# JULY 16, 2012
# GANNETT CO., INC. SECOND-QUARTER EARNINGS CONFERENCE CALL

## CORPORATE PARTICIPANTS

**Gracia Martore** -- *Gannett - President, CEO*
**Dave Lougee** -- *Gannett - President, Broadcasting*
**Jeff Heinz** – *Gannett - Director, Investor Relations*

## CONFERENCE CALL PARTICIPANTS

**Alexia Quadrani** -- *JPMorgan Chase & Co. - Analyst*
**John Janedis** -- *UBS - Analyst*
**William Bird --** *Lazard Capital Markets - Analyst*
**Craig Huber** -- *Huber Research Partners - Analyst*
**Doug Arthur** -- *Evercore Partners - Analyst*
**Jim Goss** -- *Barrington Research Associates, Inc. - Analyst*
**Michael Kupinski** -- *Noble Financial Group - Analyst*

## PRESENTATION

---

**Operator**

Good day, everyone, and welcome to Gannett's second-quarter 2012 earnings conference call. This call is being recorded. Due to the large number of callers, we will limit you to one question or comment. We greatly appreciate your cooperation and courtesy.

Our speakers for today will be CEO Gracia Martore, and Jeff Heinz, Director of Investor Relations. At this time, I'd like to turn the call over to Jeff Heinz. Please go ahead.

---

**Jeff Heinz** ***- Gannett - Director, IR***

Thanks. Good morning, and welcome to our conference call and webcast to review Gannett's second-quarter results. Hopefully you've had the opportunity to review this morning's press release. If you have not seen it yet, it is available at www.gannett.com.

As we get started, I need to remind you -- this conference call and webcast include forward-looking statements. Our actual results may differ, and factors that may cause them to differ are outlined in our SEC filings. This presentation also includes certain non-GAAP financial measures. We have provided reconciliations of those measures to the most directly comparable GAAP measures in the press release and on the investor relations portion of our website.

With that, let me turn the call over to Gracia.

---

**Gracia Martore** ***- Gannett - President, CEO***

Thanks, Jeff, and thanks to all of you for joining us today. This morning I'm going to be discussing our second-quarter results, and further updating you on the growth strategy we announced at our Investor Day in February. As you also know, we provided a comprehensive update, both on our strategy and the quarter, at our presentation to the Media and Entertainment Analysts of New York in late June. The transcripts and other documents from that presentation are available on the Investor Relations section of our website for those who would like to do a little bit of a deeper dive. So, we'll be a little bit briefer today. Also today, joining us is Dave Lougee, who, as you know, heads Gannett Broadcasting. He'll be commenting and discussing Broadcasting's strong quarter and the outlook for the second half of the year. Now let's jump into it.

It's been a busy quarter, but I believe a very productive one for our Company. To start with, we continue to make strong progress on our strategic initiatives, including our new all-access content subscription model. As of the end of the quarter, the program was up and running in about 38 of our markets, and delivering as expected. In fact, the plan, though we are in the very early innings, helped deliver our first uptick in circulation revenue at US Community Publishing literally in years. It goes without saying that we are extremely pleased with the results thus far, and much more to come. We rolled out 11 more markets in the last two weeks, and now as they say, past performance is no guarantee, but we are expecting larger total USCP circulation revenue gains going forward as the roll-out continues.

We're making good progress as well in our push into new businesses like Digital Marketing Services, and Sports that leverage our hometown and brand advantages. These advantages put Gannett in a unique position to succeed in the digital age. We are the trusted source of news and information in the 100-plus local markets we serve. The important role we've played has helped us build deep actionable relationships with both consumers and businesses. And in a world where more and more voices are fighting to be heard, we have seen that brands really matter. Our strong local and iconic national brands are not only recognized and trusted, they give us an important leg-up over the competition.

Digital Marketing Services is now fully operational in all of our TV markets, and our top-35 Publishing markets. We know that our business customers need and want these services, and they want them from a trusted partner like Gannett. Demand for our Digital Marketing Services is strong, and is attracting significant new client relationships. It continues to generate new revenue growth for Gannett, and we're looking for revenue of $75 million to $100 million for the year from DMS, and much more to come over the next few years. Thanks in part to DMS and the impact of the all-access subscription model, our digital revenue continues to climb. Digital revenues now account for nearly 25% of our total revenue company-wide.

Our USA TODAY sports franchise is strong, and getting stronger. We're working to make all of our assets work more effectively together, and building a presence across all platforms. The USA TODAY Sports Media Group is now consistently ranked in the top-five digital sports properties. We're moving ahead with a stronger, more pronounced voice that will be read, seen and heard across multiple platforms, and of course, as we do that, we're giving advertisers and marketers new opportunities to reach and engage with their customers.

And of course, at Gannett we're optimizing assets wherever we can. The Gannett Publishing Services team continues to find ways to operate more efficiently, drive costs out of the business, and look for revenue opportunities. They are also improving the return on our assets, particularly our print capacity. And in June, we entered into an agreement that will enable us to reduce our costs for all of our third-party printing by over $60 million over the next five years. This agreement will also enable Gannett to place all of our printing and distribution assets into this vendor's network, enabling us to more effectively and efficiently market our excess manufacturing, packaging and distribution capacities. We're extending our commercial printing and distribution sales channel across their customer base. All in, GPS is on track to deliver a positive impact and contribution of approximately $40 million.

And we've also been busy on the leadership front. In May, we announced that Larry Kramer, a journalist and digital media pioneer, now leads USA TODAY, and he's just brought in Dave Callaway as Editor-in-Chief. If anybody knows the intersection of journalism and digital media better than Larry and Dave, I'd be pretty surprised. We're confident that USA TODAY, our most recognizable brand, is in great hands under their leadership.

