revenues

Operating revenues totaled \$1.30 billion in the second quarter of 2013, relatively unchanged from \$1.31 billion in the second quarter of 2012, as a significant increase in circulation revenue and higher revenue in the Broadcasting and Digital segments was offset by softer advertising demand in the Publishing segment. Operating revenues increased 1% to \$2.54 billion for the first six months of 2013, from \$2.53 billion in 2012. Publishing segment revenues were down 2% for the quarter and declined 1% for the year-to-date period, as the positive results of the All-Access Content Subscription Model were offset by a decline in advertising revenue. Broadcasting segment revenues increased 3% for the quarter, and 6% year-to-date, primarily due to increases in retransmission revenue and core advertising revenue which more than offset a reduction of \$9.9 million in political revenue in the quarter and \$13.4 million in political revenue year-to-date. Digital segment revenues were 3% higher for both the quarter and year-to-date periods,

reflecting solid revenue growth at CareerBuilder.

Second quarter 2013 company-wide digital revenues, which include Digital segment specific revenues as well as digital product and service revenues generated by the other business segments, were \$374.3 million, 20% higher compared to the second quarter of 2012 and were nearly 30% of the Company's total operating revenues. Year-to-date company-wide digital revenues were \$725.2 million, 24% higher compared to the same period in 2012. Comparisons for both the quarter and year-to-date periods reflect revenue increases associated with the implementation of the All-Access Content Subscription Model last year as well as higher digital advertising and marketing solutions revenue. Through the end of the second quarter of 2012, 38

local publishing markets had launched the All-Access Content Subscription Model. The Company completed the roll out of the All-Access Content Subscription Model in 78 local publishing markets by the end of 2012. As of June 30, 2013, the Company has 1.3 million customers, or nearly 50% of its subscriber base, that have activated their digital access.

Operating Expenses

Operating expenses increased less than 1% for both the quarter and year-to-date periods in 2013 as compared to the same periods last year. The expense increase was due to higher strategic initiative investments, higher Digital segment expenses related to revenue growth and the absence of furlough savings realized in the first six months of 2012. This increase was partially offset by the impact of cost control and efficiency efforts. A separate discussion of operating expenses excluding special items (non-GAAP basis) begins on page 9.

Non-Operating Income and Expense

The Company's interest expense for the second quarter of 2013 was \$36.2 million, relatively unchanged from the same quarter last year. Total average outstanding debt was \$1.48 billion for the second quarter of 2013 compared to \$1.75 billion last year. The weighted average interest rate for total outstanding debt was 8.31% for the second quarter of 2013 compared to 7.41% last year, as the Company continues to pay down lower interest rate revolving credit debt. Interest expense for the first six months of 2013 was \$71.6 million, down 5% from last year, reflecting primarily lower average debt levels. Total average outstanding debt was \$1.49 billion for the first six months of 2013 compared to \$1.76 billion last year. The weighted average interest rate for total outstanding debt was 8.27% for the first six months of 2013 compared to 7.72% last year.

Other non-operating items were \$9.8 million for the second quarter of 2013 compared to \$2.3 million for the same period last year. Other non-operating items totaled \$11.4 million for the first six months of 2013 compared to \$0.2 million for the same period last year. The increases for both the quarter and year-to-date periods were due to transformation costs in 2013 totaling \$9.5 million in the second quarter and \$10.4 million year-to-date.

Provision for Income Taxes

The Company's effective income tax rate was 25.8% for the second quarter of 2013, compared to 29.9% for the second quarter of 2012. The tax rate for the second quarter in 2013 was lower than the comparable rate in 2012 due to a net tax benefit of \$15.0 million from releases of reserves on prior year tax positions related to a state tax litigation resolution and lapse of statutes of limitations. The Company's effective income tax rate was 17.1% for the first six months of 2013, compared to 29.3% for the same period last year. The rate for the first six months of 2013 was lower than the comparable rate in 2012 due to special items contributing a net tax benefit of \$27.8 million related to a multi-year federal exam resolution that resulted in the reduction of prior year uncertain tax benefits and a significant tax benefit resulting from state tax settlements. A separate discussion of effective income tax rates excluding special items (non-GAAP basis) appears on page 13.

Segment Results

The following is a discussion of the Company's reported operating segment results for the second quarter and first six months of 2013. Unless otherwise noted, all comparisons are to the comparable prior year period.

