

OCTOBER 15, 2012
GANNETT CO., INC. THIRD-QUARTER EARNINGS CONFERENCE CALL
(Edited for Clarity)

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PRESENTATION

Operator

Welcome to the Gannett's third-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 speaker for today will be Gracia Martore, President and CEO.

At this time, I'd like to turn the call over to Jeff Heinz, Vice President Investor Relations. Please go ahead, sir.

Jeff Heinz - Gannett Co Inc - VP - IR

Good morning. Welcome to our conference call and webcast to review Gannett's third-quarter results. Hopefully, you've had the opportunity to review this morning's press release. If you haven't seen it yet, the release is available at Gannett.com. In addition to a report on the quarter, Gracia will also be updating you on the growth and capital allocation plans we announced in February. I'd like to remind you that several presentations that discuss the plan are available on the Investor Relations section of our website, if you'd like to review it in more detail.

As we get started, I also need to remind you that 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 section of our website.

With that, let me turn it over to Gracia.

Gracia Martore - Gannett Co Inc - President and CEO

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Thanks, Jeff. Thanks to all of you for joining us today. As Jeff said, I'll begin with the highlights of a quarter in which we, I am extremely pleased to report, delivered both strong revenue and profitability growth ahead of expectations. I will also update you on the excellent progress we're making on implementing our growth strategy. We'll then do a deeper dive on performance before taking your questions.

Bob Dickey, who is in charge of our local domestic Publishing operations, and Dave Lougee, who heads Gannett Broadcasting, are here with me today, as is Victoria Harker, our CFO. Bob and Dave will talk about the significant contributions their teams made to our excellent results this morning. Bob will provide an update on our All-Access Content subscription model that helped us achieve our first company-wide circulation revenue increase since early 2007, and continues to build. Dave and his team at Broadcasting delivered a quarter that was simply outstanding, the best television third quarter in our history. In his comments, Dave will talk about the business, including the impact of Olympic and Political advertising, which drove a 36% increase in Broadcasting revenue. He will also discuss the outlook for Political spending in the fourth quarter, which should be quite robust.

So, let's get started with a quick update on our results. Top line, I'm very, very pleased with our performance this quarter, in which we return to growth, revenue growth by delivering a 3% increase in operating revenues. Broadcasting is the headliner this quarter. We also delivered a 6% increase in company-wide circulation revenue. And CareerBuilder delivered another strong performance that drove a nearly 5% increase in Digital segment revenues alone. On the expense side, we invested about \$10 million in our strategic initiatives this quarter, while continuing to focus on creating efficiencies and tightly managing costs.

For the quarter, operating income excluding special items was up 12%. Net income, attributable to Gannett on the same basis, was 23% higher. Earnings per share for the quarter, both including and excluding special items, were \$0.56. That's a \$0.12 per share or 27% increase compared to last year's earnings per share. All in all, a very strong showing that we'll explore in more detail in a few minutes. But first, I'll update you on our growth strategy.

As you've heard us say, our strategy has three components. First, we are enhancing our local core news and marketing businesses. Secondly, leveraging our hometown and brand advantages, and accelerating growth, by entering or expanding into new, high-potential businesses. Thirdly, we're optimizing our assets and maintaining our strong financial profile to fund growth and deliver increased value to shareholders.

We're making great progress on all three fronts to position Gannett for success in the digital age. Here are just a few highlights. First, as I said, is our All-Access Subscription Model. As of October 15, the new model is up and successfully running in 71 markets. We're on track to complete the rollout by year end. If you recall, our approach starts from the premise that people want and find great value in our content, and are willing to pay for it. We also know that more and more consumers want to access content on digital platforms. Our model takes all of this into account, and delivers reliable, timely and compelling content to consumers via the print and digital platforms they prefer. I'm pleased to report the formula is working.

I'm going to steal a little bit of Bob Dickey's thunder and say that our local domestic publishing operations had a 10% increase in circulation revenue in the third quarter. That's the second straight quarter of circulation revenue growth in local Publishing, and a terrific result. Now, just a reminder that we won't see the full impact until the end of next year, but at that point we expect subscription revenue at our local domestic publishing sites will be 25% higher than it was at the beginning of this year. That build out and ramp up translates into about a \$100 million contribution to 2013 operating profit.

Digital Marketing Services, or DMS, is another key component of our strategy, and a great example of how we're accelerating growth by entering high-potential businesses where we have a hometown and a brand advantage. Now, it's no secret that local businesses are spending more of their ad and marketing dollars on digital services. What's not as well known is that navigating the complex and fragmented digital landscape is hard work, particularly for someone running a car dealership or a plumbing supply company or a landscaping business. That's where we come in. We know media, and we've worked closely with tens of thousands of local businesses for years and decades. We're a trusted partner who can offer a full digital marketing product set tailored to each business's needs. Our DMS rollout is on track and hit a key milestone in the third quarter when we completed the rollout across all of our domestic markets. Demand for these services is strong. Revenue is growing at a good pace. We are excited about the long-term prospects for DMS.

Now, as you know, the digital space doesn't stand still, so we're constantly looking for opportunities to augment our offerings. We made two important bolt-on acquisitions in the third quarter to strengthen our hand. In August, we acquired BLiNQ Media, which specializes in social engagement advertising, and has managed social marketing campaigns for over 600 of the world's largest advertisers. Their ability to deliver social media marketing solutions on the local level further positions our DMS business for growth.

And then in September, we acquired Mobestream Media, which is the developer of the Key Ring consumer loyalty app for smartphones. More than 5 million users have downloaded the free Key Ring app that allows consumers to scan and store existing loyalty cards, join new reward programs, and receive mobile coupons. Key Ring's connection with consumers and its strong retailer relationships give us another leg-up in the digital marketing space.