In September, USA TODAY celebrates its 30th anniversary, and will be relaunched as a terrific multi-platform news and information leader. And with a phenomenal brand in print, online and mobile, and a growing audience, they have a great base from which to start. www.USATODAY.com is one of the most popular newspaper sites, and the USA TODAY app is a top news app with almost 15 million downloads. Reflecting the proliferation of mobile devices and our strong product offerings, USA TODAY's mobile traffic was up strongly in June this year, as page views increased 154%, and total monthly visitors were 49% higher compared to June a year ago. And we look forward to even more growth as we re-launch our USA TODAY digital platforms in September. And we're all looking forward to Larry and his team driving USA TODAY to even greater heights.

And as well this month, we'll be welcoming our new CFO, Victoria Harker, to the team on July 23. We are absolutely delighted to have her, and you'll be hearing from her beginning with our third-quarter earnings call. And I also want to recognize Michael Hart, our Treasurer, for doing a terrific job in this interim period until Victoria joins us.

Before moving on, I just want to note that over the course of the last year or so, we've added strong depth and breadth to our leadership team. We have an excellent mix of Gannett veterans and talented newcomers, and I am convinced we have the people in place to drive both our strategy and the Company forward. And they are already beginning to prove that. You know, when I look at Gannett today, what I see is a strong leadership team, a bold but achievable growth plan, a fortressed balance sheet, and of course, an excellent team of 5,000-plus journalists, digital media experts, and talented staff. I know we are all determined to win, and I'm certain of it.

So, now let's go to the highlights of the quarter. In the second quarter, earnings per share excluding special items were $0.56, which you saw this morning, which exceeds FirstCall's consensus estimates. They reflect robust results for Broadcasting, strong growth in digital revenues company-wide, and the positive impact of our strategic initiatives, particularly the all-access content subscription model. And they also reflect, as we previously announced, an investment of approximately $30 million in our strategic initiatives. By the way, all in all, the results we reported this morning met or exceeded the guidance we gave at our MEANY presentation in June. So, let's dig a little deeper.

Total operating revenues as you saw were $1.31 billion, down just 2% from last year's quarter. Despite our initiative investments and the higher pension expense discussed in June, our expenses were well-controlled, and we continued to find efficiencies. As a result, operating expenses were lower in the quarter compared to the quarter last year, particularly when you exclude special items.

Each of our business segments again generated solid profitability in the quarter. Operating income excluding special items was $237 million, while operating cash flow was $285 million. And free cash flow totaled $140 million. As you saw, we had $20 million in special items in the quarter, related to facility consolidation charges, workforce restructuring, and a pension settlement charge. The facility consolidation and workforce restructuring charges impacted results in our Publishing segment, while the pension charges are included in corporate expenses. Details are in our press release from this morning.

Our initiative investments relate primarily to the new all-access content subscription model, Digital Marketing Services, and our Digital relaunch. Each of these initiatives is important to our future, and as I noted earlier, each is gaining good traction. As we said in February, we fully expect them to more positively impact results in the latter half of this year and well beyond. Now, approximately $28 million of those investments were in the Publishing segment, a little under $2 million in Broadcasting, and the balance in the Digital segment. All of the special items and the strategic initiative expenses impact our operating income.

Let me turn to a quick review of our segments, and again, Dave Lougee will provide a deep dive into Broadcasting in a few moments. It comes as no new news that Publishing continues to face secular headwinds and an uneven advertising market. We also know that the economic environment is tepid, as a persistent 8%-plus unemployment rate and anemic retail sales reported this morning show us. Consumers and marketers are more cautious as a result. As a result of all this, the Publishing segment had a revenue decline of 5.5% overall on a constant currency basis, but strong digital revenue growth. Here again, it's important to note that our plans to revitalize the segment and return it to growth by 2015, as we said in February, were not a one- or two-quarter phenomenon. We expect to do that by 2015. We are making progress and we are on track.

Advertising revenue was 8% lower in the quarter. The great news, however, is that circulation revenue was up in USCP, ahead of plan. Overall for the Company, it was down less than 1%. Volatility in advertising revenue reflected a lot of factors, including the calendar shift of some important dates for advertisers. Advertising revenue declines by month on a constant currency basis were a bit of a roller coaster, approximately 12%, 2% and 9% for April, May and June, respectively, and consistent with the volatility we noted in June. Circulation revenue improved sequentially in the quarter, reflecting again the early successes we are seeing on the roll-out of our subscription plan. As I mentioned earlier, this new model resulted in USCP having the increase of a little over 1% in circulation revenue in the quarter. As you can see, this plan will be of growing importance to our Publishing results, so let me switch gears for a moment and talk about the model in a little more detail.

I'm sure that you've noticed that we insist on calling our plan an all-access content subscription model, while other publishers talk about pay walls. Why is that? Well, very simply put, our strategy is simply different than theirs. In our strategy, content is king and the foundation of the model's success. Under the new plan, for a monthly fee, all subscribers in our markets will get access to all of our content on all digital platforms when and where they want it, all during the course of the day. And in addition to that, they'll have several home delivery options. The price points for the total subscription package increase with the frequency of home delivery choice. Whether it's Sunday only, home delivery, or three or four day, or full seven-day home delivery, the price points vary. Access, of course, to www.CareerBuilder.com and www.cars.com is free, and non-subscriber access is metered and limited. Projections are on track, and by the end of 2013, we fully expect that USCP subscription revenue will be about 25% higher. That translates to a roughly $100 million contribution to operating profit in 2013.

Let me give you an update on some of the metrics we are using to gauge our performance. As I noted through the end of the quarter, the new subscription model was launched in 38 markets, reflecting four waves of launches. We have launched another 11 sites, our fifth wave, in early July. Let's start with the first two waves, since they've been in place the longest. We continue to see positive results, sustained results for our initial wave of launches in February, and expect to realize year-over-year total circulation revenue growth in the range of 25% at these locations, once we cycle our longer-term subscriptions. We will cycle 26-week subscriptions for early launches later this month and into the next, and 52-week subscriptions for the early launches in late January or early February of next year.

Also let me share some very early results for the two waves that launched in April and May. In June, which would have been the first full month for those two waves, we generated year-over-year circulation revenue growth, depending on the location, in the range of 16% to 47%. Now, that increase again doesn't reflect all subscribers with longer-term subscriptions. In June, the average increase was about 25%, but as I noted, we are still very early on in the process at these sites. On the advertising front, since there have been questions on that, total advertising revenue for our first wave performed better than projected in our business model.