Publishing Segment Results

Publishing segment revenues were generated principally from advertising and circulation sales, which accounted for 62% and 31%, respectively, of total Publishing segment revenues for the second quarter and 61% and 32% for the year-to-date period. Advertising revenues include amounts generated from print advertising as well as digital advertising on publishing-related internet web sites, mobile and tablet applications. "All other" Publishing segment revenues are mainly from commercial printing operations. The table below presents the main components of Publishing segment revenues:

Publishing Segment Revenues (in thousands of dollars)	Second Quarter			Year-to-Date		
	2013	2012	Change	2013	2012	Change
Advertising	\$562,476	\$594,262	(5 %)	\$1,088,975	\$1,145,700	(5 %)
Circulation	279,655	263,938	6 %	565,627	527,274	7 %
All other	62,100	62,133	— %	120,862	121,421	— %

Total Publishing segment revenues \$904,231 \$920,333 (2 %) \$1,775,464 \$1,794,395 (1 %)

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Publishing segment revenues were down 2% in the second quarter of 2013 and 1% for the year-to-date period, as a substantial increase in circulation revenue was more than offset by lower advertising revenue. On a constant currency basis, Publishing segment revenues decreased 1% from the second quarter of 2012 and just under 1% for the year-to-date period.

The table below presents the principal categories of advertising revenues for the Publishing segment:

Publishing Segment Advertising

Revenues (in thousands of dollars)	Second Quarter			Year-to-Date		
	2013	2012	Change	2013	2012	Change
Retail	\$292,418	\$310,500	(6 %)	\$562,036	\$589,478	(5 %)
National	94,309	95,204	(1 %)	179,827	185,644	(3 %)
Classified	175,749	188,558	(7 %)	347,112	370,578	(6 %)
Total Publishing segment advertising revenues	\$562,476	\$594,262	(5 %)	\$1,088,975	\$1,145,700	(5 %)

Publishing segment advertising revenues decreased 5% in the second quarter of 2013 to \$562.5 million and decreased 5% for the year-to-date period to \$1.09 billion. Advertising continues to be impacted by the lagging economies in the U.S. and particularly in the U.K., as well as secular challenges. In the U.S., advertising revenues decreased 4% for both the quarter and year-to-date periods. On a constant currency basis, advertising revenues in the U.K. declined 10% for the second quarter and 8% for the year-to-date period. The average exchange rate used to translate U.K. publishing results from the British pound to U.S. dollars decreased 3% for the quarter and 2% for the year-to-date period.

The percentage changes within the advertising revenue categories for U.S. Publishing, Newsquest, total Publishing segment, including on a constant currency basis are as follows:

Publishing Segment Advertising Revenue

Categories	Second Quarter			
	U.S. Publishing	Newsquest (in pounds)	Total Publishing Constant Currency	Total Publishing Segment
Retail	(5 %)	(7 %)	(6 %)	(6 %)
National	2 %	(31 %)	(1 %)	(1 %)
Classified	(5 %)	(9 %)	(6 %)	(7 %)
Total Publishing segment advertising revenues	(4 %)	(10 %)	(5 %)	(5 %)

Year-to-Date

Categories	Year-to-Date			
	U.S. Publishing	Newsquest (in pounds)	Total Publishing Constant Currency	Total Publishing Segment
Retail	(4 %)	(5 %)	(4 %)	(5 %)
National	(1 %)	(19 %)	(3 %)	(3 %)
Classified	(5 %)	(7 %)	(6 %)	(6 %)
Total Publishing segment advertising revenues	(4 %)	(8 %)	(5 %)	(5 %)

Across the Publishing segment in the second quarter, all categories of year over year advertising revenue comparisons were lower as tepid economic growth in the U.S. and particularly in the U.K. impacted advertising demand. However, domestic national advertising comparisons in the second quarter were higher, driven by USA Today and its associated businesses.

Classified advertising revenue at the Company's domestic publishing operations declined 5% for both the second quarter of 2013 and the year-to-date period, but all major categories were better than the first quarter comparisons. Second quarter classified advertising revenues in the U.K. were 9% lower, in pounds, compared to last year.

Overall percentage changes within the classified revenue categories for U.S. Publishing, Newsquest, total Publishing segment, including on a constant currency basis are as follows:

Publishing Segment Classified Advertising Revenue Categories	Second Quarter							
	U.S. Publishing		Newsquest (in pounds)		Total Publishing Constant Currency		Total Publishing Segment	
Automotive	(1	%)	(10	%)	(2	%)	(2	%)
Employment	(9	%)	(6	%)	(8	%)	(9	%)
Real Estate	(3	%)	(9	%)	(6	%)	(7	%)
Legal	(8	%)	—	%)	(8	%)	(8	%)
Other	(6	%)	(10	%)	(7	%)	(8	%)
Total Publishing segment classified revenue	(5	%)	(9	%)	(6	%)	(7	%)