In September, we also relaunched USA TODAY. This iconic brand has been redesigned for today's audience, and reimagined as a print and digital powerhouse. When it was introduced 30 years ago, USA TODAY was a truly revolutionary idea to leverage the leading-edge technology of the today to deliver news nationally and in an

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attractive, easy-to-read format. We believe that in its new incarnation, USA TODAY can make the same kind of impact with today's consumers, and in the process, provide a great marketing platform. Larry Kramer and his team are doing a good job with USA TODAY, and early returns are promising. Watch for more to come.

Now, I'd like to pivot to asset optimization, specifically our real estate portfolio. As we've discussed before, we are actively engaged in finding ways to use our real estate assets more efficiently to enhance shareholder value. Gannett has been actively managing its real estate portfolio for many years. Since 2005, we've sold more than 2 million square feet of office space, notwithstanding the severe 2008 to 2010 real estate downturn. We currently have more than 3 million square feet of office space actively on the market, out of our total U.S. portfolio of about 14 million square feet.

I also want to be clear that as we look to optimize our real estate portfolio, none of our facilities, including our Tysons Corner building, are off the table. We already have tenants in the headquarters facility, and we're actively marketing additional space. We are open to all options on any other building in the portfolio, if the economics make sense. As with all of our assets, we will be opportunistic.

If I turn to the third-quarter review, I want to assure you that while we have covered a lot of ground executing on our strategy in a very short time, there is a lot more we will do. We're playing offense, and thus far, achieving the results we've anticipated. Our third-quarter results are already beginning to show the favorable impact of our early successes. Needless to say, I'm extremely pleased to report the return to revenue growth and the significant percentage increase in EPS compared to last year. The top-line numbers are the result of solid performance in each of our businesses, as I noted.

Now, as we always do, as we focus on building the business, we also are keeping tight control on costs and making prudent investments in our strategic initiatives. Those investments amounted to about \$10 million in the quarter. We had additional pension expense of about \$5 million compared to last year. Including the investments and pension expense, but excluding special items, we generated \$280 million in operating cash flow this quarter, a 10% increase from the third quarter a year ago. Free cash flow totaled \$162 million.

Now, regarding special items, very quickly, approximately \$15 million of them affected operating income. We also had a small non-cash charge related to a newspaper partnership investment that impacted non-operating income. Finally, offsetting the charges was a net tax benefit of approximately \$13 million related to a tax decision covering multiple years. Details of all of these are in our press release.

So, let me now turn to a quick review of our segments. Total Publishing segment revenues were 3% lower in the quarter, as a result of a decrease of approximately 7% in advertising spending, offset by our circulation growth. This is the best year-over-year total Publishing revenue comparison since the first quarter of 2007. Circulation revenue at our local domestic publishing operations was up almost 10%. We had our second consecutive quarterly increase in circulation revenue there. Before I hand the discussion over to Bob, I wanted to note that he and his team have done just an exceptional job rolling out this model.

Bob?

Bob Dickey - Gannett Co Inc - President - US Community Publishing

Thank you, Gracia. Good morning. At quarter's end, our new all-access subscription model was in place at 69 U.S. Community Publishing markets. We remain on target to complete the rollout by mid-November. We're on track to realize subscription revenue increases of about 25% to pre-launch levels. Our projections continue to indicate those increases will yield a \$100 million improvement in operating profit in 2013. It is still early, as longer-term subscriptions have not yet cycled in many markets.

In September, we generated year-over-year subscription revenue growth, and depending on the wave, it ranged from 13% to 31%. Based on our first six waves, which represent 60 markets that all launched by early August, we are seeing daily home delivery losses of approximately 4.9 percentage points beyond the pre-launch trends, just better than the 5 percentage points that we had in our model. Sunday home delivery losses for those same waves are at about 6.8 percentage points beyond the pre-launch trends, as we cycled the coupon craze of last year.

Then on the single copy side, where you may recall we are increasing rates anywhere from 30% to 100%. Daily single copy circulation volumes have declined 3.1 percentage points from trend, significantly less than the projections in our model. On Sunday, single copy volumes have declined 11.2 percentage points from trend across those same markets, also better than our initial projections.

We continue to make strong progress in acquiring digital subscribers, with roughly 30,000 at the end of the quarter, an 80% increase over Q2. We have found that approximately 40% of our digital subscribers have some prior history of home delivery subscriptions. These are lapsed former subscribers who transitioned to digital. We are now able to recapture those consumers as paying subscribers, after reducing access to just a few articles each month for non-subscribers. Digital subscription revenue came in just shy of our model for the quarter.

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We should stress that our digital subscriber acquisition to date has been largely organic. Now that we have substantially completed the rollout, we're in Phase 2 in the process of implementing a digital marketing strategy to drive acquisition, as our subscriber and revenue targets ramp going into 2013. Currently, about 720,000 subscribers have activated the digital access on their accounts, which is on pace to achieve our goal of 60% subscriber activation in year one.

Gracia Martore - Gannett Co Inc - President and CEO

Thanks very much, Bob, for that update. Now, let me turn to the advertising categories in Publishing, where advertising continues to be impacted by the slow pace of the economic recovery, weak job growth, and certain secular pressures. We did not, interestingly, experience the same level of volatility we saw in the first and second quarters. As expected, advertising results were better than in the second quarter, and September was the best month of the third quarter. In terms of major ad categories, retail comparisons were in line with second-quarter comparisons, national advertising comps were considerably better than both first- and second-quarter comps, and classified advertising comps improved slightly from the second quarter. A lot of additional advertising category detail is contained in our press release this morning.