Based on our first three waves, which represent 25 sites that all launched by early May, we are seeing daily home delivery losses that are better than the 5 percentage point incremental decline to trend the model projected. And then on the single copy side, where you may recall we are instituting price increases of anywhere from 30% to 100% in some locations, daily single copy circulation declines are significantly smaller than the model was based on. And we are below the low end of the range of projected Sunday single copy circulation declines of 30% to 40%. So, well on our way.

In terms of digital subscribers, we are on pace to achieve our goal. For all of the sites launched through the end of the quarter, we have just over 16,500 digital subscribers. We have added another 4,500 since the MEANY presentation in late June alone. And as Bob Dickey noted at the MEANY presentation, we have not been aggressively marketing the digital-only subscription alternative to-date, which is changing now that we have a new marketing campaign out there. The good news on this front is that these digital-only subscribers are a younger, very affluent demographic -- new advertising and marketing targets that have been elusive for us in the past. The content subscription model played a role in helping year-over-year total revenue for US Community Publishing. Close to 25% of US Community properties had higher total revenues in the second quarter this year compared to the second quarter last year.

Now let me very briefly turn to the advertising categories in Publishing. Advertising revenue overall was about 8% lower in the quarter. Each of the advertising categories -- retail, national, and classified -- was volatile to varying degrees. Retail and classified had better comparisons in the second quarter relative to the first. Better classified advertising comparisons in the US helped to close the gap. In fact, year-over-year comparisons for all the major classified categories were better compared to first-quarter comparisons. In the US, classified advertising revenues were down 3.7%. Auto was actually up almost 1%, and employment was just 0.7% lower.

Digital revenues in Publishing were up almost 30% from last year, driven by growth in digital advertising and marketing services, and growing contributions again from the new content subscription model. Digital revenues were up 33% in US Community Publishing. At USA TODAY and its associated businesses, digital revenues were up 37% overall, and Newsquest digital revenue was up 10% in local currency.

As you know, we have been very focused for some time on ensuring that we are the go-to source of digital marketing solutions in our local markets. Gannett Digital Marketing Services is positioning itself as a one-stop shop, offering a full suite of digital marketing solutions. The basic products include search related marketing products like SEM and SEO, as well as e-mail marketing campaigns, website design and construction, and social marketing. Our digital toolkit also includes daily deals and digital coupons. We are continuing to see strong results for these products, particularly at DealChicken, our daily deals site. We just celebrated DealChicken's one year anniversary, and we saw another strong quarter of sequential improvements as second-quarter revenue was up 20% compared to the first quarter.

Let me turn to expenses for a moment. Publishing's expenses excluding special items were down almost 3% in the quarter, including those $28 million of initiative investments. The initiative investments offset in part the impact of our successful cost efficiency efforts and facility consolidations in prior quarters. The work by Gannett Publishing Services and our sourcing initiatives have clearly helped, as did a decline in newsprint expense of over 7%.

Regarding newsprint, a domestic regional price drop occurred in the second quarter, driven by continued weakness in exports. These offshore shipments have declined sharply, and are down nearly 30% year-to-date. As offshore shipments decline, downward price pressures grow. Market conditions are expected to favor publishers for the remainder of 2012, and prices for Newsquest were lower in the first half and are declining further in the latter half of the year.

Turning to profitability in our Publishing segment, operating income excluding special items of about $15 million, totaled $119 million, and that includes that strategic investment spending I mentioned earlier. If you include both special items and the strategic initiative spending, the operating margin would have been 350 basis points higher than the reported margin. In US Community Publishing, more than 50% of our sites had higher profitability compared to the second quarter last year.

Let me turn to the UK for a second. Newsquest continues to operate very well in a tough economy. Total revenues in pounds were about 4% lower in the quarter, but once again showed improved performance compared to the first quarter, and will again, I believe, outpace their competition. Continued cost containment efforts resulted in a 6% expense reduction that outpaced the revenue decline. As a result, Newsquest's NIBT in pounds was better year-over-year.

Now let me quickly cover our Digital segment. As you saw, Digital segment revenues in the second quarter were up 4.5%. CareerBuilder's revenue grew 7%. Expenses were about 5% higher, reflecting higher costs at CB and Digital strategic spending. Operating income for the Digital segment totaled $37 million, a 1% increase. If you exclude strategic spending in that segment, operating income would have been up 2.5%. As I noted earlier, Digital advertising and marketing solutions, as well as the early impact of our subscription program, contributed to company-wide Digital revenue growth of 13% in the quarter. Digital revenues totaled almost $312 million, or 24% of revenues company-wide.

Two big even-year events, the Olympics and the elections, are shaping up very nicely for us. Dave is here to review Broadcasting's performance, and provide some color around expected Olympic and political spending, as well as the outlook for the remainder of the year. Dave?

**Dave Lougee - *Gannett - President, Broadcasting***

Thanks, Gracia. For the second quarter, broadcast revenues totaled $205 million, an increase of more than 11% compared to the same quarter last year. Our growth drivers were strong core advertising results, higher political demand, and increases in digital and re-transmission revenues. Core advertising was led by an increase in the auto category of almost 30%. Auto has been strong all year, but part of the growth this quarter is related to the negative impact last year of the Japanese tsunami, particularly in June. Several other top categories were also up in the quarter, including medical, retail, local services, home improvement and financial services, offsetting losses in media and telecom spending.

Political, which we'll talk a little bit more about later, totaled $11.8 million in the second quarter, an increase of $9 million over last year. Re-transmission revenues were $23 million in the quarter, about 17% higher compared to the second quarter last year. Digital revenues in Broadcasting were up 13%, and Captivate itself was up 15%. Total adjusted TV revenues defined to exclude the incremental impact of our even-year political ad demand were up 6.2%. Expenses in the Broadcasting segment were up just under 7%, due primarily to an increase in sales and marketing costs associated with the significant ramp-up in revenues, and about $2 million in the initiative investments that Gracia referred to earlier. Excluding the strategic investments, operating expenses were up about 5%. Operating income, including the net impact of the strategic initiatives, was up almost 18% compared to the second quarter last year, and totaled approximately $95 million. Operating cash flow was $102 million, an increase of just under 16%.