	Year-to-Date							
	U.S. Publishing		Newsquest (in pounds)		Total Publishing Constant Currency		Total Publishing Segment	
Automotive	(2	%)	(11	%)	(3	%)	(3	%)
Employment	(9	%)	(4	%)	(7	%)	(8	%)
Real Estate	(4	%)	(8	%)	(5	%)	(6	%)
Legal	(8	%)	—	%)	(8	%)	(8	%)
Other	(5	%)	(8	%)	(6	%)	(7	%)
Total Publishing segment classified revenue	(5	%)	(7	%)	(6	%)	(6	%)

Total circulation revenues increased 6% for the second quarter of 2013 to \$279.7 million from \$263.9 million last year and 7% to \$565.6 million for the first six months of 2013. Circulation revenue for the Company's local domestic publishing business was 11% higher in the second quarter of 2013, the fifth consecutive quarter of circulation revenue growth. Revenue comparisons reflect generally lower circulation volumes which were more than offset by price increases. Daily and Sunday average print and digital, replica and non-replica circulation volumes declined 9% and 3%, respectively, for the quarter and declined 9% and 4%, respectively, for the first six months of 2013.

All other revenue was relatively unchanged for both the quarter and year-to-date periods as an increase in domestic commercial printing revenues was offset by a decrease in U.K. commercial printing revenues.

Digital revenues associated with the Publishing segment increased 50% for the second quarter and 62% for the year-to-date period. Digital revenues for the Company's local domestic publishing business increased 57% for the second quarter and 75% for the year-to-date period. These increases reflect the impact of the All-Access Content Subscription Model as well as the Company's strategic efforts to provide digital advertising and marketing solutions. Digital revenues at USA TODAY and its associated businesses were up 24% for the second quarter and 17% for the first six months of 2013. Digital revenues in the U.K. were 8% higher for the quarter and 12% higher for the year-to-date period in local currency.

Publishing segment operating expenses were relatively unchanged in the quarter at \$819.0 million compared to \$816.1 million in the second quarter a year ago. This includes a net increase of \$11.4 million in special items, \$10.0 million in strategic initiative investment as well as the absence of \$5.3 million in furlough savings realized in the second quarter of 2012, offset by cost control and efficiency efforts. Newsprint expense was 16% lower in the quarter and 13% lower year-to-date due primarily to declines in consumption. Operating expenses for the first six months of 2013 totaled \$1.63 billion and were flat compared to the same period last year, impacted by \$20.3 million in strategic initiative investment in 2013 and the absence of \$13.6 million in furlough savings realized in the first six months of 2012.

These increases were offset by strong cost control and efficiency efforts.

Publishing segment operating income was \$85.2 million in the quarter compared to \$104.2 million last year, a decrease of 18%. Operating income for the year-to-date period was \$145.3 million, a decrease of 13% compared to last year.

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Broadcasting Segment Results

The Broadcasting segment includes results from the Company's 23 television stations and affiliated digital platforms as well as Captivate Network. Broadcasting segment revenues in the second quarter of 2013 increased 3% to \$212.0 million. Revenues for the year-to-date period of 2013 were \$403.5 million, an increase of 6%.

Television revenues for the second quarter of 2013 were up 4% to \$204.8 million. Retransmission revenues increased 62% to \$36.8 million for the quarter. Core advertising revenues increased more than 1% and when combined with an increase in retransmission revenues, more than offset a reduction of \$9.9 million in political ad revenue. Excluding the impact of political ad revenues in both quarters, television revenue was up 9% in the second quarter of 2013. In addition, second quarter television station digital revenues increased 10%. Television revenues for the year-to-date period were up 6% to \$390.3 million, driven by an increase in retransmission revenue and core advertising revenue. Excluding the impact of political ad revenue in both years, television revenues were up 10% in the first six months of 2013.

Based on current trends, the Company expects the percentage decrease in total television revenues for the third quarter of 2013 to be in the mid-teens compared to the third quarter of 2012, which was especially strong due to the approximately \$75 million achieved in political advertising and spending related to the Summer Olympics. Excluding the incremental impact of political and Olympic advertising spending, total television revenues in the third quarter this year compared to last year are expected to increase in the mid-teens.

Broadcasting segment operating expenses for the second quarter of 2013 and for the first six months increased 3% to \$113.9 million and \$221.8 million, respectively. The increase reflects higher costs associated with strategic initiatives. Operating income in the second quarter of 2013 increased 4% to \$98.1 million from \$94.6 million in the second quarter of 2012. Operating income for the first six months of 2013 was up 9% to \$181.8 million.