Publishing segment digital revenues were up significantly in the quarter, and posted a gain of nearly 65%. The growth was due to revenue associated with the All-Access Content Subscription Model, as well as our digital advertising and marketing solutions. As a reminder, those revenues are included in the publishing categories in our income statement. At our local domestic publishing operations, digital revenues were up 76%, again, due in part to the new subscription model, as well as our DMS efforts.

We saw substantial Digital revenue increases as well at USA TODAY and its associated businesses. USA TODAY digital revenue was up about 70%, and Newsquest increased by approximately 10% in pounds. Digital Marketing Services is attracting more advertisers and their business. For instance, DealChicken, just one of the many products in the suite of Digital Marketing Services, was about 3 times larger in the third quarter this year compared to last year. We believe there is plenty of demand for DMS products, with lots of room to grow.

Turning to expenses in the Publishing segment, excluding special items but including initiative spending, they were relatively unchanged this quarter. The increase was just over \$3 million, including approximately \$9 million of strategic initiative investment. We continue to benefit from our cost efficiency efforts and facility consolidations. As well, newsprint expense was about 11% lower due to both lower volume and lower usage prices.

Let me just spend one second on newsprint. Prices held stable throughout the third quarter, while the outcome of a regional price increase announced for the fourth quarter remains quite uncertain. Nonetheless, market conditions continue to favor publishers as exports weaken and an eastern mill reopens. In the U.K., for Newsquest, newsprint prices have declined for the second half.

Now, turning to the profitability in our Publishing segment, operating income for the quarter was \$86 million, excluding special items of over \$12 million, but including about \$9 million of initiative investments. If you exclude the net impact of our strategic initiative investments and special items, the operating margin would have been about 240 basis points higher than reported, and expenses almost 1% lower.

Let me touch briefly on Newsquest. The management team there is executing well in an extremely challenging economy. Total revenues, as you saw, were down about 7% in pounds; however, on a percentage basis, expense reductions outpaced revenue declines. As a result, operating income was just 2% lower, and the operating margin actually improved from the third quarter last year.

Now, let me quickly cover our Digital segment. Revenues in the Digital segment grew again this quarter by approximately 5%. As I mentioned earlier, CareerBuilder had another solid quarter, with revenue growth of almost 7%. Higher expenses associated with CareerBuilder's revenue growth and Digital strategic spending drove an increase in expenses of just 2%. As a result, operating income was over 16% higher, and totaled almost \$40 million. Company-wide, digital revenues increased by 23%, and totaled almost \$335 million in the quarter. Digital advertising and marketing solutions, as well as the early impact of the content subscription program, contributed to the growth. Digital revenues company-wide now account for more than 25% of total revenues.

Now, finally, almost saving the best for last, moving to the Broadcasting segment. As I noted, the management of our TV station group achieved a record level of third-quarter revenues and operating results. In doing so, they did a fantastic job of leveraging top ratings and a great footprint to capture significant Olympic and Political spending. Broadcasting also had solid growth in retransmission revenue, with more to come. For the quarter, revenues in the Broadcasting segment were up 36% to \$237 million. Now, that's a great number, but an even greater achievement is the bottom-line result. Operating income was over \$118 million, that's 73% higher compared to the third quarter last year. It's an increase of over \$50 million on a revenue increase of \$63 million. So, no question, the third quarter was a tremendous one for our Broadcasting segment.

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Dave Lougee is now going to discuss some details of the Olympic and Political spending, and what his team did to maximize those revenue opportunities. He'll also give us a preview on Political spending for the fourth quarter. Dave?

Dave Lougee - Gannett Co Inc - President - Broadcasting

Thank you, Gracia. Gracia touched on the Olympics. We had a great scaled editorial presence in London to complement NBC's terrific coverage. We were able to use that to showcase our hometown athletes, like Denver's Missy Franklin, in many new ways. As a result, KUSA in Denver was the top rated major market NBC affiliate in the Adults 25-54 demographic. Our stations in Minneapolis, Atlanta and St. Louis placed in the top five. When you add Cleveland and Phoenix, we had 6 of the top 10 rated in that demographic.

On the revenue side, we've put in place a year-long Olympic sales transformation process of training and execution, and are very pleased with our team's results. We brought a lot of new local advertisers and partners into the Olympics, and are already working with them on packages for the Sochi Winter Olympics in 16 months. We finished the Olympics with a record \$37 million in billing, which includes \$4 million of Political, and that's up 58% from the Beijing Olympics in 2008. It's hard for us to put an exact number on how much of that billing is incremental to the quarter, but we put it in the range of 55% to 65%.

On Political advertising, we had a record third quarter as well. We billed \$42 million in Political revenue, compared to \$26 million in 2008. As we said earlier this year, we have a strong Political footprint with large and strong stations serving the Presidential swing states of Ohio, Florida, Virginia and Colorado. Spending has been very strong, as you all know, and we are taking very good shares of that business.

Our stations have done a tremendous job with both technology and psychology in pricing and managing our inventory correctly. The technology is our centralized traffic operations, along with our inventory yield management software. That's allowed us to minimize displacement of our core revenues. But like all strong stations in heavy political states, we did have core displacement in September because of the record levels of political demand.

All of those same dynamics are in place, and then some, for a record fourth quarter in Political. It's too early to put a number on it, as the heaviest booking days of the year are still ahead of us, but there's no question it will be a new high. Beyond Presidential, big spending is now kicking in for the Virginia U.S. Senate race, and we have numerous contested House races across the division, as well as some key local issues.