Now, we will have a very strong third quarter. We already have significantly more dollars on the books for the London Olympics than we finished with for the Beijing Olympics in 2008, and we still have inventory left to sell. Over a year ago, we decided to transform our Olympic sales process, and through training and investment we are getting, overachieving the results we had hoped for. Specifically, we've got a significant increase in local businesses that are advertising in the Games on our stations. National Olympic sales are strong as well. When the closing ceremonies are complete, we'll end up $10 million to $12 million ahead of 2008, or in percentage terms the low 40%s or the low 50%s. We are very proud of our team's performance.

Turning to political spending. As anticipated, it's shaping up to be very strong for us in the third and fourth quarter. As we've indicated in the past, our portfolio of strong news stations in the presidential swing states has us very well positioned, and that's proving to be true. Specifically, spending in Ohio, Colorado, Florida and Virginia is robust and growing. We've also got some key Senate races in Missouri, Virginia and Maine, and we'll have numerous contested House seats as we always have in the years past.

It's worth noting that inventory management and pricing are far more strategic issues than ever, in terms of successfully managing the demand of political business. That's because of how late the political dollars are now booked for strategic purposes on the part of the campaigns and the PACs, and the amount of inventory they can take in targeted markets. A lot of money can be made or lost depending on the sophistication of the station's process for managing that demand. To that end, we centralized our sales trafficking process two years ago, so that we can have a centralized view of inventory at all times. And through software and tracking of political spending trends, we can assist the stations in making better, real-time pricing decisions, which benefits us and all of our advertisers, both core and political.

Based on current trends, we expect the percentage increase in third quarter TV ad revenues to be up in the low 30%s compared to the same quarter last year, driven primarily by the incremental impact of Olympics and political. However, because the majority of our political advertising will be placed later in the quarter, it's too early to call that number with much precision.

Gracia?

**Gracia Martore** *- Gannett - President, CEO*

Thanks, Dave. It's obviously great to be in television, especially Gannett television this year.

Quickly, I want to turn to some balance sheet items before we open it up for questions. As you know, our new capital allocation plan included a 150% dividend increase to $0.80 per share on an annual basis, and a $300 million share repurchase authorization targeted to be completed over the next two years. During the quarter, we opportunistically repurchased 3.4 million shares at a cost of $45.5 million. At the end of the second quarter, we had approximately $1.66 billion of debt, and our all-in cost of debt currently stands at about 6.75%. Cash at quarter-end was $202 million. We spent $20 million on capital expenditures, and free cash flow totaled $140 million in the quarter, after a $22 million contribution to our pension plan.

We've contributed about $76 million to the pension plan through the first half of the year. Our guidance had anticipated contributions of approximately $118 million in 2012. However, recent changes in legislation have reduced the required funding in the near to medium term. We now anticipate that we will contribute a total of $94 million for the entire year. At the end of last year, our principle pension plan was about 82% funded. The impact of the new legislation will move the funded percentage up to the 90% to 95% range. We expect there will also be an impact on next year's funding, but it is still a little too early to call.

Finally, before I open it up for questions, I wanted to remind you that, similar to this quarter, we expect the third quarter to reflect continued investments in our strategic initiatives and higher pension expense. Initiative investment is expected to total roughly $10 million to $15 million in the third quarter, and the increase in pension expense will be about $5 million.

So, to sum up, we are making meaningful progress on all fronts to make Gannett a winner in the digital age. Our initiatives are gaining traction, and there's much more to come. Robust Olympics and political advertising seasons, as Dave said, lie ahead, and our all-access subscription program is delivering. Second-quarter expenses are down, despite $30 million in initiative investments, as we continue to manage our business carefully. We are making sound investments in our future. Our strong financial position will enable us to deliver on our plan to return approximately $1.3 billion to shareholders through dividends and share repurchases by 2015, while making the investments we need to make for our business and our future. And with that, Dave and I will be happy to take your questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Alexia Quadrani, JPMorgan.

**Alexia Quadrani** *- JPMorgan Chase & Co. - Analyst*

Thank you. Thanks for all the color, Dave, on the Broadcast segments, very helpful. I'm just trying to get an understanding of where core though is pacing into the third quarter. You gave us information on the Olympics and I know political's going to come in heavy but probably late. Any sense on where you think the core business is pacing if we take out retrans, just the core advertising? And then also, Gracia, if you could give us a sense how Publishing is trending in July, if you have any insights there.

**Dave Lougee** *- Gannett - President, Broadcasting*

Alexia, let me start with second quarter because frankly I can give you a much better view of that in the rear view mirror than I can in advance of the third quarter on core. Our core for the second quarter finished up about 5% but frankly we had some political displacement in June in some of our key political markets where the political funnel began in mid-May. So if you extrapolate the core that we displaced in June we probably were up closer to 6.5 to 7 if we had not had that political in core in the second quarter. Where third quarter will end is very difficult to say for us because so much affects our inventory and especially Olympics and political. But it is pacing very good right now. That pace, and that's industry-wide, as core advertisers place their business early in advance of political demand, so it's very difficult to say where it will finish. But the fundamentals appear to be strong, specifically auto remains very strong and frankly is tracking along with the good sales data that we're all seeing on car sales.

**Gracia Martore** *- Gannett - President, CEO*

I would just add to that that as you know from prior years, Alexia, as we get towards September when political is really ramping up, that displacement factor becomes a much more important issue. And then when you think about the markets we have like Cleveland, Tampa, St. Louis, Denver, which are going to be very heavy from a swing state perspective, that's going to also result in displacement. So the core will be I think as you look into September artificially lower because of that significant displacement factor that's very focused on a finite set of markets.