Digital Segment Results

The Digital segment includes results for stand-alone digital subsidiaries including CareerBuilder, PointRoll, ShopLocal, and Reviewed.com. Many of the Company's other digital offerings are tightly integrated within its existing publishing or broadcasting offerings, and therefore the results of these integrated digital offerings are reported within the operating results of its Publishing and Broadcasting segments.

Digital segment operating revenues increased 3% to \$186.5 million in the second quarter of 2013 compared to \$181.3 million in 2012. Year-to-date operating revenues for the segment were \$361.4 million compared to \$349.7 million, an increase of 3%. The increases reflect strong revenue growth at CareerBuilder as it continues to build market share in the U.S. and its international operations.

Digital segment operating expenses increased 4% to \$151.2 million in the second quarter of 2013 compared to \$144.8 million in 2012, primarily due to an increase in CareerBuilder expenses driven in part by recent acquisitions as well as the timing of when some promotional and marketing costs were incurred this year versus last year. Year-to-date operating expenses were \$302.5 million compared to \$296.9 million in 2012, an increase of 2%. As a result, Digital segment operating income was \$35.3 million, a decrease of 3% compared to last year. For the year-to-date period, Digital segment operating income was \$58.9 million, up 12% from the same period in 2012.

Corporate Expense

Corporate expense in the second quarter of 2013 decreased 17% to \$15.7 million. For the year-to-date period of 2013, corporate expense declined 6% to \$32.0 million. The quarter and year-to-date declines were due to \$5.4 million of pension settlement charges recognized in the second quarter of 2012, partially offset by higher stock-based compensation in 2013 and the absence of an asset sale gain recognized in the second quarter of 2012.

Results from Operations - 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 should be read only in conjunction with financial information presented on a GAAP basis.

The Company discusses in this report non-GAAP financial performance measures that exclude from its reported GAAP results the impact of special items consisting of workforce restructuring charges, transformation costs, pension settlement charges, a non-cash impairment charge, a currency-related loss recognized in other non-operating items and certain credits to its income tax provision. The Company believes that such expenses and credits are not indicative of normal, ongoing operations and their inclusion in results makes for more difficult comparisons between periods and with peer group companies.

Workforce restructuring expenses primarily relate to incremental expenses the Company has incurred to consolidate or outsource production processes and centralize other functions. These expenses include payroll and related benefit costs. Transformation costs include incremental expenses incurred by the Company to execute on its transformation and growth plan. Transformation costs also include incremental expenses associated with optimizing the Company's real estate portfolio including accelerated depreciation and charges to reduce the carrying value of assets held for sale to fair value less costs to sell. The pension settlement charges result from the acceleration of expense related to the timing of certain pension payments. Other non-operating items include a non-cash impairment charge that was recorded to reduce the book value of an investment accounted for under the equity method to fair value, as the business underlying this asset had experienced significant and sustained unfavorable operating results. It also includes a currency loss related to the weakening of the British pound associated with the downgrade of the UK sovereign credit rating. First quarter 2013 results also included credits to the income tax provision related to reserve releases as a result of a multi-year federal exam resolution and lapse of a statute of limitation.

Management uses non-GAAP financial performance measures for purposes of evaluating business unit and consolidated company performance. The Company therefore believes that each of the non-GAAP measures provides useful information to investors by allowing them to view the Company's businesses through the eyes of management and the Board of Directors, facilitating comparison of results across historical periods, and providing a focus on the underlying ongoing operating performance of its businesses. In addition, many of the Company's peer group companies present similar non-GAAP measures to better facilitate industry comparisons.

Consolidated Summary - Non-GAAP

The following is a discussion of the Company's as adjusted non-GAAP financial results. All as adjusted (non-GAAP basis) measures are labeled as such or "adjusted."

Adjusted operating results were as follows:

In thousands of dollars, except per share amounts	Second Quarter			Year-to-Date			
	2013	2012	Change	2013	2012	Change	
Operating revenues	\$1,302,699	\$1,307,040	—	% \$2,540,434	\$2,525,627	1	%
Adjusted operating expenses	1,073,592	1,070,266	—	% 2,150,119	2,132,118	1	%
Adjusted operating income	\$229,107	\$236,774	(3	%) \$390,315	\$393,509	(1	%)
Adjusted net income attributable to Gannett Co., Inc.	\$135,124	\$132,045	2	% \$221,168	\$212,845	4	%
Adjusted diluted earnings per share	\$0.58	\$0.56	4	% \$0.94	\$0.89	6	%

Operating revenues totaled \$1.30 billion in the second quarter of 2013, relatively unchanged from \$1.31 billion in the second quarter of 2012, as a significant increase in circulation revenue and higher revenue in the Broadcasting and Digital segments was offset by softer advertising demand in the Publishing segment. Operating revenues increased 1% to \$2.54 billion for the first six months of 2013, from \$2.53 billion in 2012. Publishing segment revenues were down 2% for the quarter and declined 1% for the year-to-date period, as the positive results of the All-Access Content Subscription Model were offset by a decline in advertising revenue. Broadcasting segment revenues increased 3% for

the quarter, and 6% year-to-date, primarily due to increases in retransmission revenue and core advertising revenue which more than offset a reduction of \$9.9 million in political revenue in the quarter and \$13.4 million in political revenue year-to-date. Digital segment revenues were 3% higher for both the quarter and year-to-date periods, reflecting solid revenue growth at CareerBuilder.