On retransmission consent, many of you likely heard that we just completed a retransmission consent agreement with the DISH Network. We were pleased that we were able to come to terms without our viewers losing service, although we did have to warn them of a possible disruption, which was the first time we've ever had to do that with a major distributor. With DISH, we have agreed to strict confidentiality terms that won't allow us to discuss the terms of that agreement, just like we don't discuss the terms of any of our agreements. But generically, we will point to our past numbers that show our stations have always allowed us in the past to get top-of-market rates on retransmission consent. We have two more agreements up at the end of this year, one large and one somewhat smaller. We'll have good 2013 guidance for you in December.

Gracia Martore - Gannett Co Inc - President and CEO

Thanks, Dave. So, based on current trends, and I emphasize current trends, the percentage increase in television revenues in the fourth quarter is projected to be in the high 20%. A caveat -- as Dave noted, there will be a significant amount of political spending in the fourth quarter. At this point, we expect it to account for more than one-third of our spot advertising this quarter. Given that, it's tougher to predict fourth-quarter revenues, but we'll update you in early December when all the political excitement is over.

Now let me turn it over to Victoria to go over some balance sheet items before we open it up for questions.

Victoria Harker - Gannett Co Inc - CFO

Thank you, Gracia. Now I'll cover a few liquidity actions and metrics before we open up the call. During the quarter, we repurchased over 2 million shares at a cost of approximately \$35 million as part of our ongoing buyback program announced earlier this year. We have repurchased over 8 million shares for approximately \$117 million year-to-date, and continue to look at allocation of capital for opportunities to do more as we balance return for our shareholders in the near and longer term. Between share repurchases and dividends alone, we have returned almost \$230 million to shareholders to-date this year.

At the end of the third quarter, we had approximately \$1.63 billion of debt outstanding. At this point in time, our all-in cost of debt is approximately 7.02%. Our cash balance at quarter end was \$237 million. Capital expenditures in the third quarter were about \$25 million, and \$63 million year-to-date, with a growing percentage

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being invested in the digital product and platform feature functionality. Free cash flow in the quarter totaled \$162 million after a planned \$18 million contribution to our pension plan.

Now, I'll hand the call back to Gracia.

Gracia Martore - Gannett Co Inc - President and CEO

Thanks, Victoria. So, let me sum up by saying -- our results this quarter show that the growth strategy we announced in February is gaining traction, and already delivering results. Our all-access content subscription model is delivering as expected, and is driving Circulation revenue gains, with more to come. Our Digital Marketing Services business is operational in all markets, and we are excited and bullish on its long-term prospects. In September, we relaunched our flagship USA TODAY brand, which has been reimagined and redesigned for today's consumers and advertisers. We are seeing early successes and making great progress in positioning Gannett for growth in the digital era. We are making good on our promise to return additional capital to shareholders.

With that, all of us will be happy to take your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Doug Arthur, Evercore.

Doug Arthur - Evercore Partners - Analyst

A question for Dave in Broadcasting. It's a pretty noisy quarter with very strong Political, but what can you say about the trend in core at this point? Is there too much crowding out to really comment on a trend?

Dave Lougee - Gannett Co Inc - President - Broadcasting

No, you're exactly right. Between both of the Olympics from an inventory standpoint and the amount of Political, it's very difficult to have any meaningful look at the third quarter.

Dave Lougee - Gannett Co Inc - President - Broadcasting

I'm sorry. In the fourth quarter, we can look right out to December right now. It's early, but pacing is fairly decent in December, which is a clean month. But it is early.

Doug Arthur - Evercore Partners - Analyst

Okay. Can you elaborate on auto trends?

Dave Lougee - Gannett Co Inc - President - Broadcasting

Yes. Auto continues to be strong. It has been all year and obviously was extremely strong in the third quarter, with the help of the Olympics, but even when you extract the Olympics, auto was very strong.

Gracia Martore - Gannett Co Inc - President and CEO

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Yes. Doug to put it in perspective, auto was up about 42% in the third quarter. Obviously, that benefits from some of that Olympic spending that Dave talked about. But even extracting out Olympic spending, auto continues to be strong. I think it reflects the number of units that everyone is projecting at this point are going to be sold. So auto, we believe, is going to continue to be a very good story for Broadcasting and our other businesses for awhile.

Dave Lougee - Gannett Co Inc - President - Broadcasting

Don't know the exact number, but we know when you extract the Olympics, we know it was in the 20%.

Operator

John Janedis, UBS.

John Janedis - UBS - Analyst

As we look at the 5.6% circulation growth, can you tell us what percentage of subscribers in those 69 markets have been impacted by the increase at this point?

Gracia Martore - Gannett Co Inc - President and CEO

In the 71 markets that we've already launched?

John Janedis - UBS - Analyst

Yes. I'm just thinking about a run rate, if you will, from the third quarter. If it's less than 50%, more than 50% -- doubling the amount of that revenue impact and run rating it forward?

Gracia Martore - Gannett Co Inc - President and CEO

Yes, what you're focusing in on is the fact that there's price protection that would be in place for those that have three month subscription, six months, one year subscriptions. Bob, I think if -- jump in here, please, that your subscriptions are probably, what percentage of our subscriptions?

Bob Dickey - Gannett Co Inc - President - US Community Publishing

Less than 10%.

Bob Dickey - Gannett Co Inc - President - US Community Publishing

8% at the last time, but it's moving because of the EasyPay program, which has grown by about 9 percentage points, which is actually a better position for us on a month-to-month basis than an annual subscription. Also waves -- the first six waves have made it through the first 13 week cycle plus the grace period that client -- subscribers have. So, probably somewhere around two-thirds of our markets that have launched are starting. We're able to track the retention. We're seeing retention about 1.5 to 2 points better than pre-launch levels. So, the EasyPay promotion is really working for us and that will pay dividends next year.