**Dave Lougee** *- Gannett - President, Broadcasting*

August will be artificially higher because of the Olympics. So it's very difficult to give you a good industry number only than to say our number will be good especially by Olympics.

**Gracia Martore** *- Gannett - President, CEO*

Alexia, on the other parts of our business, we feel very good about the progress on the Publishing side that we're making on circulation. And you saw that US Community Publishing had circulation revenue growth a little over 1%. We would fully expect that that number would be reasonably higher in the third quarter as the launches continue to take hold and we launch more sites. So that will be a very nice story for Publishing in the third quarter. I hesitate to really comment on advertising because the level of volatility, and as Dave said, the placement of advertising very late makes it really difficult to hone in on trends. You saw the volatility that we just came through in the second quarter. But a lot will obviously depend on consumers and marketers and how they feel.

Olympics will be good, good for USA TODAY and our sports group there. We're starting out the quarter as we would have expected, so a lot will be set over these next few months. And obviously this quarter, September is a very important month with the back-to-school trends that we'll see. So it's just a little early. We'll make sure that we keep everybody updated as the quarter unfolds.

And Newsquest of course is doing a terrific job and outperforming their regional press competition on the top line side and certainly on the bottom line side as well. And then on the Digital segment part, CareerBuilder continues to post very good numbers, despite what is a very high unemployment rate and a tepid view of the economy. But a lot of the product innovation that they have done at CareerBuilder has resulted in them being able to post very strong numbers even in light of a difficult job environment. And then on the international front, they've done some good acquisitions and that part of the business is a strong positive for them. So we feel good about where we are headed this coming quarter, feel good about the progress we're making on a lot of fronts. The economy, as it will for a lot of industries, will ultimately determine how things go but broadcast obviously is going to be a terrific home run for us in the third quarter.

**Alexia Quadrani** *- JPMorgan Chase & Co. - Analyst*

Thank you very much.

**Gracia Martore** *- Gannett - President, CEO*

Thank you, Alexia.

**Operator**

John Janedis, UBS.

**John Janedis** *- UBS - Analyst*

Thanks. Good morning. One for Dave, maybe one for Gracia. First, just on TV, how different is the growth outlook for the non-NBC broadcast stations and is growth ex-political accelerating or decelerating and then on the UK front, Gracia, the headlines obviously remain negative but you're still seeing that sequential improvement. Were there one-time events in the quarter and how does early 3Q look from a consumer and business standpoint? Thanks

**Dave Lougee** *- Gannett - President, Broadcasting*

I'll take the first one. Hi, John. With the rear view mirror it's a little bit better to look at. Frankly, the second quarter for us was better than the first, even when you take into account we had the Superbowl on our 12 NBC stations so core was overall better in the second quarter than first because January was especially weak. The third quarter, John, it's sort of hard to tell as Gracia and I referred earlier because frankly our numbers are so artificially strong. We've got, in addition to the Olympics, we've got some key NFL football games, we own the Denver Broncos inventory in the preseason with Peyton Manning and all that's attached to that in Denver which is also a key political state, et cetera. We've got an extraordinarily strong inventory position, so we'll have a disproportionately high share of revenues. It's a little difficult to say where it's all going to fall out in the third quarter, on the ex-political business, but so far it looks pretty good.

**Gracia Martore** *- Gannett - President, CEO*

And John, you're right, we have in the UK been certainly outperforming both from the standpoint of what is a very difficult economy, as well as the other regional publishing companies in that marketplace. Certainly in the second quarter, there was the Queen's Jubilee and as you would expect we certainly did a lot of work around that to try to generate some revenues out of that. But even when you extract those revenues related to the Jubilee as kind of a one-off event, our numbers would have sequentially been better than the first quarter and I think if you look at total ad rev, it would have been less than 0.5% impact on ad revenues. So I think a lot of the work that the folks in the UK, Paul Davidson and his team are doing on initiatives of their own, revenue initiatives of their own as well as continuing to do a terrific job from an expense standpoint have put them in a good position to navigate what are even more difficult waters in the UK.

**Dave Lougee** *- Gannett - President, Broadcasting*

Quickly, I'm sorry, John, to your question about the non-NBC stations, obviously it's better to be an NBC station in the third quarter this year. But our large market CBS affiliates are doing well. And I think adding some shares. So we've got a small base to look at relative to the industry but they're doing well in relative terms given the amount of money the Olympics take from every market.

**John Janedis** *- UBS - Analyst*

Thanks a lot.

**Gracia Martore** *- Gannett - President, CEO*

Thanks, John.

**Operator**

William Bird, Lazard.

**William Bird** - ***Lazard Capital Markets - Analyst***

Good morning. Gracia, I was wondering if you could just talk about what the expense profile will look like for Publishing in the second half. And just bigger picture, how do you think about separation versus integration in driving value at Gannett? Thank you.

**Gracia Martore** - ***Gannett - President, CEO***

Sure. Thanks, Bill. Let me take the second question first. Separation versus integration. You heard us talk a lot about and I'll ask Dave to comment on this as well, talk a lot about our Digital Marketing Services and talk about the tremendous scale that we have locally. We don't think of these as newspaper markets or broadcast markets. We think of these as local media markets where we have tremendous brands, strong deep relationships with advertisers and marketers and scale. … the scale that provides us being in 100-plus local markets.

So for instance when we're thinking about Digital Marketing Services and we're executing against that, you heard me say we've already rolled that out to all of our TV markets and our top 35 US Community Publishing markets. We'll be rolling out the rest of them over the course of the year. That's because Digital Marketing Services is something that transcends the platform that you're on, whether it's TV or print, because it's a digital opportunity for you and in each of our markets we have a strong digital market, digital presence, lots of different digital platforms from mobile to desktop to print and television. So we actually see that as a tremendous advantage for us to have that kind of scale across so many markets, to have those deep brand relationships, deep advertiser and marketing relationships. And we are a trusted adviser to advertisers and marketers in those communities, whether we start from the print platform or the television platform. Dave, you might mention some of the successes you're seeing on the digital marketing side.