A summary of the impact of special items on the Company's operating expenses is presented below:

In thousands of dollars	Second Quarter			Year-to-Date		
	2013	2012	Change	2013	2012	Change
Operating expenses (GAAP basis)	\$1,099,817	\$1,090,522	1 %	\$2,186,495	\$2,173,451	1 %
Remove special items:						
Workforce restructuring	(21,727)	(9,736)	***	(27,093)	(26,025)	4 %
Transformation costs	(4,498)	(5,097)	(12 %)	(9,283)	(9,885)	(6 %)
Pension settlement charges	—	(5,423)	***	—	(5,423)	***
As adjusted (non-GAAP basis)	\$1,073,592	\$1,070,266	— %	\$2,150,119	\$2,132,118	1 %

Adjusted operating expenses were relatively flat for the second quarter of 2013 compared to the second quarter of 2012 and increased less than 1% for the first six months of 2013 as compared to the same period last year. Adjusted operating expenses were impacted by higher strategic initiative investments, higher Digital segment expenses related to revenue growth and the absence of furlough savings realized in the first six months of 2012. These increases were partially offset by the impact of cost control and efficiency efforts.

A summary of the impact of special items on the Company's operating income is presented below:

In thousands of dollars	Second Quarter			Year-to-Date		
	2013	2012	Change	2013	2012	Change
Operating income (GAAP basis)	\$202,882	\$216,518	(6 %)	\$353,939	\$352,176	1 %
Remove special items:						
Workforce restructuring	21,727	9,736	***	27,093	26,025	4 %
Transformation costs	4,498	5,097	(12 %)	9,283	9,885	(6 %)
Pension settlement charges	—	5,423	***	—	5,423	***
As adjusted (non-GAAP basis)	\$229,107	\$236,774	(3 %)	\$390,315	\$393,509	(1 %)

Adjusted operating income for the second quarter of 2013 decreased 3% compared to the second quarter last year, reflecting lower Publishing and Digital segment operating income, partially offset by an increase in Broadcasting segment operating income. Broadcasting segment operating income increased 4% to \$98.1 million for the quarter due to an increase in core television revenue as well as substantially higher retransmission revenue. These Broadcasting segment revenue increases were partially offset by lower political advertising revenues. Digital segment operating income was \$35.3 million, as solid revenue growth at CareerBuilder was offset by higher expenses. Adjusted Publishing segment operating income was down 6% for the quarter as a decrease in advertising revenue and the absence of furlough savings realized in the second quarter last year were partially offset by an increase in circulation revenue.

Adjusted operating income for the first six months decreased 1% compared to the same period last year. Broadcasting segment results for the year-to-date period were up 9%, reflecting significant increases in retransmission revenue. Digital segment results were up 12% principally reflecting higher revenues at CareerBuilder. Adjusted Publishing segment operating income was down 11% due to slow economic growth and secular challenges that tempered advertising demand, partially offset by an increase in circulation revenue.

A summary of the impact of special items on the Company's non-operating expense, net income attributable to Gannett Co., Inc. and diluted earnings per share is presented below:

In thousands of dollars, except per share amounts	Second Quarter			Year-to-Date		
	2013	2012	Change	2013	2012	Change
Total non-operating (expense) income (GAAP basis)	\$(36,541)	\$(29,759)	23 %	\$(65,735)	\$(62,983)	4 %
Remove special items:						
Transformation costs	9,479	—	***	10,399	—	***
Other non-operating items	—	—	***	2,808	—	***
As adjusted (non-GAAP basis)	\$(27,062)	\$(29,759)	(9 %)	\$(52,528)	\$(62,983)	(17 %)
Net income attributable to Gannett Co., Inc. (GAAP basis)	\$113,620	\$119,889	(5 %)	\$218,185	\$188,112	16 %
Remove special items (net of tax):						
Workforce restructuring	13,127	5,836	***	16,393	15,525	6 %
Transformation costs	8,377	3,097	***	11,882	5,985	99 %
Other non-operating items	—	—	***	2,508	—	***
Pension settlement charges	—	3,223	***	—	3,223	***
Special tax benefits	—	—	***	(27,800)	—	***
As adjusted (non-GAAP basis)	\$135,124	\$132,045	2 %	\$221,168	\$212,845	4 %
Diluted earnings per share (GAAP basis)	\$0.48	\$0.51	(6 %)	\$0.93	\$0.79	18 %
Remove special items (net of tax):						
Workforce restructuring	0.06	0.02	***	0.07	0.07	— %
Transformation costs	0.04	0.01	***	0.05	0.03	67 %
Other non-operating items	—	—	***	0.01	—	***
Pension settlement charges	—	0.01	***	—	0.01	***
Special tax benefits	—	—	***	(0.12)	—	***
As adjusted (non-GAAP basis) (a)	\$0.58	\$0.56	4 %	\$0.94	\$0.89	6 %