John Janedis - UBS - Analyst

Okay. Thanks, Bob. Then, Gracia, on the expense front, in the Publishing segment, they were up slightly for the first time in, at least, several quarters. I noticed some of that was investment, but can you talk about the fourth quarter within the segment and whether or not the increase is a new trend there?

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Gracia Martore - Gannett Co Inc - President and CEO

I wouldn't say that it's a new trend at all. As we've said from the get go, we are reinvesting in the future of our businesses. I think what we demonstrated this quarter is that those reinvestments are paying off in significant dividends, as Bob has indicated on the circulation side, as we're seeing on the Digital Marketing Services side. But there are a number of expense initiatives that frankly are ramping up on our Gannett Publishing Services side. It's difficult when you're investing to make those investment dollars be specific to the quarter that everyone would like them to be in. So, it is not the beginning of a new trend. We will just continue to make the investments we need to do, but expect to continue to have very strong expense controls in place and to begin seeing more of the benefit of our Gannett Publishing consolidation activities over the next few quarters.

John Janedis - UBS - Analyst

Okay. So, is there then investment to call out for the fourth quarter if it was \$9 million this quarter? Is it zero? Is it \$5 million-ish? Do you have a number?

Gracia Martore - Gannett Co Inc - President and CEO

It's probably in the single-digits of millions for investment. But again, that's something that we're going to have to keep recalibrating. As we look at Digital Marketing Services, we are, as I said, very bullish on that opportunity. So one of the things that we're looking at there is, how do we ramp this up faster because we think that from the demand we are seeing in the marketplace, it's extraordinary. The fact that we are so well positioned in those local markets with the relationships that we have, with the suite of products that we have built, with the acquisitions we're doing, there may be some additional investment we do around that. But it's with a clear eye to dramatic returns over the next year or two.

Operator

Kannan Venkateshwar, Barclays.

Kannan Venkateshwar - Barclays Capital - Analyst

So you spoke about the real estate portfolio and how you've been trying to monetize that. Just curious, is there a critical mass there to maybe convert it into a REIT and has that been discussed at all?

Gracia Martore - Gannett Co Inc - President and CEO

Kannan, thanks for the question. We actually have -- we continue to explore every alternative. Unlike some others, our properties are spread over 100 plus communities across the country. Many of them obviously contain production facilities attached to the office space. But we are looking at all possibilities around our portfolio. We'll do the thing that makes the most economic sense around it.

Kannan Venkateshwar - Barclays Capital - Analyst

Okay. On the capital front, obviously, there's still a lot of cash being generated in the business. So is there any thought about maybe accelerating the buyback or thoughts around capital allocation going forward?

Gracia Martore - Gannett Co Inc - President and CEO

We have said that we will continue to evaluate our capital allocation as we see increases in profitability and earnings. So that's certainly something that the Board and we talk about each quarter. We feel good about what we're doing. We feel good about the returns that we are giving to shareholders at this point in the quarter. We had a substantial return in the form of dividends. We had a substantial return in the form of share repurchases. We had a substantial return in the form of an increased stock price. So, feel good about what we're doing, it's something that we're continuously evaluating.

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Jim Goss - Barrington Research Associates, Inc. - Analyst

This is for either Gracia or Bob. I'm gathering that a component of your digital ad gains relates to usage by print subscribers who may not have been so inclined to visit the digital sites before. I'm wondering if there is a way to strip that out of the potential gains or determine whether that has been the intended or unintended positive consequence?

Gracia Martore - Gannett Co Inc - President and CEO

Well, it's definitely been a positive consequence. But it is something -- the first phase we had was simply to get the new content model rolled out. We knew that when we followed up on that in the second phase that there was going to be great opportunities to go back to, as Bob said earlier, subscribers who had been with us in the past and for one reason or another no longer were subscribing to the print product and begin an opportunity to talk to them about a digital subscription. As Bob mentioned, we have, at this point, before any kind of significant push on this about 30,000 digital-only subscribers. I know that Bob has some plans for significant increases in those digital subscribers for next year. I wouldn't say it was an unintended consequence. It's absolutely something that we were planning on for the Phase 2. But Bob, do you want to jump in and add anything?

Bob Dickey - Gannett Co Inc - President - US Community Publishing

I think it was -- to your point, Gracia, it was a significant part of the plan, all along, was to aggressively go after digital-only or Sunday and digital subscriptions. It's part of our frequency that's being offered. The organic growth of the digital-only subscribers at this point is actually a pleasant surprise, because it's slightly ahead of where we thought it would be, knowing that we hadn't aggressively gone into the market, which is now in the planning stages and will roll-out here real shortly. So, it's a clear focus for 2013 to grow digital-only subscribers.

Jim Goss - Barrington Research Associates, Inc. - Analyst

I was also thinking though, that even your existing print subscribers showing an all-access basis now are being guided to use the online content more. I wonder if that is also contributing to usage of those sites so that it can help the pricing and other characteristics for those sites and contributing to those ad revenues?

Bob Dickey - Gannett Co Inc - President - US Community Publishing

Well, we're happy with where we're at in terms of the number of subscribers that have activated their account. That is obviously part of the strategy, because we want them to -- as all consumers, we want them to use our content on whatever platform they prefer. Once they have those accounts activated, it doesn't matter if they're using their tablet, their smartphone or their PC in the office, we will monetize that traffic. It's an important part of our overall digital traffic growth strategy for sure.

Jim Goss - Barrington Research Associates, Inc. - Analyst

Okay. Just one other thing, the InnerWorkings agreement, I wonder if you might discuss both the financial impact, if there is very much and the implications for other activities in terms of outsourcing some of the things you do?