**Dave Lougee** - ***Gannett - President, Broadcasting***

Yes. On the Digital Marketing Services product which, frankly, as a standalone core broadcaster we probably wouldn't have the infrastructure to support. The fulfillment structure that we've got in place scaled across our Company gives us the ability to take to the market a product that our competitors do not have and we are already seeing a sweet spot in the marketplace. I think as Gracia talked about at MEANY, simply put, we have thousands and thousands of local clients and businesses that are getting 20 to 35 calls a month from search and social and SEO and marketing, different marketing vendors. We come in as a one stop shop offering and they love it. We're seeing tremendous early success. We're getting the supply to meet the demand which is a high class problem as we like to call it. Just to add on to Gracia's point, from a broadcaster's perspective the ability to be part of a Company with 100 local markets and a national brand is something that's unique to us from a strategic standpoint. Because as the economy recovers, the growth will be in local and our ability to take to market scale products in 100 local markets is a differentiator for us as the broadcast division.

**Gracia Martore** - ***Gannett - President, CEO***

I think I'd add one more thing to that part and then we can go back to Publishing and their expense profile. I talked about DealChicken today and when you think about what we've done with DealChicken, scaling that up from one market in September of 2010 to 60 markets a short year later, doing that at an incredibly low cost base, but generating results that are very good, it's because people know us, people understand us, and it isn't our only product. It is part of a full suite of products that we can provide on the Digital Marketing Services front to meet the needs of those folks and so that's just another example of what I think is the terrific integration we see across both our newspapers as well as our television stations. On the Publishing expense profile site, we always will do a good job on the expense side. I can't this early in the quarter give you a sense of where we think things will end up. A lot of that will depend obviously on the top line picture but I will say that given the strength of the Digital Marketing Services and what we're seeing is terrific demand for this, you may see us doing some strategic ads to sales forces.

We also are adding selectively to our content, local content generation resources because of our content subscription model. So I think we'll make some strategic investments that make really good sense that we're able to monetize very quickly, whether it's in that quarter or not, we're not managing for quarter-to-quarter. We're managing for really meeting the demand that we are seeing. So we'll do the great job we always do on expenses. That won't be an issue.

**William Bird** *- Lazard Capital Markets - Analyst*

Thank you.

**Gracia Martore** *- Gannett - President, CEO*

Thanks, Bill.

**Operator**

Craig Huber, Huber Research Partners.

**Craig Huber** *- Huber Research Partners - Analyst*

Yes, good morning. My first question Gracia is about June. What is the reason why June was materially worse than the prior month. Then I have a couple other follow-ups.

**Gracia Martore** *- Gannett - President, CEO*

Well, in May we were down a couple of percent. That was our best month I think since 2007. We said at MEANY that we expected volatility and that June would not be as strong as May. We also saw towards the end of June a little bit of the impact of when July 4th was positioned because of the weekend prior was in the second quarter and, therefore, some of the preprint spending and some other things that would have been in June actually probably slipped into July. So with that volatility, we've seen as I said in my remarks there are some changes when certain dates like Mother's Day and other things fell during the quarter and that can have an impact on things. But we fully expected that volatility. At MEANY we talked about what we expected and we met or exceeded all those expectations.

**Craig Huber** *- Huber Research Partners - Analyst*

And then also Gracia, if I could -- thank you. My second question, your daily and Sunday circulation, what was the percent change there for volume in US, excluding USA TODAY?

**Gracia Martore** *- Gannett - President, CEO*

Yes, in US Community Publishing on a daily basis it was down about 7.5%. Recall that we have been ramping as I said the single copy prices and we've been introducing the content subscription model. I will tell you that our volume losses are well within what -- as I said, what we modeled when we shared all of this in February. So we would expect that temporarily those losses would increase but they are well within the model that we put together to arrive at what we think the contribution is going to be.

**Craig Huber** *- Huber Research Partners - Analyst*

What was Sunday, please?

**Gracia Martore** *- Gannett - President, CEO*

And Sunday was down about 8.5% or so.

**Craig Huber** *- Huber Research Partners - Analyst*

Okay. Then also if I could ask two other quick ones. Your investment spending this year of $65 million. What is your expectation right now? How much of that might recur next year, or was it all just one time this year?

**Gracia Martore** *- Gannett - President, CEO*

A lot of it is one-time in terms of technology infrastructure and some of the ramp-up costs on technology around the subscription model. And some of it, frankly, will depend on how quickly things like Digital Marketing Services ramp and other things. So it's a little early for us to say what will recur or not recur next year. Frankly, we'll be happy for some of it to recur because that will certainly show the successes that we are seeing from a lot of these initiatives.

**Craig Huber** *- Huber Research Partners - Analyst*

And then lastly, just kind of big picture question given your 80 newspapers in the US, 23 TV stations, what is your sense of all your managers and salespeople on the street out there, what is your general sense of how the economy is doing, what can you help us to kind of think about that at the local level across the various platforms in the US, how the economy's doing overall.

**Gracia Martore** *- Gannett - President, CEO*

I think as we always say, it's a mixed bag. Everybody always talks about the economy as if it's just one thing. But it's really made up of all the local economies, an amalgamation of all of them. What we see is varying trends. We, as you know, always take a look at California, Arizona, Nevada and Florida and in those states what we saw was that auto advertising, classified advertising was negative in those four states but positive in the rest of the states. A similar picture on employment. But then in a more macro way, I think what we're seeing right now is some of the Southern states being a little weaker and New Jersey being a little weaker than what we've seen in other parts of the country. So it's a bit of a mixed blend of things. You also have the overlay around the uncertainty of the election and you can see that a little bit in some of the retail spend this morning where consumers seem to pull back a little bit, given some of the uncertainty they see out there. But as we all know, this has been a volatile several months in the economy and consumer sentiment and marketer sentiment can change on a dime, depending on what the last numbers that come out are. So a little bit hard these days to have a crystal ball that gives you the precision that all of us would love to have but I think it's a mixed bag and some economies doing well and some struggling a bit more.