(a) Total per share amount for 2012 does not sum due to rounding.

Adjusted net income attributable to Gannett for the second quarter of 2013 increased 2%, compared to 2012 and adjusted diluted earnings per share increased 4% on the same basis. On a year-to-date basis, adjusted net income attributable to Gannett increased 4% compared to 2012 and adjusted diluted earnings per share increased 6% compared to the first six months of 2012. The increases for the quarter and year-to-date periods were due to higher Broadcasting and Digital segment revenues and an increase in circulation revenue that was partially offset by a decrease in advertising revenue. In addition, the adjusted effective tax rates in the second quarter and first six months of 2013 were lower than the same periods last year as the current year rates included larger benefits from releases of reserves on prior year tax positions.

Publishing Segment - Non-GAAP

A summary of the impact of special items on the Company's Publishing segment is presented below:

In thousands of dollars	Second Quarter			Year-to-Date			
	2013	2012	Change	2013	2012	Change	
Publishing segment operating expenses (GAAP basis)	\$819,039	\$816,122	—	% \$1,630,135	\$1,628,144	—	%
Remove special items:							
Workforce restructuring	(21,727)	(9,736)	***	(27,093)	(27,681)	(2	%)
Transformation costs	(4,498)	(5,097)	(12	%) (9,283)	(9,885)	(6	%)
As adjusted (non-GAAP basis)	\$792,814	\$801,289	(1	%) \$1,593,759	\$1,590,578	—	%
Publishing segment operating income (GAAP basis)	\$85,192	\$104,211	(18	%) \$145,329	\$166,251	(13	%)
Remove special items:							
Workforce restructuring	21,727	9,736	***	27,093	27,681	(2	%)
Transformation costs	4,498	5,097	(12	%) 9,283	9,885	(6	%)
As adjusted (non-GAAP basis)	\$111,417	\$119,044	(6	%) \$181,705	\$203,817	(11	%)

Adjusted Publishing segment operating expenses decreased by 1% for the second quarter of 2013 and were relatively unchanged for the first six months. Second quarter and year-to-date comparisons reflect continued efficiency efforts and lower newsprint expense partially offset by the absence of furlough saving realized in the second quarter and first six months of 2012 and strategic initiative investment.

Adjusted operating income for the Publishing segment was \$111.4 million for the second quarter of 2013 and \$181.7 million year-to-date, decreases of 6% and 11%, respectively, compared to the same periods last year. Adjusted operating income comparisons reflect the expense discussion above as well as Publishing segment revenues being down 2% in the second quarter of 2013 and 1% for the year-to-date period. The revenue comparisons were impacted by a substantial increase in circulation revenue that was more than offset by lower advertising revenue. On a constant currency basis, Publishing segment revenues decreased 1% for the second quarter and just under 1% for the year-to-date period. Publishing segment advertising revenues decreased 5% for both the second quarter and first six months of 2013. Advertising continues to be impacted by the lagging economies in the U.S. and particularly in the U.K., as well as secular challenges. Circulation revenue increased 6% for the second quarter and 7% for the first six months of 2013 as a result of the positive impact of the All-Access Content Subscription Model.

Corporate Expense - Non-GAAP

A summary of the impact of special items on the Company's Corporate segment is presented below:

In thousands of dollars	Second Quarter			Year-to-Date			
	2013	2012	Change	2013	2012	Change	
Corporate segment operating expenses (GAAP basis)	\$15,679	\$18,810	(17	%) \$32,039	\$34,070	(6	%)
Remove special items:							
Workforce restructuring (insurance settlement benefit)	—	—	***	—	1,656	***	
Pension settlement charges	—	(5,423)	***	—	(5,423)	***	
As adjusted (non-GAAP basis)	\$15,679	\$13,387	17	%) \$32,039	\$30,303	6	%)

Adjusted corporate segment expenses were higher in the second quarter and first six months of 2013 primarily due to increased stock-based compensation expenses and the absence of an asset sale gain recognized in the second quarter of 2012.