Gracia Martore - Gannett Co Inc - President and CEO

Sure. It obviously is very early. We literally just have the ink drying on that contract in the third quarter. So there was really no impact in the third quarter from that contract. But in the fourth quarter and beyond, we expect to see some growing impact from it, both from the standpoint of the savings we are going to achieve. We talked about \$60 million of savings over the next five years, as a result of entering into that agreement. But as importantly, the expectation for adding additional customers to use our print capacity, which InnerWorkings has a fairly sophisticated network to be able to accomplish that. That's something that we are equally focused on as an opportunity over the next few years from that agreement. Then, as a result of what we did back in September of 2011, by putting together Gannett Publishing Services, we knew that not only on the production side, but as well on the distribution side, given that we have probably a network second only to the US Post Office in terms of distribution, that we felt that there would be some good opportunities there to take on some additional distribution from others, both in our industry, as well as potentially others outside. We've already seen some good early successes on that as well.

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Operator

Alexia Quadrani, JPMorgan.

Alexia Quadrani - JPMorgan Chase & Co. - Analyst

Just following up on your comments on the circulation revenues, it sounds with just only 10% of your subscribers, if you're having one year contracts and you being -- almost completing your rollout next month. Is it fair to assume that we should see a pretty big -- pretty accelerated ramp up in the circulation revenue line heading toward your full year goal of 2013?

Gracia Martore - Gannett Co Inc - President and CEO

Well, certainly, you'll see very good progress in the fourth quarter, as you saw in the third quarter. But we did have a few larger sites that we initiated, because of seasonality and other things in the October-November time frame. So, I don't -- you'll definitely see good improvement in the fourth quarter, but I don't think you'll see the full -- clearly, you won't see the full impact until well into the 2013.

Alexia Quadrani - JPMorgan Chase & Co. - Analyst

Did you give a number for the digital subscription revenue in the quarter? I might have missed it.

Gracia Martore - Gannett Co Inc - President and CEO

We didn't. Frankly at this point, we're not breaking that out specifically, because we're looking really at it as total circulation revenue rather than bifurcating it between digital and print.

Alexia Quadrani - JPMorgan Chase & Co. - Analyst

Then, just lastly, if I can ask about USA TODAY. The national advertising was still a little bit weak. A couple questions on that. Is that mostly a cyclical headwind in terms of just weakness in that market? When do you think the changes that you've made at USA TODAY may combat some of that and we might see some improvement there.

Gracia Martore - Gannett Co Inc - President and CEO

Sure, USA TODAY is heavily dependent on national advertising. As we know pretty much across-the-board, national advertising has been the most volatile part of the Advertising picture. I mentioned earlier that even in our comparisons quarter over quarter, across all of our businesses, we saw that some of the national advertising was more -- much more volatile than we saw on the local side. That being said, USA TODAY did, as I said earlier, a -- just a terrific job on the digital front. All of the initiatives around sports and other things have led to a very strong digital growth rate of about 70% in the third quarter.

We just relaunched some of their digital platforms. We'll be relaunching here, their iPad app towards the end of October. So we expect to see continued strengthening of our digital opportunities there. Then I know Larry and his team are very focused on certainly the print platform and are beginning to have some great conversations with folks as they see the early good feedback that we're getting on both the print as well as the digital platform redesign and reimagining. So, it's going to take a little bit of time, but I think that all the work that we have done sets us up well for the future.

Operator

Craig Huber, Huber Research Partners.

Craig Huber - Huber Capital Management LLC - Analyst

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My first question, Gracia, you talked about circulation for U.S. Community Publishing versus the trend. What was the actual Daily and Sunday percent change, please? I have a follow-up too.

Gracia Martore - Gannett Co Inc - President and CEO

Yes. For the third quarter at US Community Publishing including obviously single copy, which we had indicated would have a substantially higher level of decline, it was about 10% in the quarter, decline.

Craig Huber - Huber Capital Management LLC - Analyst

For daily and Sunday?

Gracia Martore - Gannett Co Inc - President and CEO

That's Daily. Then on Sunday, not dissimilar, a little bit higher but not dissimilar. But as Bob said earlier, well within the expectations that we had when we launched the full access model.

Craig Huber - Huber Capital Management LLC - Analyst

Then also, Gracia, what can you say about how your newspaper advertising is trending so far in October? Is it similar to what you're seeing -- what you saw in September, which I think you said was the best month of the quarter?

Gracia Martore - Gannett Co Inc - President and CEO

Yes. Actually, we made a lot of progress in the third quarter on a variety of fronts. Let me begin by saying that it's early in the fourth quarter and in a quarter where holiday spending is going to be extremely important. As we all know, when we look out there, there's uncertainty around the economy and certainly uncertainty around where the election is going to take us with the fiscal cliff and all those other wonderful things that we've all talked about. So, a lot's going to depend on the holiday shopping season. But I will tell you that as we look at our Publishing business as it stands today, we would expect that we'll see a little bit of improvement certainly over the third quarter comparisons that we had. A little hard to say this early, how much of an improvement, because the holiday shopping season hasn't really begun in any way. But already, our expectations are, we're going to have a better comparison in the fourth quarter than what we even saw in the third quarter, which was an improvement over the second quarter.

Craig Huber - Huber Capital Management LLC - Analyst

Then also, Gracia, on the TV side, post the November 6 election, how was the TV pacings there looking? Is it up mid single-digits? How would you ballpark that?

Gracia Martore - Gannett Co Inc - President and CEO

Well, this will have to be your last question, because I know we have a whole bunch of people in the queue. But I think as Dave said earlier, as we look out beyond the election that he is seeing -- which will be the first really -- December will be the first real month that is not impacted by Olympics and Political, we're seeing pacings up nicely. But it's really early. We're sitting here in the middle of October talking about December pacings. So it's really early, but all the signs are that December is going to be a positive month for us. So thanks for all those questions.