**Craig Huber** *- Huber Research Partners - Analyst*

Just lastly, if I could. Tax rate for the years I think your guidance back in December was like in the low 30%s, I think it was on an adjusted basis, like 28.5% this quarter and last. What should people model in for the back half of the year including potentially one-time items?

**Gracia Martore** *- Gannett - President, CEO*

When you adjust it, as we said in the earnings release, when you adjust it, you have to set out the special charges because they sometimes carry a different tax rate. But our tax rate adjusted for that came in at 31%. Because it's not just a simple calculation of taking NIBT and applying a tax rate. You really have to go through the components. So our actual effective tax rate was about 31% for the quarter. A lot will depend on what settlements we have during the quarter, what percentage our overseas earnings represent of total earnings, et cetera. So there's a lot of factors. I think the overall guidance that we gave late last year of low 30%s is probably -- low to mid-30%s is not a bad range and it will just depend on what happens during the course of the quarter.

**Craig Huber** - ***Huber Research Partners - Analyst***

But not to get too much in the weeds here Gracia, but on table 5 on the far right side, the non-GAAP measure, excluding all these one time items, it shows here taxes of $59.3 million, divide that by the $207 million for income before income taxes, you get 28.6%. Is that not the right way to look at that?

**Gracia Martore** - ***Gannett - President, CEO***

Yes, because you've also got some minority interest in there that has a different kind of tax effect. So what we'll do is rather than bore everybody on the call with these details, offline Jeff will give you a call and he'll walk you through chapter and verse of how we arrive at the 31%.

The calculation of the effective tax rate that is associated with the tax rate guidance mentioned above is as follows (the references are to tables included in Gannett's second quarter 2012 earnings press release):

| ($ in thousands) | Q2 2012 | Q2 2011 |
|---|---|---|
| Non-GAAP NIBT (per Table 5) | $ 207,015 | $ 224,013 |
| Noncontrolling interest (per Table 1) | (15,670) | (14,000) |
| Non-GAAP NIBT attributable to Gannett Co., Inc. | 191,345 | 210,013 |
| Non-GAAP tax (per Table 5) | $ 59,300 | $ 69,300 |
| Tax Rate | 31.0% | 33.0% |

**Craig Huber** - ***Huber Research Partners - Analyst***

Okay. Thank you.

**Operator**

Doug Arthur, Evercore.

**Doug Arthur** - ***Evercore Partners - Analyst***

Yes, Gracia, two quick things. On the Digital segment, you talked about CareerBuilder up 7. Can you just expand on kind of what's going on in the non-CareerBuilder businesses such as Pointroll? And then secondly on interest expense was down quite a bit sequentially in the quarter. Did some of that have to do with the refinancing of the April '12 notes or what else was behind that? Thanks.

**Gracia Martore** - ***Gannett - President, CEO***

Let me take your last question first. Yes, we refinanced obviously part of the notes that came due in -- from cash as well as from our revolving credit agreement. Our revolving credit agreement right now is tied to LIBOR, whatever LIBOR is these days, and so that borrowing is around 2.5%, 2.6%, versus the higher rate we were paying on that debt. And then we're also cycling some of the payoff of some other -- payoff of some shorter term debt with longer term debt last year that took place that we also have to take into account. So you're absolutely correct in focusing in on that.

Then as to the non-CareerBuilder elements of our Digital segment, we have a couple of small pieces in there that reflect businesses that were acquired in the last year or two where we are investing in their -- those businesses in a more meaningful way to scale them up, to ramp them up. And so from quarter-to-quarter there's going to be some volatility in their earnings and then at Pointroll, obviously the good news at Pointroll is that they saw an 18% increase in the number of advertisers that worked with them this past quarter. They saw additional campaigns but they did see there is pretty much globally pressure on pricing and so they too, as a business, are looking at redefining some of the things that they have historically been doing and repositioning themselves for other areas of growth. That sort of in a nutshell gets you to what I think you're looking at.

---

**Doug Arthur** ***- Evercore Partners - Analyst***

Great. Thanks.

---

**Gracia Martore -** ***Gannett - President, CEO***

Hopefully that was helpful.

---

**Doug Arthur** ***- Evercore Partners - Analyst***

Yes. Thank you.

---

**Gracia Martore -** ***Gannett - President, CEO***

Thanks Doug.

---

**Operator**

Jim Goss, Barrington Research.

---

**Jim Goss -** ***Barrington Research Associates, Inc. - Analyst***

Thanks very much. Gracia, just looking at the all access model, stage one is basically what you're in the middle of, of raising the prices on print single copy and absorbing some hit in circulation, hopefully stabilize the units. And then stage two which I think you indicated at the recent meeting wasn't very far along in terms of selling the all access subscription to previous non-subscribers, starting at least with the digital form. When does that kick in in full force and what sort of process do you think you're going to be able to use aside from just making, maybe cutting off web users after the certain limited access to sort of engender the added circulation on that basis?

---

**Gracia Martore -** ***Gannett - President, CEO***

Thanks for the question, Jim. I think maybe to recalibrate, really there isn't stage one and stage two. In the markets where we are introducing the all access content model, at the same time we are also introducing for most of those markets single copy price increases. So both of those things are going on at the same time. And so as a result, as I mentioned, and we shared in February, we expected that single copy losses would be in a range of 30% to 40%. Actually, we're doing much better than that in the places where we have instituted that and then on the all access, we also gave ranges that we thought that the all access would impact circulation by about 5 percentage points more than the trend of circulation. In fact, we're doing better than that.

On the Digital only, what I would say is that that is another component of it but the first two components we just talked about at this point are the lion's share of what we expect is going to drive the results that we've talked about, that $100 million contribution next year, et cetera. On the Digital only, that's something that we are now really focusing more on, from a sense of marketing as well as from a sense of additional offerings, et cetera. But what I will tell you on that is that we are finding that most consumers that we're talking to want to have some frequency of home delivery of the print product in addition to their all access content of all of our digital platforms. That's the vast majority of the consumers that we are dealing with so far. And so that we believe is a good thing. But certainly for those who are non-subscribers or who have not in the past had the experience of interacting with our content, this is a new opportunity for them. And so we expect that that will grow gradually but none of that to any degree was built into the modeling that we did in any meaningful way. Most of it depended on the all access and the single copy price actions.