Provision for Income Taxes - Non-GAAP

A summary of the impact of special items on the Company's effective tax rate follows:

In thousands of dollars	Second Quarter		Year-to-Date		
	2013	2012	2013	2012	
Income before income taxes as reported	\$ 166,341	\$ 186,759	\$ 288,204	\$ 289,193	
Net income attributable to noncontrolling interests	(13,121)	(15,670)	(25,019)	(23,281)	
Gannett pretax income (GAAP basis)	153,220	171,089	263,185	265,912	
Remove special items:					
Workforce restructuring	21,727	9,736	27,093	26,025	
Transformation costs	13,977	5,097	19,682	9,885	
Other non-operating items	—	—	2,808	—	
Pension settlement charges	—	5,423	—	5,423	
As adjusted (non-GAAP basis)	\$ 188,924	\$ 191,345	\$ 312,768	\$ 307,245	
Provision for income taxes as reported (GAAP basis)	\$ 39,600	\$ 51,200	\$ 45,000	\$ 77,800	
Remove special items:					
Workforce restructuring	8,600	3,900	10,700	10,500	
Transformation costs	5,600	2,000	7,800	3,900	
Other non-operating items	—	—	300	—	
Pension settlement charges	—	2,200	—	2,200	
Special tax benefits	—	—	27,800	—	
As adjusted (non-GAAP basis)	\$ 53,800	\$ 59,300	\$ 91,600	\$ 94,400	
Effective tax rate (GAAP basis)	25.8	% 29.9	% 17.1	% 29.3	%
As adjusted effective tax rate (non-GAAP basis)	28.5	% 31.0	% 29.3	% 30.7	%

The adjusted tax rate for both the second quarter of 2013 and year-to-date periods was 28.5% compared to 31.0% for the second quarter of last year. The effective tax rates for both years reflect benefits from releases of reserves on prior year tax positions.

Certain Matters Affecting Future Operating Results

The following items will affect year-over-year comparisons for future results:

Proposed Belo Merger - Upon completion of the Merger, the Company's broadcast portfolio will nearly double from 23 to 43 stations, including stations the Company expects to service through shared services or similar arrangements.

The Company expects that the Merger will help to shift its business portfolio to higher growth and higher margin broadcast and digital assets. The Company anticipates that following the close of the Merger, the Broadcasting segment will represent more than half of the Company's earnings before interest, taxes, depreciation and amortization (EBITDA) and together, the Broadcasting and Digital segment will represent nearly two-thirds of total EBITDA.

Political and Olympic Revenues - The Company's broadcast group generally experiences its strongest results in a year that includes both the Summer Olympics and a presidential election, as occurred in 2012. The Company achieved record political and Olympic revenues last year. Political revenues were \$149.7 million in 2012 while the Summer Olympics generated \$37.4 million of revenue, of which approximately \$4 million was also political. Political revenue in the third and fourth quarters of 2012 totaled \$41.7 million and \$91.2 million, respectively. Due to the absence of the Olympics and a significantly lower level of political advertising, Broadcasting segment revenues are expected to be lower this year overall. The decline, however, will be partially mitigated by a substantial increase in retransmission revenues compared to last year.

- **Company-wide Digital Revenues** - During 2012, the Company completed its roll out of the All-Access Content Subscription Model. By the end of the second quarter of 2012, 38 local publishing markets had implemented the new model. By the end of the year, 78 local publishing markets had adopted the new model.

As a result of the cycling

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effect that will accompany this, year-over-year increases in total digital revenues company-wide (up 29% in the first quarter of 2013 and up 20% in the second quarter of 2013) are expected to narrow over the remainder of 2013.

Recently Completed Financings - As discussed in more detail beginning on page 2, in late July the Company completed the private placement of \$600 million in an aggregate principal amount of 5.125% senior unsecured notes due 2020. These unsecured notes were priced at 98.566% of face value, resulting in a yield to maturity of 5.375%. In early August, the Company entered into an agreement to replace, amend and restate its existing credit facilities with a credit facility expiring on August 5, 2018. The Company concurrently entered into a \$144.8 million 5-year term loan agreement. The term loan has the same interest rate options as the revolving credit agreement and currently has a rate of 2.19%. As a result of the private placement and the term loan issuance, the Company's interest expense will increase. The Company expects that third quarter 2013 interest expense will be approximately \$5 million higher than last year's third quarter.

Strategic Initiatives - Expenses related to new strategic initiatives are expected to be approximately \$35 to \$40 million in 2013 and are primarily related to digital product deployments. Through the first six months of 2013, expenses related to strategic initiatives totaled \$23.0 million.