Operator

Michael Kupinski, Noble Financial.

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Michael Kupinski - Noble Financial Group - Analyst

Congratulations on a solid quarter, by the way. I'm going to go back to John Janedis' question about the expenses in the Publishing division. I was wondering if you could give a little color there. Obviously a lot of noise in this quarter, a lot of moving parts. But how do you look for expenses trending? Should they be down in the fourth quarter or up much more similar to what we saw in the third quarter?

Gracia Martore - Gannett Co Inc - President and CEO

Let me first recap on the third quarter. When you take out the special items that we talked about, which was several million dollars in Publishing. When you take out initiative spending, which I believe was about \$9 million in the Publishing segment. Actually, our expenses were down almost 1 percentage point. We would expect in the fourth quarter, as I think I indicated that, Publishing expenses, in fact, will be down. A lot of factors will come into play, obviously, in terms of investment spending and a variety of other things. But we fully expect expenses to be down in our Publishing segment.

Michael Kupinski - Noble Financial Group - Analyst

Okay. Then the margins shouldn't come down as much year over year, I guess? They would probably be pretty flattish from where they were last year?

Gracia Martore - Gannett Co Inc - President and CEO

Yes. Again, it will depend on investment spending, but I think certainly margins will be closer to last year in the fourth quarter.

Operator

Barry Stewart, Omega Advisors.

Barry Stewart - Omega Advisors - Analyst

The repurchase of shares during the June -- sorry, the September quarter was at an average price of around \$14.79. Today the stock's around \$17.50. Assuming the stock price stays around where it is today, will that higher price cause you to change the dollars per month pace at which you repurchase shares?

Gracia Martore - Gannett Co Inc - President and CEO

I don't think that the price is going to impact it. I think what I said earlier, Barry, which is that what will impact it is our continuing to grow earnings. We said when we put in our new capital allocation policy back in February that we would focus on revisiting that, as we saw growth in EPS and growth in cash flow. So I think that's more a driving factor than the absolute price of Gannett stock. At \$17.50, we continue to think that Gannett is substantially undervalued and we see a lot of opportunity. So we will continue to buy away.

Operator

William Bird, Lazard.

William Bird - Lazard Capital Markets - Analyst

Gracia, I was wondering if you could just talk a little about financial leverage. You've come through this period of massive deleveraging. What are your thoughts on adding more leverage to the balance sheet?

Gracia Martore - Gannett Co Inc - President and CEO

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Well, I think you've hit on it, Bill, which is that our balance sheet is in very, very good shape. It's one of the things that drove us earlier in the year to return substantially more capital to our shareholders, raising the dividend by 150%, accelerating our share repurchase program. So our balance sheet is in great, great shape. We have maturities that are layered out in an extremely manageable way. What I would say on leverage is that if there's an opportunity that we see that can add significantly to shareholder value by taking on more leverage, then we are absolutely open to that opportunity.

William Bird - Lazard Capital Markets - Analyst

Thank you. Just secondly, on the new pricing model, was wondering if you could just talk about how you got comfortable that the circulation declines that you're experiencing -- they're within your expectations, how you get comfortable that they wouldn't translate to more material print ad rate declines?

Gracia Martore - Gannett Co Inc - President and CEO

Bob, why don't you jump in because you did a lot of that work.

Bob Dickey - Gannett Co Inc - President - US Community Publishing

In most of our top markets, probably top 30 markets, we've performed some conjoint surveys and dug very deeply into consumers' reaction to pricing and their value of the content, their satisfaction with the content. We took all of those findings and leveraged our pricing against where the consumer felt the value stood at their -- within their local market. That's why we didn't take a cookie cutter approach. The pricing is not universal across Gannett. We looked at each and every market individually. I think because of that, we were able to manage the volumes. Also our GPS sales team has done a really good job of continuing to broaden our consumer marketing efforts. The investment we made in those areas has also helped us have our volumes at the level that we had projected. Obviously, for us now, we're very focused on going out and capturing new subscribers with the rollout almost behind us.

Gracia Martore - Gannett Co Inc - President and CEO

I think one other thing, Bill, is that we are very focused on Sunday circulation because, as we've said in the past, Sunday circulation -- Sunday is about 45% or so of Advertising revenues. So, I think we've done a terrific job of, as Bob said, of making sure that from a pricing perspective, we encouraged folks and in fact, consumers are very desirous of having that Sunday product. So I think it's a variety of those things that were all taken into account when we looked at it. I think we feel very comfortable that on the advertising side, we are not in any meaningful way being impacted by the pricing model.

Bob Dickey - Gannett Co Inc - President - US Community Publishing

Not at this point, no, not at all. We're very happy there. I think two years ago when we started focusing to Gracia's point on the key days and the key zip codes within a market that set us up in a good position to go forward. We also eliminated a number of our frequency of delivery options that were no longer necessary in today's marketplace and focused the consumer in two or three key areas and allowed us to focus our sales efforts there as well.

Operator

Edward Atorino, Benchmark.

Edward Atorino - The Benchmark Company - Analyst

I've got one question with two parts. On the Circulation, could you talk about the growth in the early markets in your new subscription level? There's some markets that are soon and some earlier. Are the growth in the earlier markets strong or picking up or getting better? Second, would you talk a little bit about Ad categories in the newspaper business?

Gracia Martore - Gannett Co Inc - President and CEO

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Bob, do you want to go with the first one?