**Jim Goss** *- Barrington Research Associates, Inc. - Analyst*

Okay. Couple of related things to that. To the extent that you've had some decline in the unit sales, has that had some impact on the ad revenues you've shown since I presume they're on a CPM basis?

**Gracia Martore** *- Gannett - President, CEO*

As I mentioned, Bob Dickey indicated at MEANY that from the standpoint of advertising, we are fulfilling every digital campaign, so it has not been an impact there. The other area where it could be an impact obviously would be in preprints where those are based on specific volumes. So to the extent that there's a little bit of an impact on preprint, that was already factored into the models. But everything we assume from an advertising perspective in the short term we are doing a little bit better than. But ultimately we believe that by providing new platforms, so having mobile apps and having more robust desktop offerings and having other ways to interact with our content, that opens up additional opportunities for marketers and advertisers to interact with our consumers. And ultimately during the course of these next few years, we see that as a net plus to the advertising picture.

**Jim Goss** *- Barrington Research Associates, Inc. - Analyst*

So they'll be packaged in basically on an all access advertising basis as well?

**Gracia Martore** *- Gannett - President, CEO*

Certainly that's a possibility along with a variety of other alternatives.

**Jim Goss** *- Barrington Research Associates, Inc. - Analyst*

Okay, a couple of final quick things. Are you employing -- or do you plan to employ any of these strategies at Newsquest? And then perhaps Dave would want to comment on any retrans impact you might see from Aereo.

**Gracia Martore** *- Gannett - President, CEO*

Sure. Just really quickly on Newsquest, yes, as we mentioned, both in February and again in late June, Paul and his team have conducted a strategic initiative program there. They are just looking at some of the same things that we've been looking at from a circulation standpoint but you've got to realize that their market is a little different. Where we have a preponderance of home delivery here in the US, they are primarily single copy in the UK and they have a lot of free publications but they are looking at piloting as we did some pricing actions on single copy. As well on Digital Marketing Services, that's an area that transcends geography so that's something that can scale to their particular market, they'll be focusing in on that. They have very good traction right now on digital. Their digital revenues are up about 10% and they're making some really good progress on the digital front and being focused there as well. And Dave, do you want to close out by answering the retrans question?

**Dave Lougee** *- Gannett - President, Broadcasting*

On Aereo, don't have much to say about it. It's in the early days of the legal fight over that and I think broadcasters based on the opinions we've gotten feel fairly good about our legal position on that issue. But and even despite that, separate from that, it's one of many distributors and we'll see how it plays out. So it's real early to project what if any impact it will have.

**Gracia Martore** *- Gannett - President, CEO*

I realize it's 11.01. I think we want to have one more question. We'll take one more question. You've been incredibly indulgent with your time.

**Operator**

Michael Kupinski, Noble Financial.

**Michael Kupinski** *- Noble Financial Group - Analyst*

Thank you for taking the question. I'm just following up on Doug Arthur's question. Can you provide some color on your thoughts on the digital segment revenue for the third quarter and maybe provide your thoughts on the margins for that segment going forward? And then finally, given all the moving parts that you have in your newspaper Publishing division, with the access model starting to kick in, lower employee costs and obviously looks like weaker newsprint prices, do you have any thoughts on margins for the second half of the year? It seems like you're kind of managing yourself to kind of maintain a certain level of margins. Could we expect that margins could improve year over year by at least 100 basis points or do you have any thoughts on what the margin improvement could be?

**Gracia Martore** *- Gannett - President, CEO*

Sure. Let me just say globally on margins, we don't manage to margins. We manage to bring in revenues and have a very strong bottom line along with that. And so quarter-to-quarter, we're not managing to certain margins. We're running the business for a successful future and we're making the investments we're making because we believe it's important for us to continue to follow consumers where they are going and allow the advertisers and marketers we serve to engage with them effectively on whatever platform they want to engage on. I think on the digital revenue front on the Digital segment, a lot of that is driven by CareerBuilder. Some of that will depend obviously on where the jobs market goes but some of that clearly depends on the great innovations that they have been doing around the product set.

So we're hopeful that our revenue growth in the third quarter will be at or above the level that we've generated in the second quarter. And from a margin perspective, again, particularly in that segment, that's not an area where we manage margins quarter-to-quarter. We manage -- we always manage incredibly well from an expense perspective. We are diligent. We are fiscally responsible. We're managing to drive revenues because we know that by driving revenues, given the financial discipline we have, a lot of that money will flow to the bottom line. So we feel very good about what we can accomplish there. There are going to be vagaries, particularly in small new businesses that start up, in investing in them and we're not going to hold off on an investment, just because a margin is a certain level in a certain quarter. But the one thing you can always count on the Gannett Company to do is to be very fiscally prudent and we will make sure that every dollar that we spend on investment we have a clear track to providing ultimately a very strong return on those dollars.

**Michael Kupinski** *- Noble Financial Group - Analyst*

Fair enough, Gracia. In terms of then your investment spend you had mentioned repositioning Pointroll and so forth. Do you have any thoughts about how that might be impacted going into the third quarter?

**Gracia Martore** *- Gannett - President, CEO*

You know, I think we've talked about the potential for initiative spend to be in that $10 million to $15 million range. And I think that it will fall within those parameters.

**Michael Kupinski** *- Noble Financial Group - Analyst*

Okay. Thank you.

**Gracia Martore** *- Gannett - President, CEO*

Good. Thanks very much, Mike. We appreciate all of you joining us today. I know it was a little bit longer session than normal. We appreciate your interest and we also appreciate the terrific job that all our employees are doing to help us succeed. So have a great day and if you have any additional questions, please call Jeff Heinz at 703-854-6917. Have a great day.

**Operator**

That concludes today's conference call. We appreciate your participation.