Foreign Currency - The Company's U.K. publishing operations are conducted through its Newsquest subsidiary. Newsquest earnings are translated at the average British pound-to-U.S. dollar exchange rate. Therefore, a weakening of the exchange rate will diminish the Newsquest earnings contribution to consolidated results. Newsquest results for 2012 were translated from the British pound sterling to U.S. dollars at an average rate of 1.58. By comparison, Newsquest results for the first half of 2013 were translated into U.S. dollars at an average rate of 1.55 and at the end of the second quarter of 2013 the rate was 1.52.

Liquidity, Capital Resources and Cash Flows

The Company's cash generating capability and financial condition, together with its revolving credit agreements, are sufficient to fund its capital expenditures, interest, dividends, share repurchases, contributions to its pension plans, investments in strategic initiatives and other operating requirements. Looking ahead, the Company expects to continue to fund debt maturities, acquisitions (including the Company's proposed acquisition of Belo) and investments through a combination of cash flows from operations, borrowing under its revolving credit agreements and/or funds raised in the capital or credit markets.

In February 2012, the Company announced a new capital allocation plan, which aims to return \$1.3 billion to shareholders by 2015. This plan included raising Gannett's dividend to its current level of \$0.80 per share on an annual basis. A \$300 million share repurchase program was also launched. This program was scheduled to be executed over the two year period following the announcement. On June 13, 2013, the Company announced that the existing share buyback program was replaced with a new \$300 million authorization that is expected to be used over the next two years. The Company also announced that its existing dividend program will continue.

On June 30, 2013, the Company had unused borrowing capacity of \$980.3 million under its revolving credit agreements. At the end of the second quarter of 2013, the Company's total long-term debt was \$1.36 billion and its senior leverage ratio was 1.35x, substantially below the maximum senior leverage ratio covenant permitted by the Company's revolving credit agreement of 3.5x. The fair value of the Company's long-term debt, based on the bid and ask quotes for the related debt, totaled \$1.50 billion at June 30, 2013.

The Company's financial and operating performance as well as its ability to generate sufficient cash flow to maintain compliance with credit facility covenants are subject to certain risk factors as noted in the section below titled "Certain Factors Affecting Forward-Looking Statements."

Cash Flows

The Company's net cash flow from operating activities was \$223.9 million for the first six months of 2013, compared to \$316.6 million for the first six months of 2012. The decrease in net cash flow from operating activities resulted principally from a \$66.4 million increase in net tax cash payments due in part to the timing of deductions year over year, which is partially offset by a reduction of \$12.2 million in pension contributions during the first six months of 2013.

Cash flows used for investing activities totaled \$33.5 million for the first six months of 2013, compared to \$33.6 million for the first six months of 2012. Increased purchases of property, plant and equipment and higher acquisition and investment payments in 2013 were offset by higher proceeds from investments as compared to last year.

Cash flows used for financing activities totaled \$202.9 million for the first six months of 2013, compared to \$247.8 million for the first six months of 2012. The decrease was mainly due to the lower debt repayments and common stock repurchases which were partially offset by higher dividends paid in the first six months of 2013.

Non-GAAP Liquidity Measure

The Company's free cash flow, a non-GAAP liquidity measure, was \$172.8 million for the quarter ended June 30, 2013 and \$211.4 million year-to-date. Free cash flow, which the Company reconciles to "net cash flow from operating activities," is cash flow from operations reduced by "purchase of property, plant and equipment" as well as "payments for investments" and increased by "proceeds from investments" and voluntary pension contributions, net of related tax benefit. The Company believes that free cash flow is a useful measure for management and investors to evaluate the level of cash generated by operations and the ability of its operations to fund investments in new and existing businesses, return cash to shareholders under the Company's capital program, repay indebtedness or to use in other discretionary activities. Management uses free cash flow as a non-GAAP liquidity metric to indicate cash available for repayment of indebtedness and in its discussions with the investment community in the context of capital allocation.

Reconciliations from "Net cash flow from operating activities" to "Free cash flow" follow:

In thousands of dollars	Second Quarter		Year-to-Date	
	2013	2012	2013	2012
Net cash flow from operating activities	\$187,658	\$154,495	\$223,941	\$316,582
Purchase of property, plant and equipment	(32,801)	(20,187)	(48,898)	(38,352)
Voluntary pension employer contributions	—	—	15,507	—
Tax benefit for voluntary pension employer contributions	—	—	(6,125)	—
Payments for investments	(1,378)	—	(2,379)	(500)
Proceeds from investments	19,305	6,067	29,365	10,393
Free cash flow	\$172,784	\$140,375		