Bob Dickey - Gannett Co Inc - President - US Community Publishing

What we're seeing on the Circulation side, the early waves are definitely starting to show improving trends on the circulation side. A lot of that having to do with the, as I mentioned earlier, the EasyPay promotions have really grown over time in those markets and that has added to the retention. We've seen single copy stabilize, that certainly helps as well. What we're seeing is that some waves in markets will perform very -- in a very similar way and other waves, there's uniqueness in those markets. So we have to manage each market differently. But we're definitely seeing a stabilization of the circulation volumes. Our focus now going forward will be very aggressive acquisition mode.

Gracia Martore - Gannett Co Inc - President and CEO

Then, Ed, with regard to Publishing categories. On the Real Estate side, I think we're seeing some improvement as we see the real estate market gaining some traction here. We all read the same statistics. We're beginning to see a little bit of that coming through the numbers especially in some specific geographic areas. On Auto, as we said earlier, we are seeing good traction on the number of units. I think based on our activities both from a Digital Marketing Services perspective and focus on the auto category, we're seeing some good follow through on that almost universally. Employment has been a little bit of a tougher slide given what is really an anemic employment picture --

Edward Atorino - The Benchmark Company - Analyst

Yes.

Gracia Martore - Gannett Co Inc - President and CEO

But when I think about CareerBuilder, they have done just a fabulous job on new product innovation. They have seen some strong growth here that I think focuses less on the anemic job market, but more on the additional products that they are bringing to market to assist companies in their attempts to find the best talent. This quarter, they did an acquisition of Economic Modeling Specialists International or EMSI. They have an economic software that specializes in employment data and labor market analysis and CareerBuilder had been investing in a workforce analytics platform that tracks hiring and job search trends. So this just turbo charges that effort to look at real-time labor information in varying markets and help us to help companies who are looking for certain kinds of employees. Do a better job at understanding where they can find those employees. So I think that gives you a broad brush of our categories.

Edward Atorino - The Benchmark Company - Analyst

Can I slip in an addendum? Not much improvement in Digital total, down \$4.6 million. Last quarter down about the same amount, \$4.7 million even though the comps got a little easier.

Gracia Martore - Gannett Co Inc - President and CEO

I don't think our Digital revenues were down, Ed. I believe that --

Edward Atorino - The Benchmark Company - Analyst

No, I don't think they weren't up very much. That's all.

Gracia Martore - Gannett Co Inc - President and CEO

Yes. They were up about -- I think, 5% in our Digital segment.

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Edward Atorino - *The Benchmark Company - Analyst*

That's not the same as the second quarter.

Gracia Martore - *Gannett Co Inc - President and CEO*

In just the Digital segment which is -- to refresh your memory, just includes things like CareerBuilder and PointRoll and ShopLocal. So that group was up roughly 5% in revenues. Then across the company, we saw about a 23% increase in Digital revenues. Now, part of that obviously, was the digital aspects of the circulation model. But no, we're extremely pleased with what we accomplished on the Digital side, USA TODAY Digital revenues up 70%, Newsquest up about 10% in pounds on the digital side. So no, we are very pleased with those efforts and expect that will continue to grow especially in 2013 as our Digital Marketing Services really ramps up in a much more meaningful way.

Operator

Jocelyn McKay, Morningstar.

Joscelyn MacKay - *Morningstar - Analyst*

I believe it's already been answered in a way, but this is also another question on capital allocation. Given your substantially wonderful free cash flow generation, I wanted to know if there's been any thought to as opposed to taking on new debt to pay down any of your higher coupon bonds. I know you don't have any substantial maturities for another year or two, but I wanted to know -- in any of your callable bonds.

Gracia Martore - *Gannett Co Inc - President and CEO*

Sure. If we can do that in an economic way, it's something that we look at all the time, but a lot of people take their Gannett bonds and put them away because they have a lot of confidence in the Company. So, you have to take that into account as to whether we can, in fact, get those bonds out of anybody's hands at an economic number that would make sense for us to do. We do have some bonds that we can call, but that's not until, I think, at the end of 2013 and at the end of 2014. That's certainly something that we'll take a hard look at. I just realized that we are stretching the timing. We have one more question, which we'll take quickly. Then I think we have to wrap it up, because I know everybody has lots going on.

Operator

Barry Lucas, Gabelli & Co.

Barry Lucas - *Gabelli & Co. - Analyst*

Just a quick comment or two if you or Dave could, on the TV station M&A market and your comment about maybe adding leverage to the balance sheet if you thought it would drive value. So, how do you see that market after give or take \$2.6 billion of announced or closed purchases over the last 12 months?

Gracia Martore - *Gannett Co Inc - President and CEO*

Barry, let me start and then Dave, please jump in. As with any market and as with any potential opportunities, it would be very dependent on what the opportunity was and at what price we could pay for that opportunity. I don't think our position has changed much. We've talked about the fact that we have an incredibly strong balance sheet and that we would use that balance sheet if we felt that we could add strongly to shareholder value. We take that very seriously and we would be very opportunistic around that. Our TV stations are as good a group of TV stations as you can find anywhere. They've had phenomenal results. I think even in a year like next year when we won't have the benefit of Olympics and elections I think they'll continue to prove out their strength. We like the television business and certainly we'll look at opportunities across digital as we have been doing across Broadcast and other areas if we believe that it can add significant value to the company.

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Barry Lucas - *Gabelli & Co. - Analyst*

Thanks. Dave, do you want to add something? You were passed the ball over.

Dave Lougee - *Gannett Co Inc - President - Broadcasting*

No, I'd just echo exactly what Gracia said. We look at everything. It's only where something would make great strategic sense and make tremendous -- where we can add tremendous value. So we look at everything, but we're obviously a very disciplined company in what we do and don't do.

Gracia Martore - *Gannett Co Inc - President and CEO*

Thank you all for joining us today. We really appreciate all your interest and your questions.

Operator

Thank you very much. That concludes our conference for today. I'd like to thank everyone for your participation.
